UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
SULFANILIC ACID FROM	)	701-TA-318 and
CHINA AND INDIA	)	731-TA-538 and 561
	)	(Second Review)

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Thursday,
January 26, 2006

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

The hearing commenced, pursuant to notice, at 9:30 a.m., before the Commissioners of the United States International Trade Commission, the Honorable STEPHEN KOPLAN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

CHAIRMAN STEPHEN KOPLAN
VICE CHAIRMAN DEANNA TANNER OKUN
COMMISSIONER JENNIFER A. HILLMAN
COMMISSIONER CHARLOTTE R. LANE
COMMISSIONER DANIEL R. PEARSON
COMMISSIONER SHARA L. ARANOFF

APPEARANCES: (cont'd.)

Staff:

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GEORGE DEYMAN, SUPERVISORY INVESTIGATOR

In Support of the Continuation of Antidumping and Countervailing Duty Orders:

On behalf of Nation Ford Chemical Company (NFC):

JOHN A. DICKSON, Chief Executive Officer, NFC
JAY DICKSON, President, NFC

GREGORY C. DORRIS, Esquire
Pepper Hamilton LLP
Washington, D.C.

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN KOPLAN: Good morning. On behalf of the United States International Trade Commission I welcome you to this hearing on Investigation Nos. 701-TA-318 and 731-TA-538 and 561 (Second Review), involving Sulfanilic Acid From China and India.

The purpose of these five-year review investigations is to determine whether the revocation of the antidumping and countervailing duty orders covering sulfanilic acid from China and India would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

Notices of investigation for this hearing, list of witnesses and transcript order forms are available at the Secretary's desk. I understand that those in support of continuation are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

As all written material will be entered in full into the record it need not be read to us at this time. The parties are reminded to give any prepared non-confidential testimony and exhibits to the Secretary. Do not place any non-confidential

testimony or exhibits directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

Finally, if you will be submitting documents that contain information you wish classified as business confidential, your requests should comply with Commission Rule 201.6.

Madam Secretary, are there any preliminary matters?

MS. ABBOTT: No, Mr. Chairman.

CHAIRMAN KOPLAN: I understand that counsel wishes to go directly to his presentation, as opposed to giving opening remarks, so if the witnesses have been sworn we can proceed.

MS. ABBOTT: Mr. Chairman, the witnesses have been sworn.

(Witnesses sworn.)

MS. ABBOTT: Would the panel members please come forward?

CHAIRMAN KOPLAN: Thank you.

Good morning, Mr. Dorris.

MR. DORRIS: Good morning, Mr. Chairman.

CHAIRMAN KOPLAN: If you're ready, you may begin.

MR. DORRIS: Better late than never, I

suppose.

I am Greg Dorris with the law firm of Pepper Hamilton, counsel to the Nation Ford Chemical Company, or NFC for short. NFC was the Petitioner in the original antidumping and countervailing duty investigations that resulted in the orders now under review. NFC has for many years been the only producer of sulfanilic acid in the United States, and thus alone NFC constitutes the domestic industry.

NFC would like to continue to be a U.S. producer of sulfanilic acid, but should the Commission determine to revoke the orders on sulfanilic acid from China and India, NFC legitimately fears that it no longer would be able to afford to produce sulfanilic acid here.

In many respects these full second reviews are very similar to the expedited first review. Indeed, there are no new facts in these reviews that would warrant not finding the same like product and domestic industry as that found in the first reviews and in the original investigations.

For this reason, NFC supports the determination that the like product is all sulfanilic acid regardless of form or grade and that the domestic industry is all domestic producers of sulfanilic acid,

which in these reviews, as I mentioned already, continues to be only NFC.

The same facts also are present in these reviews that led the Commission to conclude in the first review that the Chinese and Indian imports should be cumulated for purposes of assessing the volume and effect of these imports on the domestic industry.

The China and India sunset reviews of the three orders on sulfanilic acid were initiated on the same day, May 2, 2005. Sulfanilic acid imports from China and India have or would continue to compete directly with each other and the domestic like product in the U.S. market.

All four traditional factors evidence the reasonable degree of overlap, and the reasons stated continue to prevail in these second reviews as you found in the first review. There continues to be a reasonable degree of fungibility between the subject imports produced in China and India and between the subject imports and the domestic like product.

The subject imports and the domestic like product also would be simultaneously in the market as India would come in to the United States were the orders to be lifted, and China would increase its

imports into the United States should the orders be lifted.

Sulfanilic acid is sold nationwide, and the imports and the domestic like product would travel through the same channels of distribution, so on balance all the factors necessary to find that the Indian and Chinese imports should be cumulated, as was found in the first review, continue to exist in the second review.

The Commission in the first sunset reviews also emphasized the additional facts that the subject imports would likely compete in the U.S. market under similar conditions of competition. Noting specifically the substantial capacity and export orientation of the foreign producers in China and India.

That too also continues in these second reviews, as well as the fact that the Commission has discretion whether to cumulate. We still continue to say that the Commission should exercise that discretion and cumulate again in these second reviews.

The India company, Kokan, whose response was most likely responsible for the institution of these full sunset reviews, as opposed to an expedited review, has withdrawn without even submitting a

questionnaire response.

Given that there now is no foreign producer seeking to have the orders revoked, I was tempted just to say ditto in our opening statement and leave it at that, and indeed, as I pointed out earlier, some of the facts are the same in these second reviews as they were in the first review.

I will say the Commission again should determine not to revoke these orders. There are some different facts in these second reviews, and they present a stronger case for not revoking the orders than you actually found in the first review.

In the first reviews the Commission determined that the number of producers in China and India had increased since the original investigation. This fact remains true, but there also is evidence on the record in these second reviews suggesting that production in China and India continues to increase, and production capacity continues to expand in both countries.

The Commission also determined in the first review that the imports from China and India that would flow into the United States were the orders revoked would negatively impact prices. Despite similar limits in the available pricing data on the

record in these reviews as you had in the first review, there is information that supports that there would be significant underselling and that that underselling would be at large margins.

First, the staff believes, and the record supports, that there is a relatively high degree of substitutability between domestically produced sulfanilic acid and sulfanilic acid imported from China and India.

The prehearing staff report documents that even with the orders in place, the average unit values for the subject imports from China undersold the domestic like product at substantial margins of underselling. The staff report states that in five of six available price comparisons during six quarters of 1999 and 2000, the Chinese product was priced below the domestic product with margins of underselling ranging from 9.2 to 72.3 percent.

The staff report states further that for price comparisons of sodium sulfanilate, one of the other forms of sulfanilic acid, the Chinese product was priced below the domestic product in each of the five quarters from October 1999 through December 2000 with margins of underselling ranging from 14.1 to 45.2 percent.

Perhaps most significantly, the Commission in the first reviews determined that NFC was not vulnerable. This determination in large part was based on the fact that in the first five years after the orders were put into place NFC benefitted considerably and was able to greatly improve its overall health.

These past five years, however, have been a somewhat different story. Though the orders at issue have been successful in disciplining the unfairly traded imports from China and India, NFC in 2001 faced increasing volumes of imports from Portugal and Hungary. NFC succeeded in obtaining orders against these imports by late 2002, but continues to recover from the material injury it suffered from those imports.

That recovery has been really hamstrung recently because of dramatic increases in NFC's raw material costs for aniline and its energy costs for natural gas used to produce steam in the production of the refined grade of sulfanilic acid.

NFC has not been able to pass these cost increases on to its customers in higher prices both because of stiff competition from fairly traded imports from France and Italy and also because it

doesn't want to force its customers to move their production offshore.

As a result, NFC is very vulnerable to material injury right now because its profits have dropped to an injurious level. The Commission will hear more about this issue and others from NFC's owners and principal management, namely the CEO, John Dickson, and the president, John's son, Jay Dickson.

Thank you.

CHAIRMAN KOPLAN: Thank you, sir.

Either Mr. Dickson can proceed.

MR. JOHN DICKSON: Good morning.

CHAIRMAN KOPLAN: Good morning.

MR. JOHN DICKSON: I must say that I've been before the ITC on several occasions before. This is the first time in which all the Commissioners have been present, and I'm very honored and appreciate your interest in our case.

My name is John Dickson. I am the CEO of Nation Ford Chemical. NFC has been in business since 1978 when we started producing a water treatment chemical for Hercules Corporation. In 1985, we acquired sulfanilic acid production equipment from American Cyanamid in Bound Brook, New Jersey, and moved it to our plant in Fort Mill, South Carolina,

beginning production that same year. Since that time, we have been the only commercial producer of sulfanilic acid in the United States.

In 1992, we filed the original antidumping petition against China and Hungary, and actually followed the next year with India. The Commission gave NFC relief against the unfairly traded imports from China and India, and these orders saved NFC and subsequently allowed it to prosper through the 1990s.

This hearing has given me the opportunity to review some old records regarding our sulfanilic acid business. In 1990, we made and sold about two million pounds of sulfanilic acid at an average selling price of about $1 per pound. Our sales volume today is well over five times that amount, and the average selling price is down more than 20 percent.

In spite of increased cost, the antidumping protection against China and India has allowed us to increase volume while decreasing price, and this was the exact opposite of what Respondent consumers argued would happen at the time.

During the years 1994 through 1996, we invested over $1 million in a completely new refined sulfanilic acid plant. Then, in order to keep the plant backed up with feedstock, we purchased the

Zeneca Technical sulfanilic acid plant located in France in 1998 and moved it to the United States. We completed the major part of the installation by March 1999 and began production.

The new Zeneca plant was equipped with a continuous production reactor that allowed us to discontinue the old ball mill batch production and increase our existing capacity by over 60 percent. The combined investment for this move was almost $2 million, which is a very large amount for a company of our size.

Since that time we have continued to improve our efficiency and expand capacity to increase overall production. We have changed part of the plant from stainless steel to corrosion-resistant alloy and replaced the automated controls with a new, state-of-the-art computer system.

We have improved our infrastructure with a new and larger boiler and have switched from fuel oil to natural gas for steam production. We now pretreat our wastewater and send it by pipeline to a large municipal wastewater plant for further purification.

The Commission considered the impact of the original orders in the first sunset reviews that were instituted in October 1999. It correctly concluded

that the orders essentially had worked. Nevertheless, the Commission properly concluded that revocation of the orders would be likely to have a significant adverse impact on NFC within a reasonably foreseeable time.

This conclusion was based on your findings that revocation of the order would likely result in a significant increase in volume of subject imports at prices significantly lower than NFC's prices and that increased volumes of subject imports would likely depress or suppress the domestic industry's prices significantly.

You noted that these volumes and price effects would likely have a significant adverse impact on NFC's production, shipments, sales and revenue. You correctly concluded that such reductions would in turn have a direct adverse impact on NFC's profitability, as well as its ability to raise capital and make and maintain necessary capital investments.

These findings and conclusions in the first review hold true today, and indeed, as Jay Dickson will discuss in a moment, are even more likely this time around.

I had hoped that after the first sunset reviews that I would not be back before the Commission

for another five years. Unfortunately, that was not meant to be as NFC suffered material injury from unfairly low-priced imports from Hungary and Portugal that began to flood the U.S. market in the second half of 2000. I was forced to come back to the Commission again to seek relief from the dumped and subsidized products from Hungary and Portugal.

Again the Commission determined that relief was warranted, and antidumping and countervailing duty orders were issued against Hungarian imports and an antidumping order against Portuguese imports in November of 2002. These orders were successful in eliminating the unfairly traded imports from the U.S. market, and NFC began the slow climb back to health.

It was surprising how quickly the dumped and subsidized Hungarian and Portuguese imports entered the U.S. market in the second half of 2000, but this demonstrates that sulfanilic acid is sold primarily on price.

