UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
SODIUM HEXAMETAPHOSPHATE	)	731-TA-1110
FROM CHINA	)	(Preliminary)

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Thursday,
March 1, 2007

Room 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The conference commenced, pursuant to Notice, at 9:33 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, Presiding.

APPEARANCES:

On behalf of the International Trade Commission:

ROBERT CARPENTER, Director of Investigations
GEORGE DEYMAN, Supervisory Investigator
DEBRA BAKER, Investigator
ROBIN TURNER, Attorney/Advisor
CRAIG THOMSEN, Economist
JOHN ASCIENZO, Auditor
PHILIP STONE, Industry Analyst

I N D E X

P R O C E E D I N G S

(9:33 a.m.)

MR. CARPENTER: Good morning, and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation No. 731-TA-1110 concerning imports of sodium hexametaphosphate from China. My name is Robert Carpenter. I am the Commission's Director of Investigations, and I will preside at this conference.

Among those present from the Commission staff are from my far right George Deyman, the supervisory investigator; Debra Baker, the investigator; on my left, Robin Turner, the attorney advisor; Craig Thomsen, the economist; John Ascienzo, the auditor; and Philip Stone, the industry analyst.

I understand that parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones. We also ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Cannon. I understand you're going to waive your opening statement, so please proceed with your panel's discussion.

MR. CANNON: Thank you, Mr. Carpenter. My name is Jim Cannon. I'm with the law firm, Williams Mullen. I'm here representing ICL and Innophos, the Petitioner in the case. To my left is Jim Moffatt, the president of ICL. Next to Jim is Nancy Stachiw, the director of technical services and applications, and Heather Luther, who is the general counsel of ICL To my right is Tim Treinen, the vice president of Innophos, and to his right is Russ Kemp, the business manager.

That's introductions. The floor is yours, Mr. Moffatt.

MR. MOFFATT: Good morning. My name is Jim Moffatt, and I am the president of ICL Performance Products, LP, the North American segment of ICL Performance Products, one of the leading producers of food and technical phosphates and phosphoric acid in the world. I have spent 25 years in the phosphate industry and have held a variety of sales and marketing executive positions in the phosphate industry since 1982.

Currently, I manage ICL's phosphate businesses in North and South America, including ICL's specialty phosphoric acids for the semiconductor industry and the entire range of food phosphates and technical phosphates. My business includes, among others, sodium hexametaphosphate or SHMP.

This morning I would like to address the product, the production process, the market conditions for SHMP, and the impact of Chinese SHMP on our business. First, let me describe the product.

Sodium hexametaphosphate is commonly known by the people in the industry as SHMP or Shemp. It is also known as Calgon S, glassy sodium phosphate, sodium polyphosphate, glassy metaphosphoric acid, sodium salt, Graham's salt, and sodium hex.

SHMP is a water-soluble polyphosphate glass that consists of a distribution of polyphosphate chain lengths. It usually comes in the form of a white powder, and unlike other sodium phosphates, it is a highly soluble chemical. That is, SHMP will easily dissolve in water. This characteristic sets it apart from other sodium phosphates and explains why it is the only product that can be used in various applications.

SHMP is manufactured according to the

specifications established by the producers or by the customers. First, SHMP is typically described as food-grade or technical-grade. Food-grade SHMP meets the requirements of the *Food Chemicals Codex* for chemical purity, composition, and maximum levels of contaminants. Technical-grade SHMP meets similar requirements, but generally there are no requirements for maximum levels of arsenic or lead. Both grades are assayed and certified in our laboratory at the plant.

Food-grade SHMP is intended for use in foods, beverages, and other FDA-regulated items. SHMP promotes shelf life and moisture of foods and improves the appearance of meats, seafood, and poultry. The primary markets for food-grade SHMP are food and beverage, dairy, meat, poultry, seafood, and the pet food industry. Technical-grade SHMP is typically used in applications other than food, for example, water treating and clay mining.

SHMP is typically described by its P_2O_5 content, by its chain length, and by its particle size. Chain length and P_2O_5 content are roughly equivalent ways to describe the product. Chain length is determined by the ratio of sodium to phosphorus in the material. As the chain length increases, the P_2O_5

percentage increases. Conversely, the pH decreases with increasing average chain lengths.

In the industry, producers and end users use these physical characteristics to specify the particular grade of SHMP. In addition, customers will generally indicate whether they want a glassy product, a granular or crushed product, or a powder or fine product.

The term "glassy" refers to the fact that molten SHMP leaves a furnace much like molten glass. It is rapidly cooled and becomes a transparent solid that looks like glass. As soon as the product solidifies, it is broken into chunks. Some customers that can use large chunks in the process will take the product in this form. Other customers prefer to use granulated or crushed SHMP.

And what we'd like to do is actually pass around samples of all three types of products, both from ICL as well as Innophos, and you'll be able to see the difference in particle size between the sheet or plate and then the crushed and powder.

SHMP is different from other sodium phosphates in that it has unique functional characteristics. For example, SHMP is used in clay fields to disperse the clay solids in a liquid slurry.

The addition of SHMP helps to extract the clay from the mine.

Other phosphates, such as sodium tripolyphosphate, or STPP, are not as efficient in this application because they lack the high level of solubility found in SHMP. In fact, in applications where SHMP and other phosphates generally do not overlap, that is, in almost all applications, the substitution of SHMP by other phosphates just would not work.

Let's turn to production. Production of SHMP is energy-intensive. It requires the use of high-temperature furnaces. Indeed, it is the use of these high-temperature furnaces that distinguishes the production of SHMP from the production of other sodium phosphates. The latter require heat treatment but not high-temperature reaction in a SHMP furnace. Energy represents about one-third of the total cost of production of SHMP. The other major cost is phosphoric acid.

To put everything in better perspective, let me describe how Shemp, SHMP, is made. SHMP is obtained by mixing phosphoric acid and soda ash, or caustic soda. The combination produces a mixture or slurry of monosodium orthophosphate. The mixture is

then fed into a high-temperature furnace between 800 and 1100 degrees Centigrade. The furnace is typically heated with natural gas.

In the furnace, the water is boiled off, forming molten SHMP. The molten hex flows out of the furnace and is rapidly cooled to produce a sheet, again similar to a sheet of glass. At this point, the SHMP is broken into chunks which are crushed, milled, and screened to specification, and the samples we passed around are the results of this process.

After screening, the product will appear to be granules or white powder. The material is then packaged for shipment and sold directly to end users and through distributors.

In our plant, the production of technical-grade versus food-grade SHMP is to a large extent identical. Both technical- and food-grade SHMP use the same raw materials and undergo the same process.

To produce food-grade SHMP, however, we employ good manufacturing practices, or GMP. These practices ensure, for example, that no outside contaminants can get into the product during the production process. We also test the product at various points in the process for quality and purity.

In our hearing exhibits, there are

certificates of analysis for the three ICL bottles that you've already looked at. After it is produced, a chemical assay is taken with respect to each lot of SHMP. This information is certified and accompanies the product when it is shipped.

As you will see from the certificates of analysis, or C of A, the contaminant levels are tested. We show the FCC specification as well as the particle size. In the case of food-grade SHMP, the certification includes maximum levels of impurities with respect to arsenic, fluoride, or lead. In the case of technical-grade SHMP, the certification does not specify levels for these materials.

Due to the nature of this business, it is critical for us to run equipment at or near full capacity in order to be profitable. Our SHMP plant operates 24 hours a day, seven days a week, to cover high fixed costs, particularly energy consumption due to the use of high-temperature furnaces. For us, energy is a fixed cost because, once we get the furnace to the proper level, we need to maintain it at that level. Given that production lines, including furnaces, are typically shut down only from time to time for realigning, without a 24-hour operation, it would not be efficient to make SHMP.