The imports from Hungary and Portugal were priced so unfairly low that they were able to swiftly capture U.S. market share. Their impact was so negative that it still lingers today in U.S. pricing. The same scenario will play out with respect to imports from China and India were the orders to be

revoked.

During my 20 years of experience in the sulfanilic acid business, there have been a lot of changes. Prior to 1990, most of the world demand was supplied by producers in North America and Europe. Since then, plants have been closed in Mexico, England, France and Hungary, and the largest share of existing and potential world capacity is now in China and India.

I have visited plants in China and have seen the primitive methods they use to make sulfanilic acid and believe similar techniques are used in India. There is no question that it costs must less to make this product in China and India, but no one is accounting for the tradeoff and damage done to the environment and the effect on human health.

Coal is used to fire the boilers, with black smoke billowing out the stacks. Aniline and sulfuric acid, two extremely hazardous and toxic chemicals, are crudely mixed together to produce a toxic molten mass of aniline hydrogen sulfate that is then dumped out on the floor to harden. The hardened chemical is then broken up by pickax and shoveled into pans that are put in cold-fired ovens to convert to crude sulfanilic acid.

Now, I understand that environmental and safety considerations are not normally a factor in the Commission's deliberations, but I would like for you to understand how important this factor is in providing China and India such a large cost advantage.

Textile dyes using sulfanilic acid have shifted production from the United States and Europe to China and India, but a large part of sulfanilic acid demand has remained in the United States, Europe, Brazil and Mexico. There has been moderate growth in the use of sulfanilic acid in the production of optical brighteners for paper and yellow food colors.

A new concrete additive using sulfanilic acid was put on the market in 1990, but this has now largely been replaced by additives made by different chemistry.

NFC may be the only U.S. producer of sulfanilic acid, but we do not have a monopoly on the U.S. market. Substantial volumes of fairly traded imports continue to enter the U.S. market from France and Italy.

While there have been no significant imports from India during the past five years, there were some imports from China. Though these imports have been small due to the presence of the orders, the imports

have been at such low prices that NFC has felt the impact on the U.S. market.

NFC has worked hard over the last five years to increase its volume of export sales and with some success. The problem is that NFC faces high tariffs in some countries, particularly in India where the duty is over 30 percent. The duty in China is lower, but given the large production capacity and low cost in China there is no way NFC can compete.

Most of NFC's export success has been in the European Union. NFC would like to export to other large consuming countries -- Brazil, Mexico and Switzerland -- but cannot compete with the low-priced product from China and India.

For example, the price of Chinese and Indian imports of sulfanilic acid in these countries consistently are below NFC's average prices by as much as 25 percent. It is not difficult to understand why NFC simply cannot compete in these countries, nor does it require speculation to see what would happen to U.S. prices and NFC were the orders against China and India revoked.

Although NFC is able to export to Europe, these export prices are low and yield very little profit. The European Commission in 2002 imposed

antidumping and countervailing duties against imports from China and India, 21 percent for China and a net of over 25 percent for India. In 2004, the duty against China was increased to almost 44 percent. The European Commission found that China was simply absorbing the duty without increasing prices.

As expected, these duties have caused sulfanilic acid prices to increase in the European Union and allowed some increase in market share supplied by the domestic producers. Sulfanilic acid is now produced in Portugal, France and Italy. The Hungarian producer is in bankruptcy and may no longer be producing sulfanilic acid.

As noted earlier, France and Italy make regular exports to the United States. NFC has been a responsible supplier both to the U.S. market and overseas. We have not sat idly by, hiding behind the protection of the Chinese and Indian orders. Rather, we have consistently, year-after-year improved production efficiency and reduced pricing, offering the best possible value to our customers and the market in general.

There is simply no question in my mind what will happen to the domestic industry if the Commission were to revoke the orders. Imports from both China

and India would be invited back to become the major, if not only, suppliers to the sulfanilic acid customers.

I have read, and painfully, the public version of the prehearing staff report. What struck me most was that almost all of the U.S. importers and purchasers appeared to stress that they would import or buy sulfanilic acid from China or India were the orders to be revoked. In fact, most even suggested that it would be because they believed the Chinese and Indian products would be available at lower prices.

Of course, I have to agree with them since I am certain that the Chinese and Indian producers would dump their product in the U.S. market at low prices in order to capture U.S. market share.

Indian producers and importers in particular continue to enjoy very lucrative export subsidies that would allow them to offer product at below their full cost of production. Since even their unfairly low U.S. prices are still higher than they can get in other world markets, their shift to the United States is a no-brainer.

If these duties are revoked, the Chinese and Indian producers will immediately offer much lower prices to domestic consumers. NFC will be forced to

lower its price, at the same time losing market share. The net effect will be disastrous to the domestic industry.

On behalf of this industry that I have helped to create, nurture and grow over the past 20 years, I respectfully ask that you not revoke these orders and leave NFC unprotected against the sure tide of unfairly traded sulfanilic acid imports from China and India.

Thank you. I'll turn it over to Jay.

MR. JAY DICKSON: Good morning. My name is Jay Dickson, and I'm the president of Nation Ford Chemical Company. This visit is the second time before the Commission.

As NFC president, I currently handle the company's day-to-day operations. I have worked at NFC now for 17 years, first in a capacity as chemical engineer, then later as technical manager and VP of operations. While I have not been with NFC as long as my dad, I have been around long enough to see the injury that can be caused by unfairly traded imports.

I saw firsthand the devastation we suffered when the Hungarian and Portuguese imports flooded into the U.S. market back in the second half of 2000. What struck me most was how quickly they entered the U.S.

market and consequently how swiftly NFC's financial health deteriorated. The unfairly low-priced Hungarian and Portuguese imports stole market share from NFC and drove prices down. NFC's sales and prices declined such that we were no longer profitable.

Before the unfairly traded Hungarian and Portuguese imports entered the U.S. market, NFC was doing well in 1999 and into early 2000 as a direct result of the orders imposed on sulfanilic acid from China and India. NFC's capacity utilization was high, sales and prices were doing well and overall profitability good. It is no wonder, therefore, that the Commission concluded in the 2000 sunset reviews that NFC was not vulnerable to imports.

I wish NFC were in the same good shape as it was in those first sunset reviews. That is not the case, however. After almost climbing completely out of the hole we were in due to the impact of the unfairly traded imports from Hungary and Portugal, we now are struggling to cope with the dramatic rise in oil and natural gas prices.

NFC, as a U.S. chemical manufacturer, has been hit harder than other U.S. producers of chemicals in two key ways. First, the main raw material for the

production of sulfanilic acid is aniline. It accounts for nearly half of the total cost to manufacture sulfanilic acid.

Benzene is the primary raw material used to produce aniline. The feedstock for benzene is crude oil, and the price of benzene has risen in line with the increases in crude oil prices. The price of benzene has risen from about $1 per gallon in 2000 to its present value of $2.80 per gallon. Consequently, NFC now pays close to double the price for aniline that it paid in 2000.

Second, production of the refined grade of sulfanilic acid is extremely energy intensive. Natural gas is used to generate steam for heating that is needed for the purification of the technical grade of sulfanilic acid. During the past five years, our price of natural gas has gone from approximately $3 to $4 per decatherm to recently as high as $15 per decatherm.

This dramatic increase has caused the energy component for making refined grade sulfanilic acid to increase almost fourfold during this period, which is close to a one-quarter increase in the selling price of refined sulfanilic acid.

NFC would like to pass these increases in

raw material and energy costs directly on to its customers. However, NFC faces stiff competition from fairly traded imports from France and Italy. NFC has diligently worked to maintain its prices in order not to force its customers to move their production outside the United States. Thus, NFC must absorb much of these cost increases. This has caused our profitability to suffer considerably.

Given the volatility and uncertainty in oil and natural gas prices and the consequent increase in NFC's raw material and energy costs, NFC is extremely vulnerable and would not be able to cope with an influx of unfairly traded imports from China and India were the orders revoked.

So even though the record reflects that NFC currently enjoys relatively high capacity utilization and sales, that position would change quickly and drastically were the orders to be lifted. Given its present low profitability due primarily to the dramatic increases in its aniline and energy costs, even small losses in market share and minor declines in capacity utilization would turn NFC unprofitable.

NFC is not exaggerating the impact on its future financial health by revocation of the orders. The Commission should keep in mind that even a small

difference in the price of sulfanilic acid, as little as one percent per pound, less than a penny, has a big impact on NFC's tenuous profitability.

In fact, a one percent change in price is roughly equivalent to a 10 percent change in profits. Revocation of the orders most certainly would lead to a drop in prices that would cause NFC to suffer material injury.

As a final comment, I should add one point to this issue of production capacity in China and India that my father discussed. The Commission should understand that NFC produces sulfanilic acid using a continuous process. Continuous production is completely automated and requires equipment specifically designed for the process. It is capital intensive, but requires little direct labor to operate.

Almost like the pilot of a plane engaging in auto pilot, the sulfanilic acid operator takes specific actions upon start-up and shutdown, but the computer controlled automation does the rest. The production capacity is fixed by the maximum quantity that can be produced by the equipment, usually expressed in pounds per day. This maximum quantity represents a hard ceiling that cannot be exceeded

without investing in a completely new production facility.

In sharp contrast, the producers in China and India both use a batch process as opposed to a continuous process. Batch production of sulfanilic acid requires no automation and can be produced with inexpensive equipment routinely used to produce a wide variety of chemicals such as specialty dyes. It is labor intensive because all the steps in the process must be performed manually.

Production capacity is controlled by the size of the equipment, number of batches, days in production and the number of production lines that are being operated. Batch chemical operations are extremely versatile in making different chemicals.

Both China and India have a very well developed batch chemical industry so their capacity to make sulfanilic acid is almost entirely dependent upon getting customers to buy their product. Thus, there are many Chinese and Indian sulfanilic acid producers listed in the *Directory of World Chemical Producers*, some of which would claim that they are not currently producing sulfanilic acid.

In reality, all of them are able and willing to make sulfanilic acid. They just need purchase

orders from the United States that most assuredly would come if the orders were to be revoked.

I therefore join with my father and respectfully request that you not revoke the orders against sulfanilic acid from China and India.

Thank you. This concludes our direct presentation. We welcome any questions that you may have.

CHAIRMAN KOPLAN: Thank you all very much for your direct presentation. It's very much appreciated, and it's helpful.

I will begin the questioning. Mr. Dorris, I will I think start with your clients for this first one.

On page 3 of your prehearing brief you state, and I quote, "The facts in the present reviews clearly show that the domestic sulfanilic acid industry is very vulnerable to material injury were the orders to be revoked."

Later on pages 3 and 4 you state, and I quote again, "NFC currently is able to maintain a fragile market equilibrium that produces for it at present only a very modest profit margin. The U.S. industry is thus highly susceptible to material injury by reason of subsidized and dumped imports, and the

orders at issue should not be revoked."

You renewed your vulnerability argument in your direct testimony this morning. In your view, what operating profit level would NFC need to attain before you would not consider this firm to be vulnerable?

MR. DORRIS: I think I'll leave that to John to answer in terms of where they should be.

I have an old adage I think, and maybe I should not let you hear this since it comes from a lawyer's side, but many times in advising clients we talk about how the Commission looks at cases, and we say that any profitability around five percent or less they'll find material injury, and anything between five percent and 15 percent they're likely to find threat of material injury.

You know, every industry obviously is different in what they need in terms of profitability. It's different, but I would think that if you're not making much better than a CD right now --

CHAIRMAN KOPLAN: You're not talking about a compact disc, are you?

MR. DORRIS: No, sir. -- or a Treasury note then you're really not that profitable. You're not generating income to sustain yourself and to grow your

company and to be able to buy infrastructure and continue the type of improvements they had over the past few years in terms of expanding capacity capabilities.