To illustrate the critical importance of capacity utilization, the Commission should consider what happened to a Trenton, Michigan, SHMP facility in 2003. In that year, Astaris, the predecessor to ICL, closed the SHMP plant in Trenton. Astaris had suffered a substantial loss in sales volume to Chinese imports. For a time, we attempted to operate the Trenton plant and our Lawrence, Kansas, plant, but we did not have sufficient orders to keep both plants operating at full capacity.

Because the SHMP furnace cannot be used for any other product and because its energy requirements are so high, it was not economical to run both plants unless we could recover sales volume lost to Chinese imports. So, in 2003, we made the decision to close Trenton and consolidate operations at Lawrence.

We are here today because the continued increase in imports now prevents us from earning an adequate return even on a much smaller but more efficient basis.

Let me describe the market conditions in this SHMP business. First, the suppliers are generally well-known, and the end users do not face any difficulties in qualifying the product itself. Even in the food-grade segment of the market,

customers have tested the Chinese imports and found that the imports meet all of the specifications required by the *Food Chemicals Codex*. In some cases, end users have worked directly with the Chinese factory or the importers to ensure that the imported product would meet all customer requirements.

The qualification process is not long. It may take as little as a few days but no more than a few weeks. As a result, U.S. producers are not insulated from competition or advantaged by the need for a food-grade certification.

Secondly, customers in all markets generally purchase SHMP according to the demand for their end product. That is, a lower price will not typically cause customers to purchase more SHMP. SHMP has been around for many, many decades, and its uses are well-understood and well-known. Only an increase in the end use market will affect demand. For example, as municipalities grow and more water needs to be treated, the demand for SHMP gradually increases.

Thirdly, customers typically negotiate prices at least once a year or more frequently. Only a few customers agree to long-term contracts with formulas that can protect their margins.

Most customers instead require us to

renegotiate periodically and will use the Chinese import prices for leverage to attain price reductions. Indeed, even in the spot market, the presence of Chinese prices in many cases will force us to depart from a published list price and grant steep discounts.

Fourth, import competition has largely forced U.S. producers to absorb freight costs or quote prices on a delivered basis. Historically, we would quote on an FOB plant basis or freight-equalized. That is, ICL would quote prices at the same shipping point as Innophos to equalize any differences in freight cost.

In recent years, however, widespread availability of Chinese SHMP from importers' warehouses have forced us to absorb the cost of freight delivered to the customer location. In short, price is the most important if not the only determinative factor in the sale of SHMP. Large end users have purchased directly from a factory quote, Chinese import prices, and forced us to reduce our prices or lose sales volume.

Distributors that serve regional markets or smaller end user accounts also buy Chinese imports and use import prices to force our prices down. Most customers do not care whether the SHMP comes from a

U.S. producer, a distributor, or an importer as long as the product is certified and meets the customers' specifications. The customers only care about the price.

In our case, we have attempted to escape from the imports by seeking out certain niche customers that have specialized requirements. Some customers, for example, prefer to use a particular grade in their own production process that is not a standard grade or, for a few high-end food products, there may still be some reluctance to purchase Chinese products that have not been qualified. However, these customers do not provide sufficient volume to support our plant. We cannot begin to fill our capacity without orders from the high-volume users that require regular chain, technical-grade SHMP.

In addition, the lure of low prices is strong. We are well-aware that the Chinese imports have been accepted at account after account. Once again experienced with the imported SHMP, customers generally find that it will work in their process. This means that we inevitably face pressures to lower our prices to meet the levels set by dumped imports.

In these circumstances, we cannot both maintain our sales volume and maintain prices at a

level that will cover rising costs. As we continue to lose sales volume, unit costs will rise, and we are trapped in a vicious circle. We are forced to seek higher prices but then lose more sales volume to imports.

In short, the large market penetration by Chinese imports now serving virtually every part of the market means that dumped prices are establishing the price levels throughout the marketplace. We cannot escape the relentless pressure to reduce our prices, and we cannot improve our profitability. As a result, we have suffered declining operating income for three years in a row. We are investing in the business to improve our operations, and we are cutting costs to the best of our ability. Yet, without relief from the dumped imports, the U.S. producers cannot earn adequate returns.

For these reasons, we strongly urge you to find that imports of SHMP from China are causing material injury to the U.S. industry. Thank you.

MR. CANNON: Thank you, Mr. Moffatt. And now we will hear from Tim Treinen.

MR. TREINEN: Good morning. I'm Tim Treinen, vice president of the performance chemicals business for Innophos, Inc. Innophos is a Petitioner

in this antidumping investigation and requests that the Commission find that imports of sodium hexametaphosphate from China are causing material injury to the domestic industry.

My background is finance. I started with Tenneco and Albright & Wilson in 1987. Albright & Wilson was a major producer of phosphates and phosphate chemicals, including SHMP or, as they say, Hex. I progressed through the company, becoming general manager of the phosphate business in 1995. So, from 1987 to 2000, I was involved in the phosphate business at Albright & Wilson.

In 2000, Albright & Wilson was acquired by Rhodia. In four years, I was the global asset director for phosphoric acid, which is the primary raw material used in phosphate production. In 2004, when Rhodia spun off Innophos, I became responsible for the performance phosphate product line, including SHMP. Thus, over my career, I've managed various aspects of the business.

When I became responsible for SHMP business again in 2004, perhaps the most important challenges facing the business were rising raw material costs and competition from China. With respect to raw material costs, major inputs used to produce SHMP are

phosphoric acid, soda ash, and natural gas to heat the furnace.

As described in the testimony of Jim Moffatt, SHMP is produced in a furnace that is dedicated to SHMP production. To produce SHMP, the furnace must operate at very high temperatures, requiring a great deal of energy. Consequently, natural gas costs are an important factor in our cost structure. In 2004 and over the next two years the costs of all three of these inputs have risen. Phosphoric acid has risen in price by 20 percent at three years, natural gas has risen by over 50 percent during the same time period. The first slide shows substantial increase in natural gas costs approximately going from this producer price index published by the Bureau of Labor Statistics from an index of around 200 to over 300.

The second slide accompanying my presentation shows the rapid increase in phosphoric acid prices. It's measured by merchant grade acid, which is a major feedstock that goes into the production of purified phosphoric acid. This data is reported by an industry trade journal called *Markets*. See from the beginning of 2004 where the price was just over $500 and it climbed to current level, $600,

so it's about 20 percent.

Because of these rising costs when I assumed responsibility to manage this in 2004 our first priority was to increase prices to meet our minimum profitability targets. At the same time by 2004 the Chinese had already established a presence with a fairly large share of the U.S. SHMP market. At that point imports accounted for 19,000 tons.

There were a number of customers who were advising us that they were considering to buy the Chinese product. In most cases when we had pricing issues the Chinese alternatives were brought into the picture. In fact even though we had some success in raising prices in 2005 we lost volume to the Chinese imports and we were not able to obtain the price increase that we sought.

2006 then became worse, and our volumes continued to decline. In our business sales volume is critical because we need to operate near full capacity in order to spread out high fixed costs and energy costs. As Jim Moffatt had indicated SHMP plants operate 24 hours a day seven days a week. Energy and labor costs do not go down if you operate below capacity.

In fact even when the furnace is not

producing SHMP you have to maintain a certain temperature and man the plant unless we're shut down for an extended period for maintenance on the furnace, so our best option is to fully deploy the plant as our economics are not very good when we operate below full capacity.

As the Chinese prices are solo and because we must fully utilize capacity we confront a dilemma. We need to raise prices in order to cover rising costs, but cannot afford to lose sales volume or our unit costs will continue to rise. Our business is truly squeezed between rising costs and Chinese prices. Our strategy is to get as close to full capacity as we can without accepting business at negative margins.

The strategy had some success in 2005. I would say that by 2005 we had achieved some pretty good price improvement without losing substantial volume, but in 2006 Chinese competitors captured a substantial portion of our business. Sales volume fell by over 15 percent. When we analyzed our major customers we had a dozen or so customer accounts where we lost several thousand tons over the past three years.

One consequence of the loss of sales volume

in 2006 is that we were forced to shut down the plant for an extended period. Prior to the shut down we built inventories so that our customers would continue to be supplied. For an extended period we simply shut down the furnace in order to reduce energy and fixed costs. We also cut back our workforce during the shut down and have been operating at lower staffing levels since production resumed in the fall of 2006.

To my knowledge this is the only time in which the plant has been shut down for lack of orders. Another consequence of reduced sales volumes is more subtle, but also creates significant problems. When you produce SHMP you will screen out certain quantity of granular product versus a certain quantity of powder.

That is, there is a proportional relationship between the amount of granular product that you produce and the amount of powder. Some customers want the granular product, other customers want powder or even finer grades. So when we produce SHMP one customer may take a granular product and another may take the powder.

Because we have customers for both products we can plan production and schedule deliveries in an efficient manner. You might say that different

customers balance each other and allow us to operate with an efficient product mix. As a result if we lose customers for either powder or granular products this balance is upset.

In fact we may have difficulty producing enough powder for one customer if we lost the sales of granular product formerly used by another customer. In this manner, lost sales volume will result in an unbalanced inventory which further damages our ability to cut costs and operate efficiently.

In order to fill our plant, we cannot abandon any segment of the market. In particular, the largest volume users of SHMP are in water treatment and clay mining industries. You can see from our questionnaire response that the most important product in terms of volume is the regular chain, technical grade products.

This product is used by high volume customers, and it does not require food grade certificate or prequalification by the customer. Essentially all the customer requires is a certificate of an assay showing that the product is SHMP. As a result, regular chain, technical grade product is entirely on the basis of price.

Large volume users such as municipalities or

companies engaged in clay mining use standard industry grades. They will usually buy the lowest priced product that is available, in this case the Chinese SHMP. And because of the size of the overall market, we cannot abandon these customers to the dumped imports and still load our capacity.

In fact, in our case, we did try to test whether the customer would stay with us because of our quality and long history of reliable supply, and several major customer accounts drew a line in the sand and said, we won't match the lowest price.

In these cases, it was a gamble as to whether or not the customer would rely on us because of our long-term relationship and reliable domestic supply. However, we lost that gamble. Some of our customers abandoned us and switched to the Chinese imports. In addition we have faced significant underselling by the Chinese imports in niche markets.

It is my experience that the dumped Chinese imports first focused their attention on the highest-volume users. These companies buy the standard SHMP grades, but as the Chinese imports gained market share at the large-volume customers, they moved on to the more specialized applications and users. For example, we lost one of our highest-priced customers this past

October to Chinese imports.

This customer had been paying a premium price to obtain a particular grade of SHMP that was a high quality product. Historically this customer resisted buying the Chinese SHMP because of its perception about the quality of the product. However, importers in the U.S. market offered very low prices and forced the customer to switch.

Finally this customer tried the SHMP from China and was able to use it in their application. Given a substantially lower price the Chinese imports captured this customer account. Another factor that historically favored our business has been the ability to supply customers on a timely basis. However, Chinese imports are now being stockpiled by U.S. importers.

The importers for this product are major U.S. distribution companies with national warehousing, a large sales force, and coast-to-coast coverage. They are sophisticated sellers that maintain local warehouses. These companies maintain a substantial inventory in the United States and can supply the market just as quickly as the domestic industry.

We no longer have any advantage in terms of delivery time. The Chinese imports therefore compete

head to head with our products entirely on the basis of dumped price. We must meet that price or lose the sale.

Let me now turn to another issue, blends. SHMP is used in various blends with other sodium phosphates. ICL and Innophos offer phosphate blends, which SHMP typically accounts for 10 percent or 20 percent of the blended product.

A well-known blend is called 90/10 because it is 90 percent sodium tripolyphosphate and 10 percent SHMP. The characteristics of this product are quite different from SHMP, and it is not used in the same applications. All of our blends are higher value products because of their unique performance characteristics, and those same functions cannot be accomplished with a straight SHMP product.

Our petition was not intended to cover these type of blends. That is, we are not alleging that imports of blends are being dumped in the U.S. market or that blends should be considered part of the like product. In fact, to the best of our knowledge, there are no imports of blends from China. However, we are concerned that if an antidumping order is issued, the Chinese exporters might add other materials to SHMP in order to circumvent the antidumping order.

If a new blended product is imported consisting primarily of SHMP, it should not be excluded from the case because the functionality of the product would allow it to compete with SHMP.

In conclusion, the dumped imports of SHMP from China have increased substantially since Innophos was formed in 2000. The imports have achieved this increase in market share at the expense of the U.S. industry, and the importers have used dumped prices to obtain this increase in market share.

As a consequence of this strategy, the domestic industry has been unable to cover rising costs. We have lost sales volume in most segments of the market and in every product grade. Lost sales to imports have had a devastating impact on our bottom line. In these circumstances, the Commission should find that dumped Chinese imports are causing material injury to our industry. Thank you.

MR. CANNON: Thank you, Tim.

At this point I'd like to go quickly through some of the legal issues and a few slides to illustrate what we expect that you will find and will emerge in terms of the staff report. You'll appreciate that in terms of the slides we have confidential data from only two producers, and so what

we've done is measure the aggregate and then express it as an index, index to 100, so that none of the slides contain anything or disclose anything that would be proprietary.

Having said that the first issue obviously in the cases is the legal definition of the like product. We believe there's a single like product. In terms of physical characteristics the first characteristic that is important about this phosphate is that it's glassy. It's the only phosphate product that goes through this high temperature furnace that's produced as a glass.

What that means in terms of the use of the product and the physical characteristics of this product that makes it somewhat unique is the fact that it's soluble, has a high solubility relative to other phosphates, and that then impacts the end use of the product. In terms of the end use you heard testimony it's used in water treatment, clay mining and in the food and beverage markets.

Within those applications there really aren't substitutes for SHMP. And the customers, because they're looking for a specific function, a high solubility for example, when they specify SHMP they won't accept delivery for another product and in

fact there really is no other product that can substitute.

We've passed out in the handouts, the first three pages I think, are the chemical certifications that come along with the product when you buy it. As a customer you expect this is the product that I want, and these gentlemen can't deliver something else. Now, in some cases you often need the Food Chemical Codex or FCC certification if it's going to a food use, and so you have a customer expectation also with regard to food grade that it must meet that requirement.

However, that certification and that expectation by customers doesn't distinguish food grade from technical grade, and I think there are many cases in the Commission's precedent in which you have a food grade product and a technical grade product and they still found a single like product. Turning to the channels of distribution, which is always a factor, I'll just go right by that one because it's end users and distributors and that characterizing any mini product.

Regarding the manufacturing process, the facilities and the workers are basically unique to SHMP. It's made in the furnace; you don't use that

furnace for any other product; and other sodium phosphates and other phosphates are not made in the same manner. So for those reasons we think -- and I'll give you channels of distribution -- to the five factors create a single like product.

All right. Turning to the charts as I've said what we've done is an index, and so for example starting here using the petition data for 2003 what you see is an index where we added the domestic producers together. The reason we started with 2003 in this chart is you heard testimony in 2003 ICL was operating a plant in Trenton. Also, in that year Calgon still had U.S. product in the marketplace.

It closed its facility in late 2002. It built an inventory, but there were as recently as 2003 far more capacity than there is now. Now, when that capacity left the market what happened? Well, in 2004 you see a very substantial increase in imports. When Trenton is shut down, when Calgon leaves the market, filled the void. Chinese imports filled that void.

And so imports go up from something less than 50 percent of the size of the U.S. production, imports increase to almost 60 percent of the U.S. production and then the trend since then is that imports in the marketplace are virtually equal to the

domestic producers' output. The statute says that in considering the volume the Commission should consider whether the volume is significant in absolute terms or relative to domestic production and consumptions.