I'll let John talk a little bit more specifically about NFC

MR. JOHN DICKSON: It would seem to me that the important thing here is not so much the absolute number -- you have those absolute numbers -- but the trend that we've seen in that number over the past few years and the fact that it has gone down and is at a level that is uncomfortably close to not making a profit at all.

CHAIRMAN KOPLAN: Can you throw a ballpark figure out? I mean, what would please you? There must be a number that would please you.

MR. JOHN DICKSON: Okay. Well, a number that --

CHAIRMAN KOPLAN: Where you wouldn't consider yourself vulnerable.

MR. JOHN DICKSON: The chemical industry, I would say as a general rule, would expect a profit in the neighborhood of 10 percent and would have a gross profit in the range of 30 percent.

CHAIRMAN KOPLAN: Of what?

MR. JOHN DICKSON: Thirty percent.

CHAIRMAN KOPLAN: Okay. Thank you.

Mr. Dorris, on page 10 of your prehearing brief you state, and I quote, "NFC is experiencing a dramatic rise in cost for aniline."

Later on pages 10 and 11 you state, and I quote, "NFC cannot pass through all this raw material and natural gas cost increase to its customers given the competition it faces from fairly traded imports and the strong desire not to force its customers to move their production outside the United States." You mentioned that in your opening as well today.

I'm going to refer you, and the reason I'm calling on you is because it's a bracketed table. I'm going to refer you to Table III-6 at pages III-8 and III-9 of the staff report which contains confidential information that was actually provided by your client.

It does not appear to be consistent with the statement that I just read. Now, I can't get into the numbers, but for purposes of a posthearing I'd like you to respond to that. To give you a little bit of guidance without getting into the numbers, on page 8 I'm referring to the line item Gross Profit and the line item Operating Income or Loss, and on page 9 I'm referring to the Operating Income or Loss line.

I'd like you to concentrate, if you would for me, on the years 2003 and 2004. That's as far as I can go with you though in this public forum, so if you would do that for me and reconcile it with the statement I read from your brief I'd appreciate it.

MR. DORRIS: Yes, sir.

CHAIRMAN KOPLAN: Thank you. Let me stay with you.

On page 12 of your prehearing brief you state, and I quote, "The producers in both countries," meaning China and India, "are export driven because there is little demand for sulfanilic acid in their own countries."

Indian producer Kokan, at pages 3 and 4 of its response to the Commission's notice of institution, stated, and I quote, "The demand in India continues to be robust given the consumption by the dye manufacturers. In fact, the Indian market for sulfanilic acid sees large imports from China to meet its requirements."

How do you respond to that?

MR. DORRIS: I must say that our understanding of the Indian and Chinese markets is certainly developing, but it's also always been sort of nascent. We've never really understood exactly.

In fact, having seen now that they've made the telegrams from the Embassies public and I was able to discuss the actual numbers that I had with John, he was quite surprised in terms of some of the domestic consumption in India.

We've been struggling trying to determine where that sulfanilic acid is actually going in terms of the end use. We expect that some of that is into the textile industries where the U.S. just doesn't compete now and has lost a lot of those sales offshore, so maybe some of that sulfanilic acid is being turned inward to the textile industries.

CHAIRMAN KOPLAN: So it's possible that the statement I read from their response to our notice of institution is accurate?

MR. DORRIS: Well, it's certainly much more consistent with the information from the Embassy, although that again came directly mainly from Kokan.

We have no evidence to controvert that. Let me put it that way. Our initial understanding was they were not consuming as much in India. It appears at least from the data that's reported by Kokan, who decided not to show up, that that may not be the case.

CHAIRMAN KOPLAN: I appreciate your response. Let me stay with you again.

According to Table VI-1 of the staff report, there have been no imports of subject merchandise from India since 1999, but subject imports from China have continued to be present in the market. However, there were no imports of subject merchandise from China in 2001 and 2002.

It appears that Commerce reviewed and raised the antidumping duty on firm specific Chinese imports in January 2002, and that's Table I-1 on page I-6 of our staff report, which may account for their absence in that year, but do you know what accounts for the absence of Chinese subject imports in 2001?

It's my understanding that the Department of Commerce did not apply the 2002 rates to the 2001 imports, so I'm curious what you think accounts for them not being there in 2001.

MR. DORRIS: Let me just talk with John just a second.

CHAIRMAN KOPLAN: Certainly.

(Pause.)

CHAIRMAN KOPLAN: My clock is running.

MR. DORRIS: I'm sorry. It's a difficult question because of the timing of when imports come in and when the review process takes place and then what rate is applied.

I'm not going to try at least here to explain what rates were in effect at the time, but one issue we had with the Chinese in that period, and that's what I was trying to confirm with John, around 2000 and 2001 was they were bringing in product through a circuitous route, in a sense committing a fraud on Customs.

Customs was able to find that situation and correct that and so there was a flow of imports in 2000, and then once the fraud issue was uncovered it sort of clamped down and shut down any imports coming in at that point because at that point they weren't going to continue the fraud, and certainly importers weren't going to be involved in the sort of speculative type issue that was going on.

That's the best I can say now without actually studying that prior record.

CHAIRMAN KOPLAN: If you can expand on that in your posthearing I'd appreciate it.

MR. DORRIS: Yes.

CHAIRMAN KOPLAN: Thank you.

I think I can get one more short one in. This is for the Dicksons. I note from Table IV-1 at page IV-2 of our staff report that the unit value of subject imports from China doubled in the interim

period.

Do you know what might have caused such a dramatic price increase only in that period?

MR. JOHN DICKSON: Which period was this?

CHAIRMAN KOPLAN: That's our interim period. That would be January to September 2005.

MR. JOHN DICKSON: Yes. That would be almost the entire result of the world increase in benzene, which is used to make aniline, which is the main product.

There has definitely been large increases in the world price of sulfanilic acid to account for the huge increase in benzene and related aniline.

CHAIRMAN KOPLAN: Thank you for that.

I'll turn to Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman.

Thank you to the panel, and welcome back to the Dicksons. I appreciate you being here. I've had the opportunity to participate in other cases involving sulfanilic acid, but it's always helpful to have you come and update us on what's going on in the business.

I think I'll start with a looking forward question for you. I know you've provided some

information in the staff report, but in terms of what you see when you look ahead in terms of demand in the U.S. market first, and then we'll turn to the world market, there was discussion in there about perhaps some increase because of the increasing use of sulfanilic acid for optical brighteners. As I understand, that's used in paper.

To help me understand what you see in the U.S. market on that side, is that going to be an increasing use for your product? Help me out there. What do you see on demand?

MR. JOHN DICKSON: We've been very happy to find that starting in the second half of last year that the use of sulfanilic acid for paper brighteners reversed a downward trend and started moving upward.

We understand it has something to do with the decision by paper manufacturers to match brightness standards that are used in Europe. We've known for years that a greater percentage of optical brighteners was used in paper made in Europe, and it was in fact brighter.

The difference in doubling or tripling the amount of brightener that's used in paper if I had examples here and could show you would be quite astounding. You would look at something and say well,

yes, this is white, and then you'd look at something that has double the brightener and say boy, what a big difference. That's really bright, but they're both white. That's the way it works.

However, we believe that that has reached its peak, but is somewhat higher than before. It represents in total probably 60 to 70 percent of the total business goes into paper brighteners.

The other part is the yellow food colors, both Yellow 5 and 6. We understand from our customers that they are under pressure from those same colors being supplied from India and China. This is one of their factors in saying you must keep your price down or we'll end up losing market share, or we may discontinue making the colors and start importing them from India and China just to resell them, which is an action that they definitely do not want to do. Nevertheless, there seems to have been moderate growth in the United States in the use of sulfanilic acid for the food colors.

There's been a decline in the use for concrete additives only because the chemistry of that particular concrete additive has changed to let's say a more advanced chemistry that doesn't use sulfanilic acid, so that application has been on the decline.

Our projections for business this year -- of course, assuming that there will be no revocation of the order -- indicate probably an overall increase in the neighborhood of five to 10 percent by volume, so it represents over 60 percent of our business is sort of the flywheel that keeps an operation going.

We operate seven days a week, 24 hours a day. We have to have full laboratory and maintenance coverage, et cetera, so it takes a certain level of business to get beyond the critical mass of being able to maintain an ongoing chemical operation.

The sulfanilic acid is absolutely key to the fact that we can also make smoke dyes for the Army. We're the only producer of smoke dyes for the U.S. Army and the only company that has the capability to perform the organic reactions and meet their highly rigid particle size specifications, so that's become an important part of our business.

Were it not for sulfanilic acid, we wouldn't be making smoke dyes for the Army because the business is far too small to sustain an operation just in its own right.

I hope that gives you sort of a feel for the company and the importance of where sulfanilic acid falls.

VICE CHAIRMAN OKUN: It's very helpful. In terms of the use in textile dyes, is that something that's completely gone in the United States, or is there still a portion?

I mean, I don't know if the last thing you were mentioning with regard to the Army is considered a textile dye or something else, but just so that I understand where the different end uses are going.

MR. JOHN DICKSON: An interesting question. I don't think there's a pound of sulfanilic acid that is made today that goes into making a textile dye.

We do make a sulfanilic acid look-alike molecule in very small volume that does go to make a textile dye, but I think it's a highly specialized application that for some reason the production of which has been retained in Europe and the United States.

It was through my knowledge that sulfanilic acid was never a large part of dye production in the United States that I assumed it was not a large part of production in China and India. Because we've never tried to participate in those markets -- it would be a totally worthless effort -- my assumption has always been that the demand for sulfanilic acid in those countries has been relatively low.

Also with the knowledge that these countries are not tree producers -- they don't have large forest and paper mills; they're largely dependent upon imports for paper type products and are not consumers of paper products -- so I'm actually sort of taken aback by the recent findings that apparently there are large domestic requirements in both China and India for sulfanilic acid far beyond what I would have projected, which particularly explains Chairman Koplan's previous question.

VICE CHAIRMAN OKUN: Okay. That's helpful. I did want to get your sense of the world demand. I understand what you're saying about China and India and why that would be surprising.

What about for the other markets and the markets where you participate as an exporter? Is the trend with the optical brighteners, for example, is that increasing in other markets as well? You I think had indicated in your response that the Europeans had always done more of this I think.

Before you answer the question, my consumer question, when I go to buy printer paper for my home printer and you get the labels that say super bright, brighter, and it kind of goes up in price as you go up the brightness. Is that the kind of brightness we're

talking about?

MR. JOHN DICKSON: That's exactly the brightness that you're talking about.

VICE CHAIRMAN OKUN: Okay. So now looking at not China and India, but looking at other export markets, trends there in terms of end uses or demand or what you see when you look at those?

MR. JOHN DICKSON: Interestingly enough, the use of the concrete additive was invented in Europe, and Europe has always used a lot more sulfanilic acid to make concrete additives than in the United States by factor of probably at least 10 or 20.

Most of the technical acid that we sell in Europe today goes into concrete additives. There's also one or two companies that have pharmaceutical molecules that have been invented for specific requirements that use sulfanilic acid, one of which is fairly large also in the EU and the other which is fairly small.

Beyond that, that pretty well summarizes the total world demand in terms of where it goes. There's some that obviously goes to textile dyes, apparently more than I thought. The largest percentages goes to brighteners for paper, the next are to make Yellow 5 and Yellow 6 and then into the pharmaceutical

application -- concrete, dyes and pharmaceutical.

VICE CHAIRMAN OKUN: Okay. That's helpful. In terms of prices to the different end use markets, has there been any change in that, and can you tell me a little bit about that? If it's anything proprietary, you can always put it in your posthearing brief.

MR. JOHN DICKSON: The prices are really not use related. They are related more to the form of sulfanilic acid that is required for the end use.

As you would imagine, in making food dyes it requires a purified grade of sulfanilic acid or requires that the person that buys it purify it before he uses it.