What this chart shows and what we believe the staff report will show, select data from importers, is that imports are now virtually the same magnitude as the domestic producers of Chinese imports. Now, the next slide, this is something that the Commerce Department asked us for.

They asked us how do you know that the census statistics are a good fit for the Chinese imports? Because the census statistics are a basket category. I know that in building the staff report you're coming from the direction of trying to identify imports from various countries that are not SHMP, trying to find which imports can we exclude from this basket category?

What this chart shows and what we looked at, we looked at the ships' manifest data, and we looked at all of the imports only SHMP and we were able to match up those imports through ports with the census data, and what we found was a relatively good correlation between the ports of entry. Certainly Savannah is an outstanding example.

Volume of imports through Savannah match the volume of imports shown by ships' manifests very well. And when you add, just seven of the ports basically account for about 90 percent of the imports. I think in a brief we can give you the exhibit that has the full presentation, but I did want to make the point that we have good reason to believe that the census data, even though a basket category, very accurately tracked Chinese imports.

The next slide shows the impact on the domestic industry as a result of this rising market penetration by the Chinese imports, and what you see is sales are going down. Commercial shipments in terms of quantity have declined steadily each year. As you heard through the testimony both producers are attempting to raise their prices to cover rising costs, and so between 2004 and 2005 with some success in doing that even though the volume declined they are able to hold on to their revenues.

And so what you see is that the revenue line between 2004 and 2005 is relatively flat, but in 2006 they were unable to do that. And as they continue to lose market share, as the volume continues to fall, they are unable to maintain the revenue. Top line revenues decline. The revenues for commercial sales

figures, that's the red bars, shipments, the tons that were going down each year, are the blue bar.

In the next slide, we see what was the impact of that on our profitability. Well, now again this is an index, so confidential data will show what their gross profits were, which is what this depicts, gross profits and gross profits were not a 100 percent. It's an index, not a percentage. With that the gross profits were 100 percent.

But what the trend shows using the index is that 2004 industry was profitable at the gross profit level, 2005 profits dropped to what we think might be characterized as a marginal level, 2006 there are losses. So we believe that reflects what we saw on the slide before, which is the declining revenues. They are unable to maintain their market share, shipments have fallen and it's dragging down the revenues.

Coupled with the rising costs, which both witnesses talked about, their squeezed. They're squeezed between the loss of volume and the rising costs to the outcome. The next slide looks at price. The second factor in the statute is the price of imports. Again, this is indexed. What you see is that the blue bar, which represents the U.S.

producers' prices, reflects what you heard in the testimony.

2005 they worked hard to try to increase prices. However, rising natural gas, however, rising phosphoric acid, the costs, the inputs into their process, they were able to obtain an increase in prices in that year. The imports however maintain a gap between the level of import prices and the level of domestic producer prices.

And as imports are maintaining their domestic prices below, domestic producers cannot keep increasing their price. What the pricing data show between 2005 and 2006 is that domestic producers are unable to keep raising price at the cost of volume.

They've certainly lost volume, but they're simply unable. They are captive to the price level that's being set by the imports particularly now in 2006 when the imports are essentially flooding the market, the substantial market penetration, the extent of that magnitude, import prices pervade them.

So the other thing about this chart is very simply it kind of shows what we would expect to see in the staff report, which is that imports undersell. They're selling us at a discount; they're selling it at an average term. Next chart shows Chinese capacity

versus the entire U.S. market.

In the petition in Exhibit No. 1 to the injury set of exhibits we included a report by SRI, an economic independent market research organization, and they indicated there are dozens of producers in China. Couldn't find capacity data for dozens. Did find data capacity for four, and the largest one is a company called Hubei Xingfa.

As shown in the chart, as of 2006 Hubei Xingfa has 70,000 metric tons of capacity. Well, the entire U.S. market according to SRI is about 45,000. Now, there I had to use a public published number from SRI not corresponding exactly. That is a number that will come out of the confidential report. The point is that a single Chinese producer has more capacity than the entire U.S. market, and when you stack only three more producers on top, basically there's double capacity in China to supply the entire U.S. market.

The next thing I want to talk about are in the handouts after that last slide, there are some articles about the Chinese producer Hubei Xingfa, and the first article refers to the fact that they added 20,000 metric tons capacity to make SHMP, and it was scheduled to open in May 2006.

So when we see the decline in U.S. shipments

in 2006, see the increase in market penetration in that year it coincides with this increase by Hubei Xingfa and their capacity. And the next article refers to the same project and the last one talks about this company, Hubei Xingfa, who are operating with Procter & Gamble. Procter & Gamble obviously is a major multinational company, produces a variety of consumer goods in the United States.

It is a very important customer in the SHMP market. Now, in this article Procter & Gamble is working with Hubei. Back in 2001 when the article was published they're talking about that they had a cooperative arrangement which had been going on since 1997. They're really talking about a different product, sodium tripolyphosphate.

We think that it's fair to infer from this that Procter & Gamble is working with Hubei Xingfa and working closely with them on a related product that comes from the same raw materials. And in that circumstance what you can see is that Chinese producers have access to one of the most important markets and customers in the United States.

It's food grade product, product of a very high quality that is working with a Chinese producer helping them with their technology. This, too,

indicates to us that the Chinese have access to the market, they have penetrated thoroughly throughout all of the channels of distribution, they're available as was testified on a widespread basis coast to coast, major company, major chemical distributor.

For this reason the domestic industry cannot escape pressure on pricing which is coming from Chinese producers. As we've shown in the petition, that pressure is the result of dumped prices. For those reasons the Commission should find that the injury being suffered by this industry is by reason of China. Thank you.

That concludes our direct presentation, and we're happy to take any questions.

MR. CARPENTER: Okay. Thank you.

Thank you very much, panel, for your presentation. It was very helpful.

Before we get started with the questions I do have a few questions here about your charts starting with the first one, and it's titled import penetration is increasing. My question there is for the imports from China are those publicly available numbers?

MR. CANNON: Yes. Those are the census data --

MR. CARPENTER: Okay.

MR. CANNON: -- but it's indexed to U.S. producer levels. Do you follow me?

MR. CARPENTER: Yes.

MR. CANNON: So it really is showing the relative relationship of imports to domestic.

MR. CARPENTER: Right. I understand what it's showing. My concern is that it would appear that would permit anyone to be able to calculate the actual numbers for the U.S. producers' shipments.

MR. CANNON: Since it's indexed at 2003 and goes forward from that point as opposed to being indexed in each year, the two companies would be able to take import data and total up back to the number that we had in --

(Electronic interference.)

MR. CARPENTER: Okay. What I'm saying, though, correct me if I'm wrong, but it appears as though since imports from China appear to be about maybe about 47 percent of the --

MR. CANNON: In 2003.

MR. CARPENTER: -- domestic figure, so why couldn't you take the imports from China, divide it by 4.7 and that would give you the total shipments from the U.S. producers?

MR. CANNON: Because at that time we had Trenton and we had Calgon.

MR. CARPENTER: Okay. As long as you're sure that it's public information.

MR. CANNON: I don't think --

MR. CARPENTER: Okay. As long as you're confident of that.

MR. CANNON: However, I take your point. So I don't know how would be the best way. Perhaps what we should do is take back the charts and then resubmit --

MR. CARPENTER: Well, yes. What I'm thinking about doing because I'd like to ask you to relabel a couple of the charts anyway, so what I was thinking is instead of making it an exhibit to the transcript you could just relabel it, and if you want to bracket this entire chart and any other charts and attach it to your brief we'll do it that way.

MR. CANNON: Okay. We appreciate that.

MR. CARPENTER: That will give you an opportunity to take another look at it for confidentiality, okay? On the second chart, census data equal SHMP imports from China, if you could somewhere in there just label what time period that is, whether it's one year or --

MR. CANNON: Okay. It is in fact 2006.