Then on the other extreme you'd go to concrete additives where the technical acid and the purity is not a major consideration. It's lower in price because it has a lower cost of production.

This largely holds true for the brightener customers as well, although interestingly enough we have seen one instance, and I think this has been brought about by the EU duties, in which one major brightener producer who said he could only purchase the refined grade brightener, couldn't use the technical, has now converted entirely to using

technical.

This doesn't mean that he doesn't perform an intermediate operation of purification prior to its use. It's just that it represents a better value, even given the fact that he's taking another step in order to be able to use it.

VICE CHAIRMAN OKUN: Okay. My red light has come on, but I'll have a chance to return to that.

Thank you very much. It was very helpful.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you. I, too, would join my colleagues in welcoming you back to the Commission. We appreciate you taking the time to be with us this morning.

If I could follow up a little bit because I had some questions that related to this issue of the different grades of the product. As I understand, our like product definition includes the technical grade, the refined grade, as well as the sodium-based salt product.

Help me understand whether there are significantly different processes of production either for you or for the Chinese or the Indians to make the different grades, the different types of product.

MR. JAY DICKSON: Well, first we make the technical grade in continuous automated operation, and that becomes the feedstock that makes the other grades. Either we sell the technical grade as is -- it has about 99 percent purity. It's got a little bit of gray color. It's maybe off-white to gray. Many of our customers use that because it's the most cost effective.

We can purify that in two ways. One is we can add sodium hydroxide, which increases the solubility of sulfanilic acid in water. That forms a product called sodium sulfanilate, which is just the sodium salt of sulfanilic acid.

We can sell that in two forms. We can sell that as a solution form in a 30 percent solution, or we can sell that as a dry form where we take that 30 percent solution and evaporate the water.

VICE CHAIRMAN OKUN: Okay.

MR. JAY DICKSON: So there's the two forms of sodium sulfanilate. The dried form is very energy intensive because you have to evaporate. The 70 percent of that solution, which is water, has to be evaporated. That uses a lot of natural gas. It's very energy intensive to make that particular grade as opposed to the salt solution.

Moving on to the refined grade, that is made without sodium hydroxide. It's just taking the technical acid, which is very insoluble in water. You have to dissolve it in large pieces of equipment using large amounts of water. You have to heat that water up. Then you have to chill it back down, and during that process you go through a filtration which purifies it.

That is probably one of the most energy intensive ways to produce a refined grade of sulfanilic acid versus the salt solution. We've had customers recently switch from our refined grade sulfanilic acid to a salt solution.

COMMISSIONER HILLMAN: Okay. That's extremely helpful.

Now help me understand. First, help me understand of the product that you produce what portion if sold in the technical form, the refined form, the solution sodium form and the salt, the dry sodium sulfanilate form? Do you have a sense of where the market is in terms of each one of these types?

MR. JAY DICKSON: I'd say roughly -- this is somewhat proprietary, but we sell more of the technical, the refined grade and the salt solution. Those three are our biggest sellers. The poorest

seller is the dry form of the salt.

COMMISSIONER HILLMAN: Okay. And then in terms of imports from India or China, are they typically concentrated in any one of these particular forms?

Let me start with do you know whether the Chinese can produce all of these forms as well?

MR. JAY DICKSON: I don't think they're selling the technical grade because their technical grade is not a quality that's good enough to sell, so they have to refine it. Mainly they refine to the pure acid, but I'm sure some companies can make the sodium salt.

COMMISSIONER HILLMAN: Okay. So your understanding is the Chinese are primarily, if not exclusively, in the refined product?

MR. JAY DICKSON: Yes.

MR. JOHN DICKSON: If I can add?

COMMISSIONER HILLMAN: Mr. Dickson?

MR. JOHN DICKSON: Back when I was describing the Chinese process and the crude method in which they produce the material, they end up with something that's really black. It's big chunks, and then they have to grind it into a powder, and then in the powder they put it into boiling water and add

activated carbon.

Then they filter it out, and amazingly the carbon and everything takes all of the impurity and everything out, and you have a clear solution that then is crystallized that produces refined grade sulfanilic acid.

The Chinese, by the very nature of making such a crude technical, are not active in the technical market. They're almost exclusively in the pure grade. That's also true with India.

COMMISSIONER HILLMAN: I was just going to say, and how about the Indians?

MR. JOHN DICKSON: Yes.

COMMISSIONER HILLMAN: Okay. So they're almost entirely in the refined as well? Okay.

From a pricing standpoint, help me understand the general difference in price for you for the technical, and again if it's proprietary information I'm happy to have you submit it in a posthearing.

I'm just trying to get a relative sense of as I hear you describe this process for you the technical product is your starting point, presumably the least costly of them to produce because everything else requires additional steps and some obviously

additional significant expenditures of energy cost to produce.

Help me get just a sense of how much more work it is, how much more costly it is to produce each of these different forms. What I'm trying to understand is are you able to fairly recoup all of the additional cost, or from your standpoint is one of these particular grades more profitable just because of the difference between what you can actually charge for it versus what it costs you to do these additional refining, drying, et cetera steps.

MR. JOHN DICKSON: We found in doing studies that our technical grade is probably the most profitable to us --

COMMISSIONER HILLMAN: Okay.

MR. JOHN DICKSON: -- because it is our lowest cost, and the theory is we can be the most competitive.

COMMISSIONER HILLMAN: Okay.

MR. JOHN DICKSON: The least profitable to us and actually losing money is the refined pure grade.

COMMISSIONER HILLMAN: Okay.

MR. JOHN DICKSON: This is true now especially because it uses so much natural gas, as Jay

described the process. We are making efforts to try to increase our refined grade pricing to account not only for the aniline increases, but also for the big increase in natural gas.

If you were to choose a number in terms of relative cost and you were to say that technical sulfanilic acid was 60 cents, then you would say that the refined would be I would say 85 in terms of relative cost.

COMMISSIONER HILLMAN: Okay.

MR. JOHN DICKSON: It's substantially expensive to purify technical sulfanilic acid.

COMMISSIONER HILLMAN: Is it equally expensive to dry the sodium salt?

CHAIRMAN KOPLAN: Excuse me, Commissioner. I need to interrupt for a second. I'm sorry.

COMMISSIONER HILLMAN: Okay.

CHAIRMAN KOPLAN: It's come to my attention that we have a visitor who I believe has been using a recording device. Am I correct, Mr. Secretary?

MR. BISHOP: Yes.

CHAIRMAN KOPLAN: I'm afraid that you're precluded from doing that because of the contract that we have with the reporting company, so you are not permitted to record this proceeding.

MALE VOICE: Thank you.

CHAIRMAN KOPLAN: I've observed that you have been doing that, so --

MALE VOICE: (Inaudible.)

CHAIRMAN KOPLAN: I appreciate that, but you're not permitted to record. You're permitted to observe. You can also purchase a transcript, but you cannot record during the proceeding.

MALE VOICE: (Inaudible.) I cannot just write something or say something based on my --

CHAIRMAN KOPLAN: I checked, and what I'm advised is that you're not permitted to record.

COMMISSIONER PEARSON: Mr. Chairman, could I just raise a question?

CHAIRMAN KOPLAN: Certainly.

COMMISSIONER PEARSON: Are TV cameras allowed to record in this room?

CHAIRMAN KOPLAN: We have had TV cameras in the room, yes.

COMMISSIONER PEARSON: And was that an exception to the policy that you've just stated?

CHAIRMAN KOPLAN: That's a good question. Mr. Secretary, can you tell me?

MR. BISHOP: Yes, that is an exception with the direct permission from the court reporting

service.

CHAIRMAN KOPLAN: So without the direct permission of the court reporting service, that's not permitted either?

MR. BISHOP: That is correct. They need to purchase the transcript.

CHAIRMAN KOPLAN: Okay. I guess my question is did you seek permission of the court reporting service before you started?

MALE VOICE: I work for the (inaudible), so I didn't know that I needed permission. When we contacted someone (inaudible) if we are not allowed to record something I think we should be made aware of that because (inaudible).

CHAIRMAN KOPLAN: I will tell you I've been here over seven years, and this is the first time it's occurred to my recollection and so I did not know the answer to the question.

Before I asked you to stop, I checked. This is the response that I'm getting, so I need to abide by that certainly.

Sorry, Commissioner Hillman. If you would proceed?

COMMISSIONER HILLMAN: Okay. Very helpful.

To complete this discussion just to make

sure I understand this relative cost versus price, I appreciated all the answers that you've just given me on the technical versus the refined.

If we then go to the issue of the salt, the solution first, where does that fall in this continuum of how expensive it is to produce, to take the technical product and make it into the solution? Is that a significant expense, this adding of the sodium hydroxide to it?

MR. JAY DICKSON: We have the expense of the sodium hydroxide.

COMMISSIONER HILLMAN: Okay.

MR. JAY DICKSON: But the energy cost is relatively insignificant compared to the other purified forms. It's somewhere in between the price of the technical and the price of the refined. I don't think we should get into real specifics.

COMMISSIONER HILLMAN: No. I was not asking. I'm just trying to understand just generally.

MR. JAY DICKSON: Yes.

COMMISSIONER HILLMAN: And then the issue of then drying the solution to produce the solid salt product. Is that the same equipment that you dry it on that you would use after you've purified the technical going to the refined, or is it completely

separate equipment?

MR. JAY DICKSON: We use separate equipment, but some of that equipment is interchangeable. We have specialized equipment that we're using.

In terms of relative cost it's about the same to produce the refined free acid as it is the dried sodium salt or the sulfanilic acid.

COMMISSIONER HILLMAN: Okay.

MR. JAY DICKSON: There may be subtle differences.

COMMISSIONER HILLMAN: And then generally this equipment, can it be used to produce lots of other chemical products, or is it pretty much confined to producing the sulfanilic acid products?

MR. JAY DICKSON: We could use it for other chemical processes, and we have, yes. You know, a certain type of chemistry or processing, but not all.

COMMISSIONER HILLMAN: Okay. But in general, as I heard your testimony, it is much harder for you to switch to making other products than it would be for the Indians or the Chinese that are doing this, putting the whole solution out on the floor?

Whatever they put out on the floor can vary fairly easily as I understood it. For you it's harder, as I hear it, to --

MR. JAY DICKSON: Yes, and especially with the technical grade. That is highly specialized equipment. The purification can be interchanged with other products.

COMMISSIONER HILLMAN: Okay. I appreciate those responses. Thank you very much.

CHAIRMAN KOPLAN: Thank you, Commissioner Hillman.

Just for the record, the person who had been recording has apparently chosen to leave the proceeding, so that's no longer going on.

Commissioner Lane?

COMMISSIONER LANE: Good. I wouldn't want my questions to be recorded by anybody but an official court reporter.

Good morning. Mr. Dickson, Mr. John Dickson, in response to a question by Chairman Koplan you equated profit levels to CD returns. However, in making that comparison I believe you were comparing operating margin or the ratio of operating income to sales to a return on a CD investment.

If you are talking about returns on alternate investments, wouldn't the proper comparison be to look at your return on assets, which is quite different than the ratio of net operating income to

sales?

MR. JOHN DICKSON: I'm afraid to admit my ignorance on return on investment and return on assets. Typically when we're looking at profitability or lack of profitability that has not been one of our considerations.

The reference to the CD, which I suppose is in the range of three percent or four percent or something like that, is relative to our bottom line profit in sulfanilic acid, which we consider to be low.

As I mentioned before, a typical bottom line profit for a chemical operation is 10 percent and typical gross profit is 30 percent, but I'm a little --

COMMISSIONER LANE: What do you mean by gross profit? I guess that's the part that had me confused.

MR. JOHN DICKSON: Okay. Gross profit includes the cost of manufacturing. It takes the price and cost of manufacturing, and the difference as a percentage on the sales represents the gross profit.