MR. CARPENTER: Okay.

MR. CANNON: Want to show them, Frank, the first one? Show the charts when he refers to them. Thanks.

MR. CARPENTER: Okay. The third one I had no question with. The fourth one, U.S. producers' profitability, I understand that one. You did say that those were gross profits, so I would ask you to either label that gross profits or alternatively I would also ask you to consider doing a similar chart with operating profits since the Commission typically looks at operating income and losses. That's your call, though.

MR. CANNON: We'll look forward.

MR. CARPENTER: Okay. Right. And then in the fifth chart underselling by Chinese SHMP, I had a same concern about confidentiality there where if the U.S. imports from China are public information then you may have a problem with the U.S. producer data, so if you could just take another look at that one before you resubmit it? And you could resubmit the chart as is, but if you decide it's confidential then just bracket the whole thing.

Right. And of course as you know you do

have to submit a public version of your brief, and so in the public version you'd have to remove that chart altogether of course.

MR. CANNON: Right.

MR. CARPENTER: Okay. The next chart, Chinese SHMP capacity, there again, if you could label whatever year that is that you're speaking of? I assume that's one year.

MR. CANNON: Yes. All right.

MR. CARPENTER: Okay.

MR. CANNON: Well, it's Chinese capacity. The source documents are in Exhibit No. 4 to the petition or in the sheet following it, and so the actual capacity numbers, some of them are earlier, maybe 2002, 2001, whenever they said what their capacity was, so we assume that it continued. It may have grown.

MR. CARPENTER: Okay.

MR. CANNON: The consumption figure was from the SRI estimate in the U.S. market, and they gave the year. I believe it's 2005.

MR. CARPENTER: Okay. If you could label the time periods, and also if you could add any sources to the charts that would be helpful, also. Okay. That's all I have right now. Turn to staff

questions.

Okay. We'll begin the questions with Debra Baker.

MS. BAKER: Okay. Debra Baker, Office of Investigations.

Mr. Cannon, did you indicate that the SRI data on which the charts were based would be attached as an exhibit to your postconference brief?

MR. CANNON: We can do that. They were in the Exhibit I and J-1.

MS. BAKER: Of the petition?

MR. CANNON: Yes.

MS. BAKER: Okay. Likewise, could you put the actual capacity and production figures for the Trenton plant in 2003 on the record?

MR. CANNON: All right.

MS. BAKER: And also, you have access to the capacity and production figures for Calgon. Is that correct?

MR. CANNON: Yes. We can estimate that from the SRI data.

MS. BAKER: Okay. Those estimates would also be very helpful. Is the former Calgon plant the same or is it related to or connected to Nalco?

MR. CANNON: Yes. It's the same. It was

purchased by Nalco.

MS. BAKER: Okay. Could you just briefly give a little bit of history of exactly when they shut down, and when to your knowledge they were purchased or acquired by Nalco?

MR. TREINEN: I'm not sure when they were purchased by Nalco, but Nalco owned them in --

(Electronic interference.)

MR. TREINEN: My understanding was they mothballed their plant in --

(Electronic interference.)

MS. BAKER: Okay. So presumably Calgon is a large purchaser or end user of the product?

MR. TREINEN: Yes.

MS. BAKER: Do you know where they're sourcing their product from now?

MR. TREINEN: They're at least partially sourcing from China.

MS. BAKER: Okay. And I'm correct, is Calgon the bath product that is used?

MR. TREINEN: Basically water treatment.

MS. BAKER: Okay. So it has no connection to the bath product?

MR. TREINEN: I don't believe so. No.

MS. STACHIW: That's how one of the names

that they -- see the large chunks? Those are used as bath salts and that was how the name Calgon was the trade name and became one of the synonyms for SHMP, so, yes.

MR. TREINEN: Right. But I don't think Nalco owns that trade name or that product. It was sold off to another -- I think you're right.

MS. STACHIW: But that's the beginning of it.

MR. TREINEN: That's the beginning of it. Right.

MS. STACHIW: At one time.

MR. TREINEN: That's why it's called Calgon.

MS. BAKER: Calgon. Okay. Although, wasn't Calgon with a *C* and this is with a *K* now?

MR. MOFFATT: They're both with a *C*.

MS. BAKER: Okay. Let's see. With reference to like product I understand that the high temperature of the furnace is what gives SHMP its glossy quality. One of the important things, though, that differentiates SHMP from other products, other phosphates, is the solubility. What exactly about either the chemical that is used or the production process gives SHMP its solubility characteristic?

MS. STACHIW: SHMP, again it is a glass, so

it's amorphous, it doesn't have a crystalline structure, and as a result it is truly infinitely soluble. What I mean by that is you can dissolve SHMP and keep dissolving it until the resulting product would be so viscus you could no longer get something into solution.

MS. BAKER: Okay. So the solubility and its glassiness are interconnected?

MS. STACHIW: Yes.

MS. BAKER: Those aren't two separate characteristics? That's part of the same chemical process?

MR. MOFFATT: And if I can add, STPP for example is only about 13 percent soluble --

MS. STACHIW: Correct.

MR. MOFFATT: -- so you can see the big difference between in this example STPP and SHMP.

MS. BAKER: Okay. Before I move on let me jump back very briefly to Trenton. What happened to the Trenton production facility? Was the equipment sold off, mothballed, converted to another use?

MR. MOFFATT: The Trenton plant was, the furnace stopped operating I think in October/November 2002. We did have some inventory left over from that period, but we simply dismantled the plant and the

plant is no longer there.

MS. BAKER: Okay. Let's see. Okay. I'm sure Craig Thomsen, who is the economist who will be handling the pricing portion of the investigation, may have more questions about cost, but there was some early testimony that there has been a gradual switch to and requirement that you absorbed the delivery cost in, "recent years."

When did that switch take place, and is that changeover in the absorption of those costs likely to influence our gathering of pricing data in this investigation or distort it in any way?

MR. MOFFATT: As the Chinese participation marketplace continued to grow and grow and grow, and as it was being pulled into the country quite frankly by large national distributors, over the last three or four years, or five years even going back, and as we saw the sewage from an F.O.B. that equalized freight approach to the industry to deliver pricing.

MR. CANNON: Just a footnote: It shouldn't bother your data because the questionnaire said to report the data on a x-factory basis.

MR. MOFFATT: Correct.

MR. CANNON: So, pursuant to those instructions to the companies, there isn't freight and

pricing data.

MS. BAKER: Okay, thank you. With reference to imports, as we discussed, the import category where SHMP is imported is a basket category.

And, in the petition, you based upon your analysis of the data, excluded certain countries. And where some countries were excluded given that there was no production in those countries. With other countries, the data were excluded on the basis of their unit values.

Also, in your petition, though, you did note that a high-unit value for those countries didn't necessarily mean that all product within those categories was an agent SHMP, just that there was an overall a high-unit value.

Either now, or perhaps in your post-conference brief, could you just briefly mention other chemicals, other polyphosphates that could be entered in those categories, or in that other basket category, and what their general unit value might be. We did gather some import data in the other questionnaires, but it would help us to interpret what we received from other importers.

MR. KEMP: This will probably be a mixture, a mixed question. I don't know the values off the

top-of-my-head, but I do know the components that would fall under that category.

One is disodium-pyrophosphate, also called: sodium-acid pyrophosphate used in the baking industry; also, a tetrosodium pyrophosphate basically, disodium with two more sodiums on there. Those two together are far and away the majority of the non-sodium hex components that come in under that tariff class.

MS. BAKER: That's very helpful. Could you briefly mention, either now or in your post-conference brief, what the unit values are for those other components are?

MR. KEMP: We will do recent research and make sure we give you some accurate figures on the actual value.

MS. BAKER: Okay, thank you. And if you also happen to know which countries they're coming in from that would be helpful.