Cost of manufacturing does not include sales, general and administrative costs and interest costs or taxes.

COMMISSIONER LANE: Okay. Thank you. This may be a question that you will want to answer in your posthearing because I'm trying to get a handle on your profits also.

What is your capital structure overall? In other words, what is your ratio of debt capital and equity capital to total capital, and what is your average cost of debt?

MR. JOHN DICKSON: These are questions probably we can best answer in the postconference brief.

COMMISSIONER LANE: Okay. Thank you.

Now, in response to Commissioner Hillman you indicated that some of your product is sold in dry form, and some is sold in liquid solution. Have there been changes from year-to-year in the amount of dry product you sell as compared to the solution product?

MR. JOHN DICKSON: Sorry. I turned myself off. The solution product.

COMMISSIONER LANE: I'm sorry. Say that again.

MR. JOHN DICKSON: There has been less -- when we're speaking about dry, we think in solution. We think in terms of sodium sulfanilate or the salt of sulfanilic acid that can be sold in two different

forms, either a dry powder or the solution.

There are substantial uses for the solution for customers that are close enough at hand to bear the freight cost of shipping water to their destination, but it offers an advantage to them because they don't have to put it -- it has to go into water anyway, so in this instance it's already there, and using a liquid in a chemical plant operation is a much easier and safe thing to do than working with a powder.

COMMISSIONER LANE: Okay. Now, when you report the quantities of product sold in pounds, have you adjusted the weight of solution product that you sell to the dry weight equivalent?

MR. JOHN DICKSON: It's always the dry weight equivalent so that you're always comparing a pound per pound.

That's even true in the case of sodium sulfanilate. Although it contains a sodium ion and has a higher molecular weight than sulfanilic acid, we report it as equivalent sulfanilic acid, not as its real weight, which is actually higher.

COMMISSIONER LANE: Okay. Now, these next two questions may be for the other Mr. Dickson because I heard him say that he was a chemical engineer, so

maybe he will be the person to answer this.

The raw materials for sulfanilic acid are aniline and sulfuric acid. I would like to know the weight of these raw materials that make up the finished sulfanilic acid. In other words, to produce 1,000 pounds of sulfanilic acid, how many pounds of aniline are used and how many pounds of sulfuric acid?

MR. JAY DICKSON: Did you say 1,000 pounds?

COMMISSIONER LANE: Yes.

MR. JAY DICKSON: Okay. That would be roughly 550 pounds of aniline and 600 pounds of acid, but the aniline costs about 10 times as much as the acid roughly.

MR. JOHN DICKSON: Right.

MR. JAY DICKSON: Most of the cost comes from the aniline.

COMMISSIONER LANE: Okay. Follow-up. Is sodium hydroxide a significant cost component in the production of sulfanilic?

MR. JAY DICKSON: It is, and sodium hydroxide prices have been on the rise as well. With some of our customers we've worked an agreement where we can adjust the price based on the changing price of sodium hydroxide.

In the case of the optical brightener

customers, they're going to use sodium hydroxide anyway so the fact that we add it means that they don't have to add it so they're okay with essentially paying a little bit more because that's one less ingredient that they will not have to add.

COMMISSIONER LANE: Okay. Thank you.

Would it be correct to assume that the cost of the basic raw materials, aniline and sulfuric acid, in 1,000 pounds of either crude sulfanilic acid or refined sulfanilic acid would be the same?

MR. JAY DICKSON: You have some yield loss going from the technical to the refined, you know, on the order of magnitude of five or seven percent. Therefore, the refined would have an increased cost for raw materials versus the technical grade.

COMMISSIONER LANE: The staff report suggests that technical grade sulfanilic acid has the lowest market price, that sodium sulfanilate -- I'm really butchering that -- has a higher value and that refined sulfanilic acid generally has an even higher market value.

Do you agree with this evaluation?

MR. JAY DICKSON: Yes. The dry form of the sodium sulfanilate would have a higher value of the solution form though.

COMMISSIONER LANE: To follow up, I would like to refer to the pricing data that is reflected in Tables V-1, 2 and 3 of the staff report. This data is BPI so you may have to fully respond in your posthearing brief.

I am not sure that the prices reported support the assumed relative value of the three products, particularly in recent years. I would like you to address the relative value as reflected in the pricing tables and give me your views on the relative value of the three products as shown in those tables.

Like I said, that would probably be best done posthearing.

MR. JAY DICKSON: Yes. We'll respond in the posthearing brief.

COMMISSIONER LANE: Can you briefly explain the basic source and availability of aniline and what companies supply that product in the United States?

MR. JAY DICKSON: I'm sorry. Can you repeat the question?

COMMISSIONER LANE: What's the basic source and availability of aniline and the companies that produce it in the United States?

MR. JAY DICKSON: It is available, and there are two or three companies -- and the reason I say two

or three, one has bought one of the other companies. Do you want me to state the companies or not?

COMMISSIONER LANE: Yes, if you can.

MR. JAY DICKSON: DuPont makes it in Texas at two or three different facilities. First Chemical, who was bought by DuPont, makes it in Louisiana, and then there's a joint venture between two companies. Crompton is one of them and another company. They've got a joint venture, and they also produce aniline.

We've got a contract with one customer or one vendor, and we are buying from them solely based on the contract so we're not interested in all the other producers.

MR. JOHN DICKSON: I'd like to add that the aniline market is really controlled by the MDI market.

COMMISSIONER LANE: The what market?

MR. JOHN DICKSON: MDI, methylene diisocyanate. The MDI is used as the primary isocyanate or the primary raw material in rigid urethane foam and also in automotive elastomer systems. This is really big business. We're talking about hundreds of millions of pounds of MDI.

Aniline is used to make MDI, so it's not uncommon for the people that make MDI to also make their own aniline or enter into large make or buy

contracts with other large companies.

This whole business of making aniline and MDI represents large-scale chemical operations with plants on a world scale basis to be productive. DuPont happens to be our supplier, and they are interested in both the internal market of supplying in Dow MDI, but also the external market, the merchant market, which is relatively small compared to what the captive market is.

The big names are DuPont, Dow, Bayer, BASF. All are major factors in making aniline MDI.

COMMISSIONER LANE: Okay. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman. Let me extend my welcome to the panel.

Would I be correct to assume that currently all of the audience is related to the Dickson family?

FEMALE VOICE: Yes.

COMMISSIONER PEARSON: Welcome to the audience also.

This may have been mentioned already, but just so that I understand. Does the Dickson family have an ownership in Nation Ford Chemical?

MR. JOHN DICKSON: Yes. It has a 100

percent ownership in the company.

COMMISSIONER PEARSON: Okay. So it's a family company that you have started and grown over time?

MR. JOHN DICKSON: I was not the founder, but I came with it about two years later and became the 100 percent owner over a period of time.

COMMISSIONER PEARSON: Okay. Good. Congratulations on your effort and what you've been able to build.

Mr. Dorris, you mentioned in your statement earlier that you thought India and China should be cumulated for purposes of this review and you went quickly through the factors, yet I wasn't sure that the record supported all of your comments.

The presence of sales or offers in the same geographic market, which in this case I guess we would define as the United States. Did we have that going on? Simultaneous presence in the market. Did we have that? Then even common channels of distribution. Is there enough on the record so that we can be confident of that?

Could you comment, please?

MR. DORRIS: Yes, sir. Most of those references were back to the time of the original

investigations and the conclusions in the first review that the same would result if the orders were lifted. Certainly you're right --

COMMISSIONER PEARSON: Which first investigation?

MR. DORRIS: I'm talking about the first review.

COMMISSIONER PEARSON: The first review. Okay.

MR. DORRIS: Yes. You're right. Without actual Indian imports present in the market you can't make those conclusions based on the facts of Indian imports in the market, but you can draw those conclusions from the original investigation.

The other issues, such as substitutability, where the customers lie, where the imports came in during the original investigation, I mean those types of factors can help you draw those conclusions.

COMMISSIONER PEARSON: All right. I can see how one could draw those conclusions, but just compared to most records that we look at there's a certain amount of -- what shall we say -- speculation involved in getting to the comfortable conclusion that we are better off cumulating than decumulating in this case.

MR. DORRIS: It's true that you don't have the data it's not that it hasn't been supplied either. I mean, the data just doesn't exist in the sense that the Indians have not been in the market and the Chinese have been in the market some, but not that much.

Certainly the way the factors are derived you can still draw conclusions based on the historical record and based on the type of product that you're dealing with and where the customers lie.

COMMISSIONER PEARSON: If we were to decumulate, what determination should we make on India and China decumulated as compared to cumulated?

MR. DORRIS: Well, obviously I believe the conclusion should be the same with respect to both in the sense that each have a well-developed industry. Each has a market-oriented direction. Each has a significant volume of production that's been at least shown.

We unfortunately don't have the actual capacity numbers to know whether there's used or unused capacity. Our feeling is that there's significant unused capacity, and certainly given the fact that you could have batch production going into sulfanilic acid production if needed there's somewhat

unlimited capacity in both countries the same.

I think the key also is that pricing by both countries into other markets is significantly lower than the prices in the U.S. so that if the opportunity were given to come back into the U.S. market to either country both would enter that market for those higher prices.

Now, they may still and would undersell the U.S. producer, but they'd still be getting more money for those products than they're getting in either their home market or in the other world markets.

MR. JOHN DICKSON: Could I make it clear that in the market or out of the market, what does that mean? That does not mean that India is not making regular quotes to the United States. It's just that when they add on the deposits that are required those quotes are so high it doesn't make sense for the customer to buy.

Believe me, the Indians are active and would be happy to sell in the United States. It's just that their resulting price with the duties is more than what the customer can buy from other sources, including NFC.

COMMISSIONER PEARSON: Okay. As you meet with your customers they advise you that they're

hearing from Indian producers? It was compelling to hear you say that. I'm just wondering how is it that you know that the Indians are doing that?

MR. JOHN DICKSON: Well, the subject of India doesn't usually come up, but we deal with Indian companies, and we know that on all of the chemicals that they are advertising that they make they will happily provide you quotes into the United States and would be happy to sell it.

It's not as if they have made a decision we're not going to sell in the United States. It's a matter that their resulting price is too high, and they're not getting business.

The simple fact that you don't see sales by India into the United States doesn't mean that they haven't made quotations or that they wouldn't be happy to make quotations or that if they could possibly get the orders they would. They're there in the market. It's just that their price, their resulting price, is too high.

COMMISSIONER PEARSON: Okay. Mr. Dorris, you no doubt have a chance to look at Table 1-3 on page 1-14 of the confidential staff report. The line of particular interest to me the one that shows the value of imports from India over the period of review.

Could you for purposes of the post-hearing unless you have anything that you'd want to add now take a look at the value of Indian imports and then if possible cite examples of any other product from any other country that's been in front of us for an anti-dumping countervailing duty case that has had a lower value of imports than we see in this record for sulfanilic acid from India?

MR. DORRIS: I will look at that. You're talking about value as opposed to volume?

COMMISSIONER PEARSON: Yes. I mean, if there's anything we should know about volume that's fine, too, but if we import widgets it may not be in pounds so the value comparison is probably the easiest to understand in terms of just trying to get a sense of the importance of those imports into the U.S. market.

MR. DORRIS: I will try to look at that. I think an issue of course with respect to value is this is a small market, a small industry, and it makes the comparisons very difficult.

COMMISSIONER PEARSON: Right, but there may be other small markets and small industries. I've been trying to think of one and in my time on the Commission I don't think I can.

So if I've missed something let me know or if you have to go back a few years to find it -- if there's something that comes to mind please let me know just because otherwise this may be the low point that I've dealt with in terms of --

MR. DORRIS: I'll do my best.

COMMISSIONER PEARSON: Okay. Thanks. Another point. I regret that the Indian producers aren't here. When we made the adequacy determination we expected India to be represented and they're not, so we don't have the benefit of their input. It occurred to me that it may be somewhat costly for an Indian or for any foreign producer to be represented at one of our proceedings.

For the post-hearing could you kind of compare for me the costs of representation that might be required and compare that to the value of imports that we have from India in this record? I'm just wondering is their lack of presence explained by what they would see as a poor balancing of outlay for potential benefit?

MR. DORRIS: Well, I'm sure John would agree with you in terms of what cost is involved in bringing one of these cases whether you're in the U.S. or coming from India, but one thing I would say is that

just completing a questionnaire can't be that costly. I think you'll probably look through all your responses. When someone fills out a questionnaire they indicate how much the cost is.

It's usually an insignificant amount. I mean, yes, it might be difficult for them to be involved directly in the case, and to hire attorneys and be involved in the case, but they didn't even complete the questionnaire and those questionnaires are important especially in terms of the capacity.

Based on the Indian Embassy data for Kokan specifically you saw a 2,000 metric ton increase from 2004 to 2005 in terms of production. What does that indicate in terms of their capacity and their ability?

That's what I think they're not wanting to come here and show because I think that will show such unused capacity, and such ability to make product, and such an increase from over what they had from the original investigation and even an increase over from what they had in the first review that the data was just so compelling to them that they just thought it wasn't worth the effort to try.

COMMISSIONER PEARSON: Thank you. My time has expired.

CHAIRMAN KOPLAN: Thank you.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

I'll join all of my colleagues in welcoming you here before the Commission this morning. In responding to the Commission's questionnaire a number of purchasers indicated that they have no other source, that they only buy I assume from your company as the sole domestic producer.

Do you have a sense -- and if it's proprietary you can respond in your brief -- of what percentage of your sales or of your customers are single-sourcing from you not considering other price bids before they make a purchase, and do you have a sense of why that would be? Is it someone who is only buying in small quantities for example?

MR. JOHN DICKSON: We can do that in the post-hearing brief.

COMMISSIONER ARANOFF: Okay. I appreciate that. If you're able to in your brief give us a sense of how much of your production you think is going to customers who only source from you that would be helpful. I notice in looking through our staff report that your company's capital expenditures and research and development have decreased over the period of

review.

You've touched on that some in your direct testimony this morning. Can you give me a sense, do you feel that this is now a mature industry and that you probably can't anticipate any major improvements that would require substantial capital or research and development expenditures in the near future?

MR. JOHN DICKSON: Yes. I think it is a mature business for us now. The growth rate is not substantial, there are no big new applications, so we anticipate that there will be no new increased capital expenditures or efforts involved.

Actually, looking into the future I would say that within the next five years we'll need to look toward replacing the continuous reactor system with a new unit, but we would essentially duplicate that system just because all of this equipment eventually wears out and needs to be replaced.

So that would be our next largest consideration in terms of capital and we'd probably be talking in the neighborhood of $2 million.

COMMISSIONER ARANOFF: When you purchase that technology from Zeneca that's patented technology? Did you get all the rights at the time to replicate it or how does that work?

MR. JOHN DICKSON: It was not patented technology, but it's within the realm of what Zeneca would call proprietary know-how which was passed on to us under a secrecy agreement so that they are not allowed to sell it again if you will. They have sold the business and the technology to NFC. We could replicate it.

We could build a plant in China if it made any sense exactly like that, but it is a unique piece of equipment. Making sulfanilic acid is -- I can make sulfanilic acid easily in my kitchen or you could in yours. You wouldn't want to because it has some odors and there would be some problems associated with it.

If you can imagine it's the chemical engineering problem that you're bringing two liquids together that make a molten salt, and then you apply heat to it, and it dries off a mole of water, and then it moves from molten to a dry material in a stirred reactor and then everything wants to break apart because now the viscosity of something that's solid inside is very huge.

So it's a significant technical accomplishment to be able to achieve what I've just said and a continuous reactor as I have described and the know-how is substantial. We don't believe that

anyone else will be able to invent or duplicate what we have done without the blueprints and the operating manual.

COMMISSIONER ARANOFF: Well, that actually leads me to my next question which is what process are your European competitors using? Are they using a batch process like you described in China and India or are they using something closer to what you do? Are you free to sell technology to them if you wanted to? Are they looking into your technology trying to reinvent it themselves?

MR. JOHN DICKSON: Well, if it were not for the batch processes that operate in such abundance in India and China there would be a lot more interest on the part of European producers and others in our technology.

There would be a lot more interest in the worldwide use of our technology, but as it is with labor and the environment virtually free especially in China this material can be made for much less cost even using 30 times the amount of people.

So in answer we don't look at sulfanilic acid as a growth business for which even though we have good and special technology that's going to lead us anywhere other than maintaining our position in the

United States.

COMMISSIONER ARANOFF: Okay. So just to clarify the European producers are using a batch technology --

MR. JOHN DICKSON: Yes.

COMMISSIONER ARANOFF: -- albeit it a cleaner one?

MR. JOHN DICKSON: I didn't get to that. All of the European producers are using a batch process, but a much more controlled and automated batch process that does not expose the workers to the chemicals or the atmosphere that happens in China and India, but they are batch processed.

COMMISSIONER ARANOFF: Would you say then that their cost of production is relatively comparable to yours given the comparable level of environmental regulation and that sort of thing or do you think yours is lower?

MR. JOHN DICKSON: Jay points out that our volume of production is such significantly larger than any one of the producers in Europe, probably are almost double that size, it causes our large fixed-cost to be spread over a larger volume and therefore would result in somewhat lower cost in the United States than we would see in Europe.

COMMISSIONER ARANOFF: Okay, but you would say that's attributable to the hire volume of production as opposed to the nature --

MR. JOHN DICKSON: Yes. Absolutely.

COMMISSIONER ARANOFF: -- of the technology involved.

MR. JOHN DICKSON: The share of market that we have in the United States, which is large, and the fact that our business has grown from two million pounds to well over five times that is the reason that we've been able to bring our prices down, become a more efficient producer, et cetera. So I can't emphasize enough how important it is that we maintain the level of production that we have achieved.

COMMISSIONER ARANOFF: Well, going back to my first question on single-source customers and asking you to sort of provide some other information in your brief as you go into that in sales where you are competing against fairly traded imports from France or Italy that you've mentioned are in the market if you could provide us with any information to describe how that bid process works, what your experience has been in terms of competing for sales with producers just so we can understand in a competitive sale how the dynamics of the market work

that would be helpful.

MR. JOHN DICKSON: Well, I can explain exactly one dynamic in one of the food grade accounts.

There's not a subject of the fact that you're the only supplier, but typically there's a complaint made that your price is higher than what I can buy it if I'm in Mexico, and can't you do something on price, and if you can't do something and lower the price we may have to move all of our production to Mexico, or we may lose business in the United States to the other dye manufacturers in China and India that are competing against us.

So you see that discussion is not just your price is higher or lower than the competitor it has a lot of other facets and is a lot more complex.

COMMISSIONER ARANOFF: I understand that. Certainly it's a factor of the times. Have any of your customers actually moved offshore?

MR. JOHN DICKSON: There have been a lot of threats of moving offshore, but the customers that have actually moved offshore have been the ones that we had 20 years ago that were using sulfanilic acid to make textile dyes.

That wasn't caused by sulfanilic acid, that was caused by the fact that (1) the textile market

itself moved offshore; and also the textile dyes themselves could be made so much cheaper in China and India than they could in the United States. So that was a natural evolution of things that was not related to the fact that sulfanilic acid was more expensive in the United States.

MR. JAY DICKSON: May I add something quickly? There was one case where a global customer shut down an operation in England and they had the option of moving it to the United States or to Mexico and they chose Mexico because they're lower cost.

COMMISSIONER ARANOFF: Okay. I assume you're not referring to lower cost just for sulfanilic acid or was that the reason?

MR. JAY DICKSON: Well, that's a part of it. Mexico can buy from China without duties and other lower costs, lower cost labor.

COMMISSIONER ARANOFF: Thank you very much for your answers.

CHAIRMAN KOPLAN: Thank you, Commissioner. I just have a few matters left.

Mr. Dickson, at Table 2-3 on page 8 of Chapter 2 of our staff reports it indicates the only purchaser to rate both countries are rated the United States is inferior to China in the category of

reliability of supply. Have there been any occasions during the current period of review in which your company was unable to supply sulfanilic acid in response to customer requests?

MR. JOHN DICKSON: Absolutely none.

CHAIRMAN KOPLAN: Thank you. Next, let me stay with you. Do you hedge your natural gas costs?

MR. JAY DICKSON: No. We do not.

CHAIRMAN KOPLAN: You do not.

MR. JAY DICKSON: We really haven't had that opportunity based on our agreement. We've had one opportunity where our natural gas customer or supplier has come to us and said, you know, do you want to buy at a certain price and it ended up that it would not have been an advantage. We do not play that market I guess.

CHAIRMAN KOPLAN: Thank you. On pages 15 and 16 of your prehearing brief you state that China and India both have batch chemical producers that could produce sulfanilic acid and you've just been talking about that in the hearing. Are there batch chemical producers in the United States that could easily begin production of sulfanilic acid?

MR. JOHN DICKSON: No. There are not. Unfortunately the diverse batch chemical industry that

did exist in the United States no longer exists.

CHAIRMAN KOPLAN: Thank you. How difficult is it to become a domestic producer of sulfanilic acid? I mean, why are you the only domestic producer remaining? I note on page 15 of your prehearing brief you discuss the potential for product shifting in the foreign countries. Does such product shifting occur domestically?

MR. JOHN DICKSON: The United States I think is typical and has often been envied by European countries in that there's a substantial market here and substantially few companies supply it. Therefore, they're able to reach volume levels that it makes sense. We need the volume that we have in order to keep our costs down and be competitive with the overall world market.

Anyone coming in and looking at sulfanilic acid may or may not conclude that NFC is successful in making a profit, but what they would have to look at is that if we're selling, just pick an arbitrary figure which is not real, 10 million pounds it's likely that their break even point on any sort of plant would at least be five million pounds.

So if they come into the market expecting to quickly take five million pounds from NFC it's an

unlikely venture that anybody is going to want to pass on. So the economic barrier or capital investment that's required, the environmental considerations, getting the permits and everything else, usually don't lead toward the idea that someone in this specialized business would try to come in and be a competitor.

Also, there are higher expectations of investors, more sophisticated expectations of investors in the United States as to what their expected return and intelligence of the investment is. So given our relatively dominant position and the fact that our prices are very competitive really discourages another producer coming into the business.

CHAIRMAN KOPLAN: Thank you very much for your answer, and to all of your answers to my questions.

I'll turn to Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you. I just wanted to go back to the nonsubject imports. I heard some responses, but just a question in terms of what grades they're selling here. Do they sell the same mix of the refined technical that NFC sells in the U.S. market? Again, I think that's primarily France and Italy as I heard you.

MR. JOHN DICKSON: The French are primarily

selling technical. They do incidentally make the solution for a large customer in Europe, but usually the solution is not something that makes any sense to ship overseas so they're not competing with us with solution in the United States. The Portuguese make the pure acid only.

I believe all of their technical feed stock goes into making the pure acid, but the anti-dumping duties against them prevent them from being a factor in the market now. Hungarians were offering the pure material, but our unconfirmed information is that they have gone bankrupt and are no longer making sulfanilic acid.

We believe that there is production in Italy now of technical sulfanilic acid. It is primarily our only forecasted production by one of the major brightener companies and that material is coming into the United States and in that sense we're competing with the Italian technical material.

On the refined market because it is primarily supplied by India, and China and the Portuguese and there are anti-dumping duties in effect then NFC is usually the first supplier of choice in terms of relative value to the customer.