Also, based upon information provided in your petition, and the Official Import Commerce Statistics, Mexico appears to be the most substantial source of non-subject imports of SHMP in the U. S. market.

If you agree with that, can you discuss the role that these imports play and the types of SHMP

that are imported from Mexico?

MR. TREINEN: I don't know about the types of grades of SHMP in Mexico, but I do know that volume in Mexico was a thousand tons, five thousand seven five, up again to six. I visited that plant while I was in Mexico about twelve years ago. My recollection is that the capacity of that plant is about 7,000 tons.

It's a relatively small plant. The other factor is that the history in Mexico, as it pertains to the anti-dumping order against the Chinese in Mexico, that may indicate why they've exported less product to the United States in 2006, as they now have their market in Mexico served out --

(Electronic interference.)

MR. TREINEN: But that is the largest historic volume coming in product that we recognized from the other countries. Like Israel had a higher volume but they did not the production, so that would --

(Electronic interference.)

MR. TREINEN: -- quantity of the product.

MS. BAKER: Okay. thank you. We did not gather data on foreign capacity and production in markets other than China, or attempted to gather such

data on markets other than China. But any additional information you have on Mexico, based upon your visit to that facility, would be helpful.

How substitutable is the product that is coming in from Mexico, though, with the product that is produced in the United States?

MR. TREINEN: As far as I know, they would produce similar grades to what we produce here; and much like the Chinese, I would expect that it would be substitutable.

MS. BAKER: Okay, thank you. As you noticed, imports from Mexico did jump by about 2,500 metric tons, from 2,400 to 2,500, and it's all back again in 2006. You attributed the decline in 2006 to be perhaps a change in the market conditions in Mexico.

Alternatively, is there anything that was going on in the U. S. market in 2005 that would explain why additional product could have been imported?

MR. TREINEN: Not that I know of. I suspect maybe the converse of what I mentioned as the Chinese were participating there, they had product available and found that.

MS. BAKER: Okay. One of the import

questionnaires did make reference to their being a tight supply of the Chinese product in 2005 in the U. S. market. Is that at all relevant, or is there anything about that comment that was made that correlates to your understanding of what was going on in the U. S. market, or that's not meaningful?

MR. MOFFATT: I don't recall that there was any tightness in the Chinese supply in 2005 that would suck in imports from Mexico.

MS. BAKER: Okay, thank you. As you also pointed out earlier, the official import statistics for the Basket HTS Number, where shrimp is entered, do show a decline in U. S. imports from China from 2005 to 2006. The 2006 import figures are about a 1,000 metric tons higher too than those imported in 2004.

You contribute this decline in the petition, and perhaps in your testimony, at least in part to a build-up in inventories of imported SHMP from China. And earlier in your testimony today, you indicated that there might be a built-up in inventories occurring in part to provide a more reliable source of supply of the Chinese product.

Mathematically, though, would it make sense to be both a build-up in inventories at the same time there is declining imports? I could see there being a

need to build up your inventories to accomplish the fact of allowing a form of reliable supply without lead times. But if the build-up of inventories were just occurring, would the import levels have to be remaining at a comparable level, and not falling at the same time?

MR. TREINEN: I think that most of the build-up, according to my charts, shows it occurred from May until to August of 2005. So maybe that was the point that caused the -- when they built up the inventories in the United States, it also caused the 2005 imports to go higher than levels and --

MS. BAKER: I see.

MR. TREINEN: -- the inventory restocking would not have been needed until 2006. So if that stocking all occurred in 2005, then sale levels continued without the inventory restocking in 2005, then, naturally -- I'm sorry in 2006 would not be a declining level.

MS. BAKER: I see. I understand what you're saying. Okay, thank you.

You state in the petition that the petitioners are the sole remaining U.S. producers of SHMP. My question is: What other firms previously have produced SHMP in the United States?

When you refer to close-in producers is that primarily Nalco, or Calgon, or had there been any other producers other than Nalco, and your predecessor firms, that were referred to in that sentence?

MR. TREINEN: Well, my company, Albright & Wilson, which was bought by Rhodia in 2000 had a hex production in Canada. That was closed in 2001. So that production was primarily for the U.S. market, and that market is basically one market.

So whether it was produced in Canada or the U.S., it still served this market. That plant was rationalized much like ICL's rationalization between Trenton and Lawrence, Kansas.

MS. BAKER: Okay, thank you.

MR. CANNON: We mentioned that the Calgon plant closed in 2003, or perhaps in 2002. There were also companies merged and consolidated from various companies down to two; there were also bank closures.

MR. MOFFATT: Astaris was formed in 2001 with the F&C Corporation and Solutia, Inc., combining their two phosphate businesses in a 50-50 joint venture called: Astaris. Prior to that Astaris formation, Solutia was manufacturing SHMP in Trenton; and then the F&C was in Lawrence, Kansas.

Again, as we talked about earlier today, as

the marketplace progressed and the volumes continued to get smaller and profitability more difficult, in late 2003, we elected to shut down the Trenton, Michigan facility and consolidate production in Lawrence, Kansas.

MS. BAKER: Thank you, that will be helpful.

As necessary, in your post-conference brief, it would be helpful to perhaps pull together and further elaborate on that information, providing precise dates where possible. And, as I mentioned earlier, associated capacity and production figures.

Also, perhaps include in that the shutdown of the Canadian facility, such that there would no longer be any exports of the product from Canada.

On some of the spec sheets, excessive moisture is listed as a condition to avoid. Are there ever any problems with humidity during transport, particularly from overseas that causes any problems, or deterioration in product quality?

MR. KEMP: I'll take that. Certainly, there is the risk of transporting hygroscopic material, which this is, meaning that it can soak up water from the atmosphere readily. There is risk of transporting it on the ocean through tropical zones.

We found in our case, and we believe imports

have discovered the same thing: That as long as you package it in the right packaging, typically a multi-walled paper bag to protect it with one layer of polyethylene plastic, the risk of water intrusion is reduced to a manageable level.

And, as long it is maintained in a relatively dry, notwithstanding water environment, there is no problem with moisture pickup.

MS. BAKER: Okay, thank you. And, to your knowledge, the Chinese are packaging it properly?

MR. KEMP: We believe they are, yes. The technology is not new, the multi-walled paper back with a plastic liner, or even an outright plastic bag is really all that is required to prevent contact with humidity.

MS. BAKER: Thank you. Are there particular production issues with respect to environmental concerns with this product?

MR. KEMP: Nothing special. Of course, we have a plant in Illinois and we have an environmental permit with the Illinois EPA. No particular requirements, the normal stack sampling, and so forth, but nothing extreme, no waste management, no record-type stuff.

MR. MOFFATT: Then it's certainly relative

to any kind of longer-term issue which China may have on its cost side relative to environmental improvements which are being talked about in China.

Again, SHMP is a fairly innocuous chemical to make. It doesn't produce waste streams or big air emissions, so this should not be viewed as a big environmental issue in China.

MS. BAKER: Okay. Thank you.

MR. TREINEN: I might add one thing, though. That is, when you consider some of the Chinese producers are vertically integrated back to phosphorus Of course, phosphorus has --

(Electronic interference.)

MR. TREINEN: But also, when they convert the phosphate to phosphoric acid, then that is the initial step where they remove arsenic and that creates arsenic sulfide cake, and that is a hazardous product that has to be disposed of. That possibly could be considered. It's not part of our process, so you have that knowledge.

MS. BAKER: Okay, thank you. I understand that the production of technical grade and food grad SHMP is essentially identical, but that the GMP, or that the good manufacturing practices, along with laboratory testing, distinguish the products.

Is there any equipment that is dedicated to the production of food grade as opposed to technical grade?

MS. STACHIW: There's no special equipment only for the food grade. The difference would be more in procedures, as you've outlined, having to recall programs in place for food, how it's analyzed, the third-part audits, things of that nature.