VICE CHAIRMAN OKUN: In response a long time

ago now my first question you were talking about a European customer who had switched what they were using because of the price advantage, and I wanted to make sure I understood that. That was they would purchase and then further refine it for their uses?

MR. JOHN DICKSON: Yes. As a major optical brightener --

VICE CHAIRMAN OKUN: The optical brightener. Okay.

MR. JOHN DICKSON: -- customer that had traditionally used refined material purchased primarily from China and India, but once the dumping margins went into affect in 2002 they decided to make -- well, first they switched to technical sulfanilic acid and bought technical acid from the European French supplier and later as far as we can tell they've actually started making technical sulfanilic acid themselves using it in Europe and shipping it to their plant in the United States.

VICE CHAIRMAN OKUN: Okay. Appreciate that. I needed to understand that.

Then just one request, Mr. Dorris, for post-hearing just in terms of I know the Chairman asked you several questions with regard to the vulnerability, if you can also just look at other cases and point me to

cases where we've had single producers in the United States and when we have found those vulnerable and under what circumstances? I'd appreciate that.

MR. DORRIS: Yes, ma'am. Do you want it limited to single producers? Is that a key point?

VICE CHAIRMAN OKUN: Well, just you know large market -- I mean, understand it's in terms of trying to understand how I would evaluate vulnerability in a market where we talked about the operating income market share in this case where you've got a supplier. I just want a sense of what we looked at if you can.

MR. DORRIS: Yes, ma'am.

VICE CHAIRMAN OKUN: Always helpful. With that I have no further questions, but I do want to thank you for appearance here today and your answers to our questions. It's been very helpful. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you. I guess I would love to finish a little bit of this discussion of the different grades and how they play in the market.

First let me start with asking a question that I'm sure should be best answered in the post-

hearing which is just help me understand the portion of your shipments that are of each of the technical, the refined, the sodium-based solution and the sodium salt solid version of the product.

I'm just trying to understand your most recent, you know, so shipments would be what percentage of those? I would be happy to take that in a post-hearing brief. Then help me understand are there end uses that can only use one form or another or can most processes convert themselves, and most of your end users can they change their process to use a different form of sulfanilic acid?

MR. JAY DICKSON: Well, each case is different. There are some cases where they can use any product they choose. Some customers just choose not to, but they could if they wanted to, but they just for one particular reason or another they just choose a particular product and they say that's what we want to buy from you.

MR. JOHN DICKSON: Let me say this --

COMMISSIONER HILLMAN: I'm sorry. I was intrigued, again, by this comment that at least in Europe that there was a purchaser who had been using the refined that moved if you will downstream, or whatever, offstream, to use the technical product

because they were able to figure out a way to do a little bit of their own purification somewhere else in the process.

I'm just trying to understand how common a phenomenon that is of people switching from one form to another and why they would do it.

In other words is there a cost -- once you get to a certain price differential say between the refined and the technical are a lot of customers out there looking to try to make that switch just because your cost differential between the two is such that they would rather try if they could to use the technical grade and do the purification on their end rather than having you do it at a certain amount of additional price?

MR. JOHN DICKSON: It's very unusual for a customer to make a switch like that.

As a matter of fact it's something that I would have never predicted would have happened anywhere in the world, so I was very surprised to learn that this company (1) did it, but it's also a privately-held company in which the ownership has more of a hands on type management and could clearly see that given the much higher price or the significantly higher price of buying the Chinese refined grade

material than they could buy the technical grade supplied by a producer in France that the owner just told his plant to do it.

To do it is actually relatively simple because they have to convert it into the salt solution anyway before it goes on to become a brightener. So they take the technical acid, drop it in a caustic solution and dissolve it, throw in some activated carbon, filter it -- this is called clarification -- and then it goes directly on into the process.

So they've had to add a step that might cost five cents that otherwise would have cost them 20 cents or so, but as long as the refined Chinese material was available at such a low price the economic decision was clearly why should we bother doing that operation?

COMMISSIONER HILLMAN: All right. I understand exactly what you've said in terms of this customer. What I'm trying to understand is how unique is that?

From what you've described this process of, again, once it goes into solution and I guess maybe I don't understand what portion of your customers -- I would have assumed from food coloring and paper whiteners that everybody at some level puts this into

solution for an end use and those people are not actually using it as a solid.

MR. JOHN DICKSON: Right.

COMMISSIONER HILLMAN: So if everybody is putting it into solution before they're finishing whatever their use is for it why wouldn't you assume that a lot of them would go down this road? Once they've already put it into solution, run it through carbon and do the purification themselves rather than paying you a significant differential to do so.

MR. JOHN DICKSON: Here you're a matter of economics scale. We're doing it on a large scale, a customer would be doing it on a much smaller scale. So in most cases the total cost to the customer would be less by us doing it rather than them doing it.

COMMISSIONER HILLMAN: All right. I appreciate that answer. Then help me on the environmental side. Throughout this case we've spent a little bit of time trying to understand the high environmental costs associated with this product. Is the major environmental concerns and costs on the making of the technical?

I mean, in other words is it initial chemical reactions or are your environmental costs more incurred on the refined or the solutions end of

the process?

MR. JOHN DICKSON: Most of our environmental cost is associated with the type of specialized equipment that is used to make the technical acid that protects the workers and the atmosphere from being contaminated with aniline and sulfuric acid. So we have a large investment that makes it in a manner that minimizes the environmental and human exposure to the chemicals and to the sulfanilic acid.

COMMISSIONER HILLMAN: As you described that that's mostly making the actual crude product to start with? That's where the aniline and the sulfuric acid are reacted is at the beginning part of the process?

MR. JOHN DICKSON: Jay has --

COMMISSIONER HILLMAN: Go ahead.

MR. JAY DICKSON: When you refine the technical grade from the technical grade to any of the high purity grades you have to do this in water and there's a certain amount of waste water that is generated. We pretreat this water and then we send it to a municipal water treatment facility whereas in China or India that may not be the case.

I don't have any evidence that says they're not treating their waste water, but there's certainly anecdotal evidence to that fact.

COMMISSIONER HILLMAN: Then you talked a little bit about your exports. Obviously if we look at the data exports are relatively significant for your company. I think you said earlier in your testimony that they're primarily going to Europe. I'm trying to understand the pricing in the U.S. versus the pricing in Europe and also how comfortable we should be looking at averaging the values.

Obviously for all import and export data we can always look at average unit values, but they're only useful if there isn't a big product mix difference between what you're selling in the U.S. versus what you're exporting to Europe.

Can you help me understand how you see prices in Europe versus the U.S. and whether what you're shipping over there is the same relative mix of product that you're selling in the U.S. market?

I would assume from your earlier testimony about not wanting to ship a lot of water that you're not shipping the solution product over to Europe, but are you selling the same mix of technical and refined in Europe?

MR. JOHN DICKSON: I think as I may have mentioned before most of our sales in Europe are the technical product because we're the large producer of

the technical material and have generally low cost associated with that and can compete in the technical market in Europe.

We have had the pure refined acid sales in Europe, but with the recent increases that we've had in natural gas primarily we backed away from -- well, we quoted.

It's like saying before it's not that we're not in the market trying to sell refined grade in Europe, it's that our prices are higher than what they can be and actually, material imported from India even paying the duties in India our price ends up being higher. So the two commodity markets that move across the waters are the technical acid and the refined free acid.

There's actually not a large market anymore in Europe or even in the United States for the sodium sulfanilic powder. Most of the market is in the salt solution form. As I mentioned there's a parallel in France to a producer making technical acid, converting it to a salt solution and shipping it to an optical brightener producer similar to the way we do here.

COMMISSIONER HILLMAN: Then just generally on the price side you mentioned that your costs particularly the aniline, and the benzene derivatives

and the gas costs are what are going up.

Can you readily just pass those costs on and/or is there a time lag in terms of you see a cost increase for your input products to the time in which it gets translated into prices at which you're actually selling your product? I mean, do your customers, you simply go to them and say my aniline went up *X* therefore you have to take a price increase of the equivalent of *X*?

MR. JOHN DICKSON: The culture has changed over the past two years. The culture that we had been working in was that we would negotiate a price for our customer that was constant for the year and then suddenly find to our consternation that our aniline price had doubled. So Jay made many trips to customers saying we're going to have to get -- it's like a force majeure.

No one ever expected aniline to do what it's going to do. Then you get a lot of whining, but we can't bring our prices up, et cetera. So that induces the induction time of actually being able to do something that's very hurtful.

As time goes on with the aniline prices and benzene prices remaining where they are and still being very volatile we're trying to educate our

customers that we cannot offer a constant price for the year. At best we can offer like quarterly price protection and say depending upon where aniline is at the end of the next quarter our price will adjust up or down.

So that's our policy is to try to get the aniline adjustment built into the agreement.

COMMISSIONER HILLMAN: You've been successful in doing that?

MR. JOHN DICKSON: We're maybe 75 percent or 80 percent of the way.

COMMISSIONER HILLMAN: Okay. I appreciate those answers. Thank you very much.

MR. JAY DICKSON: In most cases we have not been able to recoup all of the costs and when we do raise our prices it usually has been delayed.

COMMISSIONER HILLMAN: Appreciate that. Thank you.

CHAIRMAN KOPLAN: Commissioner Lane?

COMMISSIONER LANE: You talked a lot about your natural gas prices. Is electricity a factor in your cost to do business also?

MR. JOHN DICKSON: I'm glad you asked that question because I have been studying energy costs a lot over the past couple of months or so. Electricity

is a factor, but it's not nearly as large a factor as natural gas. It's probably one-third the affect of natural gas.

The interesting thing about electricity and I've sort of been away from the day-to-day details of the business is that there have been very insignificant price increases in electricity for us over the past five years or so.

I have to attribute that to the fact that Duke Electric, which is the power company, the main supplier to us -- has mostly a nuclear plants in the area, so it's a regulated industry and they have no justification to bring up prices.

COMMISSIONER LANE: So you're paying pair rates rather than a negotiated rate with Duke Energy?

MR. JOHN DICKSON: Yes. It's definitely a carrier's rate. There's no negotiation, but it's a relatively low rate.

COMMISSIONER LANE: Okay. Thank you. Your website advertises that your facilities are available for toll production. What chemicals or products would you be capable of toll producing and have you contracted for any toll production in the last five years?

MR. JOHN DICKSON: Jay's right on this.

MR. JAY DICKSON: Yes. That's where our business is growing is in the toll manufacturing business. We toll for many different chemical companies in the United States. We've had a lot of growth in the past year or two in this area. Do you want any examples?

COMMISSIONER LANE: Well, I'd like to know do you use the same facilities and the same workers that you use for the production of sulfanilic acid?

MR. JAY DICKSON: For the most part no, but we have used some of the sulfanilic equipment that is used to make refined grade sulfanilic acid to do a toll project and that was only because one of our customers had switched from refined grade free acid to the salt solution, so that opened up some capacity in our refined grade equipment.

The typical answer is no. Our sulfanilic equipment is mainly used for sulfanilic. All of our other equipment is used for toll manufacturing or a few other products that we make and market ourselves.

COMMISSIONER LANE: What percentage would you say is the toll production of product as compared to your sulfanilic acid production?

MR. JAY DICKSON: I'll let John answer that. He just looked at the year-end financials.

COMMISSIONER LANE: Is that what you call him on the job? You call him John rather than dad?

MR. JOHN DICKSON: Yes. As a matter of fact. That's always the way it's been.

COMMISSIONER LANE: Okay. Thank you.

MR. JOHN DICKSON: Even then at home I'm called by my grandfather's name, so it's not dad. Anyway I've lost my train of thought. The question is?

COMMISSIONER LANE: The percentage of toll production to sulfanilic acid?