MS. BAKER: I mean, analysis is also required for the technical grade?

MS. STACHIW: Yes, but not of the same magnitude. You know, for a technical grade, the packaging requirements are not as stringent as well.

MS. BAKER: Okay. So does the SHMP go through the same testing process albeit, I mean it might physically be done the same way, except that additional tests are run for the food grade?

MS. STACHIW: Essentially yes.

MS. BAKER: But the same personnel, the same facility?

MS. STACHIW: Yes, absolutely, yes.

MS. BAKER: Okay.

MR. TREINEN: One other possible consideration there is: a technical-grade product can use some recycled --

(Electronic interference.)

MR. TREINEN: -- where you can't do that with --

(Electronic interference.)

MS. BAKER: That's interesting. Okay, what recycled materials would that be?

MR. TREINEN: If you had some unsalable product, let's say it's eight, but it still had some content, we can use that as raw material in our production of the technical-grade test.

MS. BAKER: Okay, so it is recycled SHMP?

MR. TREINEN: Or it could be other products as well.

MS. BAKER: Okay. Approximately what percentage of the food grade SHMP manufactured ends up not being able to meet the GMA standards?

MR. MOFFATT: Just speaking for ICL, we have very, very small amounts of product that we produce that do cannot meet the food grade standards right the first time. We do better on the food grade. We're very successful in making a food grade product.

MS. BAKER: Okay. And if it cannot meet it, then is then sold as technical-grade?

MR. MOFFATT: It obviously depends on what the issue is, but if is just outside the food grade

limits, certainly that could be sold on the tech grade marketplace.

MS. BAKER: Okay. Do you set out, normally, to make food grade from the beginning on a production run?

MR. MOFFATT: In our facility in Lawrence, Kansas, we actually have two separate SHMP furnaces, one in which we focus on the food grade part of our business predominantly; and the other one is basically called the tech furnace.

So we do have two furnaces in the same building, one dedicated more towards food. The other one dedicated more towards technical.

MS. BAKER: Do you ever produce one in the other?

MR. MOFFATT: In the past, we've have different demand swings for different kinds of product, so we do have that flexibility.

MS. BAKER: Okay. Approximately how much down time is required to switch from one to the other? Is there any cleaning that needs to be done, or any additional conversion step?

MR. MOFFATT: It's fairly minimal. You want to make sure that things are purged properly, and those sort of things. But it's a fairly quick

process.

MS. BAKER: Okay. How many furnaces do you operate at your facility?

MR. KEMP: Our plant in Chicago, colloquially we call: waterway with Innophos one furnace. We, typically, strive to run under food grade conditions all the time. But with process upsets, we don't always get there.

So there are specific times where we know we're going to make technical material. When we have a food run, or food packaging, on our schedules, we need, in most cases, we make sure that we have all the food grade parameters that are running in spec for food, and then package it as food.

I'm not sure that we have any particular off spec material as a result of mischaracterization that switch. So the actual conversion time between the two grades, food and tech, is essentially zero. You just put a different bag on the spout, as long as the material meets the FCC criteria.

MS. BAKER: Are there any additional costs incurred with the food-grade quality, outside of the additional testing that's required?

MR. MOFFATT: I would say nothing significant; however, some of the idiosyncracies we

mentioned in terms of being able to recycle other products.

So when we're running a technical grade product, is it a cost savings? Let's say when we're running technical grade that we would not have when we run food grade.

Of course, the other differences would be the additional laboratory time and analysis. There's also additional administrative support for the extra controls you would have. You'd have to have procedures for product recall when you're selling food grade products. So those kind of administrative costs are really dedicated to the food grade product.

MS. BAKER: Okay. You testified earlier that virtually every part of the market is currently being impacted by imports from China. Are there any product categories at all where you don't face competition, or any geographical areas?

Could you be a little more specific to what you are referring to when you talk about the market in general being impacted.

MR. MOFFATT: Well, I think if you go back a couple of years, as I said in my testimony, I think the major emphasis of the Chinese imports in the initial years was on technical grade.

But they have expanded into other markets once they got that base-load business of high-volume customers in the technical grade market; and their reputation as a reliable supplier improved; and as they started going through the distribution channels within the United States, their ability to reach these other niche markets, food markets, and being able to supply all grades, allowed them to really penetrate many of these markets.

I think the key there is also their affiliation with the national distributors in the United States. It is the distributor who makes the sale to the customer. So some of the creditability that they might not have had in the early days, they do have now with their channel distribution.

MS. BAKER: Okay, thank you. Finally, you testified earlier, Mr. Treinen, that there needs to be a balance between the granular and the powder, otherwise, you'd end up with an unbalanced inventory.

Has there been an imbalance that has been occurring?

MR. TREINEN: Yes. That's the reason that I brought up that example because we did have a build-up of inventory of one grade of product because we lost some of those sales to the Chinese competition. And,

as we continued to try to serve the other customers who took the opposite product, that meant a build-up of inventory that we could not cut back on.

So, as we try to limit our sales in this unbalanced condition, we have to limit it. Otherwise, we're just building inventory, and that does cap our capacity to serve some grades or some demand, even though we have, overall, unit capacity available.

But on certain grades, the only way we can service a market is to build up inventory in the other grades and that causes some inefficiencies. So we do have a build-up of inventories.

MS. BAKER: Okay. Now, when we're talking about grades, we're talking about whether it's granular, whether it's powder, whether it's crushed --

MR. TREINEN: Yes.

MS. BAKER: Did I understand you correctly: It's that some of the products end up being granular, as opposed to powder, when it goes through the shifting process?

MR. TREINEN: Yes.

MS. BAKER: Isn't there any way to control how much of it's granular versus powder? Or, for example, if you're ending up with more granular, can't you then separately run that through an additional

grinding process that would turn it into powder?

MR. TREINEN: Yes, you can. That's a good example. However, there's additional handling, and it creates a higher-cost situation; and with some of the margins where they are because of the Chinese competitive prices, that puts it in a category of not being profitable.

MS. BAKER: Okay. When you say there has been an imbalance, which category has tended to be unbalanced, or has it been different categories at different times?

MR. TREINEN: It's primarily, as we try to service some powdered customers, we didn't have a granular counterpart sufficient demand.

MS. BAKER: So you were ending up with more powder?

MR. TREINEN: No, we were ending up with more granular. In the long-chain category, we didn't have -- or let's put it this way: we lost some of the granular opportunities. So as we --

MS. BAKER: Because you didn't have enough granular?

MR. TREINEN: What we produced to meet the powder demand, our granular inventory built up. There are several cuts of product as you go through the

sieving process. And we ended up with some grades that were just building to high levels without a downstream-customer demand.

MS. BAKER: Is there any other product that you can't have full ability to produce the exact quantities that you want? For example: regular versus long-chain?

Can you determine ahead of time exactly how much of each you're going to produce of that, so you don't end up with excess inventory in one versus the other?

MR. KEMP: Yes, regular chain and long chain are different chemicals, and we have a different ratio of feed stocks and different temperatures. There is even a chemical change between the two. So there is pretty clear delineation on regular versus long chain.

But to answer your question: Is SHMP, specifically, the main concern, or is it just the particle-size split?

MS. BAKER: I think that's pretty much all the questions I have right now. Thank you very much.

MR. CARPENTER: We'll turn now to Robin Turner from the General Counsel's Office.

MS. TURNER: Good morning still. I guess I just want to clarify one or two things, following up

from Ms. Baker's conversation, before moving into a few other areas.

One is, first of all, clarifying that when you start out for production, you start out producing either food grade or technical grade. Is that correct?

MR. KEMP: There is a better way to characterize it. Let us imagine that we're down, like last summer from our extended shut-down. We start it up slowly to make sure that the brake is not damaged in the furnace.