MR. JOHN DICKSON: Sulfanilic acid production is 60 percent and the toll production is about 40.

COMMISSIONER LANE: Now, how difficult would it be for the Chinese and Indian sulfanilic acid producers to enter the United States market with large volumes of subject imports? Where would they enter the United States, and what channels of distribution would be used to ship orders of subject imports?

MR. JOHN DICKSON: The channels of distribution would be either direct sales, by this who's doing the selling on the importer.

There are a lot of importers that would bring the material in and make the quotations to our

customers let's say for the refined sulfanilic acid and those customers would then present us with the facts -- of course by this time we already know what's beginning to happen -- and in all likelihood they would decide to purchase certain quantities from the Chinese and Indians just to show us that they can and then even if we met the price we would lose volume and would run the double jeopardy of lower volume and lower prices all at the same time.

Considering our financial status of the business and our low prices already you can see what affect that would have. You might argue the solution that there is something of a barrier that the company has in offering and making the solution because that's the type of service that would be provided.

All of the companies that buy the solution from it buy it because it's the best value, not because they can only use solution. For sure they could use the dry salt or they could use the dry material itself.

So with the low priced pure acid on the market from China or India either in the form of the dry sodium sulfanilate, the refined pure acid it would still go to the solution accounts and the solution accounts would then say well, we'd like to keep buying

from you because you're offering solution, et cetera, but you're going to have to bring the price down because we can do this, or we can have somebody else make the solution.

I mean, that's no big deal. So hope that's answered your question.

COMMISSIONER LANE: Yes. Thank you.

Mr. Chairman, that's all I have.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson?

COMMISSIONER PEARSON: Mr. Dorris, my lack of training in the law occasionally leads me to ask questions or make observations that cause my colleagues to cringe. Nonetheless I'm going to try it again. There are times when I see the role of the ITC in five year reviews as somewhat like that of a parole board.

In the original investigation we lock some people up, and we keep them there, and after five years we look and see if because of good behavior do they deserve to get let out and we do let some of them out, okay? In this case it's complicated further because at least with respect to India yes, they've been locked up, but because it was a threat finding they didn't even commit a crime in the first place.

It looked like they were going to do something wrong, they got thrown in the slammer and now we're considering whether they deserve to stay there. Basically all of us are capable of committing crimes, but most of us choose not to.

So the reason for my earlier questions about accumulation and about whether there's a basis for keeping India subject to the orders has to do with this whole question of does the record support that they have done inappropriate things, that they're likely to do inappropriate things in the future?

I mean, what kind of burden of proof is needed here? I'm really wrestling with this and I frankly don't know what to do with it, so anything that you can provide either now or in the post-hearing would be helpful.

Mr. Chairman, I have no further rambling observations to make.

MR. DORRIS: Well, if you wanted an answer at all to your rambling observations?

COMMISSIONER PEARSON: Please.

MR. DORRIS: We certainly will provide something in the brief. I understand where you're coming from in a sense that if someone is found in a threat situation 10 years or 15 years later how do you

really evaluate that threat situation again? I think two things.

One is I would have to disagree with you about being innocent. It's true that perhaps their volumes hadn't reached levels that were causing injury, but they were found dumping and they were found getting export subsidies. I think maybe you could discount the dumping because well, that was way back then and who knows what they might do now, but I don't think you can discount the export subsidies.

Those programs still exist and they're still available to them which give them in the range of a 40 percent price advantage coming into the U.S. market. So they weren't innocent and they don't continue to be innocent in that sense. So it's not just a propensity, it's an actual.

For your latter part in terms of threat I think you have to look at it and I'm going to look at this, too, just as a concept, but I think you have to look at it in terms of well, why were they found to be threatening at that time and what are the basic threat factors because obviously there is a similarity between these determinations and just a general threat case when you think about how the factors are analyzed.

I think in this context you have to look at well, if at that time we thought that they were increasing production, increasing capacity, well, did they? The answer here is yes, they did considerably. Much more than we thought they would or be able to. At that time perhaps they weren't as big in the world market and maybe there was a chance that they were going to be just a domestic player.

Have they moved into the world market? Well, of course they have. We've talked about that today of how they moved into the market.

So I think when you look at this thinking, well, we only found the threat at the time and so maybe they're not such a threat anymore, in my mind they're actually a bigger threat now than they were then mainly because of those production increases and volume increases.

Not only that they still have the same ability with the export subsidies and the same ability with just pure dumping because of the cost differences and the eagerness to get into this market whereas we discussed today and there's been no contrary evidence that the prices are better. Why not come to this market?

I mean, there have been cases where the

Commission looked at it and said well, we don't know whether there's a lot of unused capacity because we've had problems determining that and maybe there wasn't any unused capacity. Maybe there was a significant amount of capacity utilization in the foreign markets. Maybe that's true for India here. We don't know.

We could have known, we don't know. We should have known. Even if it weren't true if there was not a lot of unused capacity in India they're going to shift that production here because the prices are better and there's a market to be had if they're allowed back in because of export subsidies and because of their ability to dump and get that product into this market and undersell NFC.

I think I will look at this in terms of a legal concept, but I think just from a practical point of view you have to look at why did you make determinations before, did those factors play out, have things changed, did India dry up and they're no longer there? No. They grew. They got bigger. They're much more of a threat now than they were then. Sorry to ramble, too.

COMMISSIONER PEARSON: No, no. That's fine. I appreciate those observations. Do what you can in the post-hearing to help me understand the legal

ramifications of what we're up to here.

With that I'd like to thank the Dicksons for making the trip to Washington.

Mr. Chairman, I have no further questions.

CHAIRMAN KOPLAN: Thank you, Commissioner Pearson. I might just ramble for a second with you. For the record you don't cause me to cringe. In fact I would have to say that describing me as, you know, equating me to a member of a parole board is one of the kinder ways that I think I've been described on occasion since I've been here, so I have no problem with that. Thank you.

Now, I'll turn to Commissioner Aranoff.

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

A couple of quick follow-ups. Since the original investigation NFC's productivity as reflected in our prehearing report has increased quite a few times over since 1989 and also increased significantly since the first year in the current period of review.

The decrease in the number of workers and hours worked wouldn't seem to account for all of this improvement. Can you tell us what else happened during this period that resulted in the productivity numbers that we see?

MR. JOHN DICKSON: I guess the single largest thing that's happened in recent times is an increase in the amount of sulfanilic acid that is being used by the customers. Our production of course is just a reflection of what our sales are and what the demand are.

We have seen less of China as a competitor because the order keeps their prices high. We haven't seen India as a competitor because the orders keep their prices high. We also have seen significant imports begin to come in from Italy and have been coming in from France.

The very nature of our operation is capital intensive, so if we can increase our production from say 10 million pounds to 11 million pounds the marginal profitability is much higher and contributes greatly to the overall overhead of the operation.

COMMISSIONER ARANOFF: I appreciate those answers. I wanted to check and see because there are cases in which either there's been a technological change, which it doesn't sound like there's been here, or sometimes even an accounting change that accounts for those numbers, but it sounds like neither of those is the case here.

Let me just ask you to clarify. When you

were talking about imports from Italy I thought that I heard you say that the producer in Italy was producing this product captively and using it in a downstream product and it was the downstream product that was being sold in the U.S. Did I hear you wrong?

MR. JOHN DICKSON: No. You heard me correctly, but his selling in the U.S. is also captive. In other words he has plants in Italy and in the United States that make optical brighteners and it's believed, or we've been told, or we see and it's hard to confirm these things that sulfanilic acid is in fact coming from Italy.

So he has actually begun to captively produce sulfanilic acid for his own requirement.

COMMISSIONER ARANOFF: So in fact it's not the downstream product, the brightener, but the sulfanilic acid being sent to a related facility in the U.S. to be turned into an optical brightener?

MR. JOHN DICKSON: Yes. It would be like make sulfanilic acid in Italy and ship it to his own plant in Italy that makes brightener and also his plant in the United States that makes brightener.

COMMISSIONER ARANOFF: Okay.

MR. JOHN DICKSON: We believe this is happening now and accounts for the imports that we see

from Italy to the United States.

COMMISSIONER ARANOFF: In post-hearing if you can take a look at whatever that are the most recent import statistics that are available and see if there's something that shows us that phenomenon with respect to Italy that would be helpful.

In Chapter 2 of the staff report the Commission staff indicates that they believe the demand for sulfanilic acid is inelastic and that customers wouldn't change the amount that they buy very much with the changes in price. Is that consistent with the scenario that you're giving us of your inability to raise your prices to cover your cost increases?

Can you show me how you reconcile those or do you think that the staff's assessment of inelasticity is not really right?

MR. DORRIS: We can give that some further thought for the post-hearing brief, but I would point out that it's one thing to say that they're going to threaten to go offshore or go offshore because at some point their price for sulfanilic acid gets too high and they just can't purchase it versus whether or not they can find some other physical product that they can use in place of sulfanilic acid.

I think the answer to that is there's not one, which is where the inelastic determination comes from which I would agree with. Whether they're there to be sold to, that's a whole different question.

COMMISSIONER ARANOFF: Appreciate that answer. One last one. Throughout your brief you make your vulnerability argument in using the term that we often use around here of a cost price squeeze.

Obviously in this case we have some evidence that costs have gone up, prices have also gone up and if you look at the numbers for cost of goods sold as a ratio to net sales they show that in the most recent period that number is within the range within which it has fluctuated over the entire period of review and not really an outliner at this point.

Either now or in your post-hearing can you just take a look at that number and reconcile for us how that's consistent with the way that you're describing a cost price squeeze?

MR. DORRIS: Yes, ma'am.

COMMISSIONER ARANOFF: Thank you very much, and I believe that concludes my questions. Thank you very much to the panel for being here this morning.

CHAIRMAN KOPLAN: Thank you, Commissioner.

If I've tracked it correctly I'm not sure,

Commissioner Hillman, whether you were finished. You had more questions? You don't. Okay. I don't think anyone else does either from the dias.

So, Mr. Deyman, does staff have questions?

MR. DEYMAN: George Deyman, Office of Investigations. The staff has no questions.

CHAIRMAN KOPLAN: I think we have an amendment to that.

MR. ASCIENZO: I have a comment. This is John Ascienzo, Office of Investigations.

It's clear from the questions this morning that the Commission is very interested in the detailed cost data of this industry, perhaps more detail than is already on the record, so rather than ask a lot of questions right here, right now I'll just say that I'll be contacting you either today or tomorrow with some follow-up questions so we can get the information the Commission wants.

Thank you very much. With that the staff has no more questions.

CHAIRMAN KOPLAN: Thank you. I want to thank each of the members of this panel for their presentation. You've been I feel very direct and forthright.

I can excuse you from the table and ask you,

Mr. Dorris, if you have closing remarks you'd like to make.

MR. DORRIS: I don't think so. We'll make sure that we make all our remarks in the post-hearing brief.

CHAIRMAN KOPLAN: Okay. I understood you were going to reserve that right depending on how thorough you thought our questions were, so I'll --

MR. DORRIS: they were very thorough.

CHAIRMAN KOPLAN: -- take that as a passing grade. With that, again, I want to compliment all of you for your responses to our questions and your directness. Very much appreciated.

Post-hearing briefs, statements responsive to questions and requests to the Commission and corrections to the transcript must be filed by February 6, 2006; closing of the record and the final release of data to parties by March 1, 2006, and final comments are due March 3, 2006. With that this hearing is concluded.

(Whereupon, at 11:49 a.m. the hearing in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Sulfanilic Acid from China and India

INVESTIGATION NO.: 701-TA-318 and 731-TA-538 and 561 (Second Review)

HEARING DATE: January 26, 2006

LOCATION: Washington, D.C.

NATURE OF HEARING: In Support of the Continuation of the Anti-Dumping and Countervailing Duty Orders

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.

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