Then, once we get going, we have rules based on experience that even though we're feeding feed stock in a ratio that should give us food grade chemically on the way out, we still, say for the first few hours -- in fact, I don't remember the figure right now, but for the first few hours, it factors that material only as technical grade.

So, after each chemical change, there's a short period where only technical material is packaged out. Then, hopefully, at that point, our checks will show it's food grade compliant and we can switch to food.

Does that answer the question?

MS. TURNER: That's very helpful because

what you're saying is that it has to do with what's going to end up. They basically are the same product. It's just depends on what types of chemicals you're putting in to determine long chain, regular chain, et cetera. But it's going to be the same product.

One might have more impurities in it than the other will have. Thus, in the beginning of your processing, you would expect to have more impurities on one than the other, but, ultimately, they're the same product as long as they're as they're both say long chain with the same customer requirements.

MR. KEMP: That's correct.

MS. TURNER: Okay. Then I do understand it.

How long does it take to actually produce a product? Is it an hour; is it a day? I just want to get a feel for what we're talking about when you say you're starting up something when you put the beginning chemicals in like you're baking a cake and you come out with the product basically. How long does that take?

MR. KEMP: This is a continuous process rather than batch. We're continuously feeding material, or the phosphates basically on the chemical side, feeding it optimum as it flows through a furnace is very similar to a glass plant. W hat comes out the

back end continuously as the molten sodium hex which is then crushed, melded and so forth.

But the rest of the time, I would guess is probably around a day or so, depending on the typical unit.

MS. TURNER: Okay. But now you've lost me a little from what we were saying that you actually start out with knowing when you start the process say for the product, say you have a customer who has a very -- it's one thing if you're making a regular technical standard grade. And that might be a continuous process that you're just making batches of tons of it, and you know what chemicals you're putting in to make that.

But if you're making something that say is a food grade for a particular customer, between that and another customer's product don't the chemicals sort of change somewhat, not necessarily the chemicals change but the ratios of the chemicals change?

MR. KEMP: I understand the question now. The underlying chemistry of the product is essentially the same. In fact every customer spec that I can think of, within the regular chain family, the main difference between them is particle size rather than the chemistry of the material inside those particles.

So when we switch, there is different granulations. As Tim mentioned, we take several cuts of the product as it goes through. One customer may have a very -- it is very difficult to achieve particle size spec, though, it's still the same conditions on the furnace. We just change our screens and so forth to meet the specification for the specific customer.

MR. TREINEN: I might add, though, that generally when we produce, we don't produce for a customer order. We produce to schedule say three or four days of a particular grade. So we might run a regular chain as much as fifteen or twenty days.

And we produce the splits (ph) that we most efficiently get from the crop. That goes into the inventory and can be used for multiple customers.

When we have our inventories of long chain, then they start to come down, so we need to convert from regular chain to long chain. Then we would make the changes in the front end, and the chemical inputs which would serve to yield the long chain material, and then we would run that four or five days, depending on the demand.

Typically, the split between regular chain and long chain is about 80/20, 80% regular chain and

20% long chain. So you can imagine that, over a month's time, we may only run long chain for four or five days. We don't switch back and forth that often.

That's probably a typical example of our production, which would be to run twenty or twenty-five days on a regular chain and five days on long chains, somewhere in that neighborhood.

So, then, when we do run long chain that might be slightly more specific to a customer's demand because the number of customers who take long chain is smaller than the number of customers who take regular chain. So when we run long chain that might be a little bit more specific to a customer's demand.

MS. BAKER: Thank you, that's been very helpful. Do representatives of ICL want to elaborate on it because their process is slightly because you've got two lines at least -- go ahead.

MS. TURNER: Yes, we produce to a plan and since we have two furnaces, we obviously make food grade in the food furnace, and technical grade in the tech furnace.

When we, like in a phase, we try to maximize the runs for as long as possible. But, during the changeover, we're changing from the regular grade to a longer chain, to get through that process is about

eight hours of transition, by the time the feed stock gets all the way through, you're then producing into that new grade.

MS. TURNER: That's very helpful. Let me ask another point of clarification on this unbalance issue.

You indicate, in fact, that the problem on the unbalance is having lost customers who were using the word granular; and thus, to produce the powder that you need, you had to produce the granular as well, and you had excess supply basically of granular.

Okay, I understand that if you've gone to powder, you can't go backwards to granular. I don't quite understand, then, why you just can't take that granular and continue chopping it up further. I've done some meth cases, so I do have some understanding of clinker versus -- I guess I just don't understand and maybe there is some limitations on this.

MR. KEMP: Physically, that's certainly possible. You're absolutely right. We could take the granular material, already packaged in some form and make it a size smaller.

In our specific case, we don't have the equipment in our plant to do that. It would have to go outside, and there are significant costs,

particularly if it's a food product, it would have to be treated with the proper respect all the way through.

MS. TURNER: Okay.

MR. KEMP: So it's not a physical prohibition. It's a high-cost proposition that prevents us from doing that.

MS. TURNER: Okay, that's helpful as well.

If you had similar unbalance issues, do you have capabilities to --

MR. MOFFATT: We've had a similar situation with the natural cut of the grades. Unfortunately, ours was more of a physical-characteristic issue than simply a cost issue because we ended up with too much powder versus granular.

So, then the turn of event is quite frankly take the product eventually and take it back in what they call remelted, which is to just put it back in the front end of the process. You can imagine the cost of doing that because you're taking it back, and again, at 1,000 degrees centigrade, so you're making the product twice. So it's a very costly proposition.

MS. TURNER: Okay, so that's also helpful.

In terms of the Chinese, and as much as you know about the Chinese process, are they using, first

of all, the same processes?

In particular, are they producing food and technical grades say on the same -- it's our understanding, from what you've said, that they are producing both at this point, and meeting the qualifications to produce both, and imported food grande, in particular, into the United States?

So are they actually producing both out there on the same production processes?

MR. TREINEN: Well, first of all, there are quite a few producers. We only showed four that we had information on production capacities. But there are many more SHMP producers in China.

I don't know very much about their processes. I can only assume that it's generally similar to ours in that they use either soda ash or caustic as the -- it's a sodium import along with phosphoric acid.

Now we do know that, for the most part, the Chinese phosphate industry uses thermal acid to make nearly all their phosphates. So that means they start with phosphorous, and its very possible that some of these producers could take that thermal phosphoric acid and not remove the arsenic and make technical grade.

But, certainly, when they make food grade, they would have to remove the arsenic. So that's probably the only distinguishing factor that I'd have to assume the Chinese producers have to make. Is that clear?

MS. TURNER: Okay, that's helpful. I guess that actually raises a question which we may already know, but, at the moment, I don't recall seeing. Instead of being integrated, you buy your raw materials, your phosphoric acid at this point. Is that correct?

MR. TREINEN: Not necessarily. There is a degree of vertical integration in our plant. To give an example: although we don't produce sodium hexametaphosphate in Mexico.

In Mexico, we buy rock and we take that rock and we convert it, with sulphur, we make sulfuric acid. The sulfuric acid in the rock combined are used to produce merchant-grade acid. Merchant-grade acid is then purified in a purified acid plant, which we have in Mexico. Then that can be used as feed stock in all of our phosphate plants.

We also have a phosphoric acid plant in Geismar, Louisiana. In that plant, we are one step up the chain, so we don't start with rock. We start with

MGA that we purchase. Then, we also purchase PWA, or purified wet acid.

So, in our process, we have three different levels of vertical integration. One where we buy purified acid; one where we buy one step further downstream, we buy merchant-grade acid; and then, in Mexico, we buy the rock and convert it further.

So we have all three different stages of vertical integration.

MS. TURNER: So most of your product is not bought. It's basically an internal transfer from other aspects of the company, the raw material?

MR. TREINEN: Right. The purchased quantity is the smaller quantity in large sources.

MS. TURNER: Okay, ICL.

MR. MOFFATT: Yes, from an ICL perspective, because of the raw-material supply, we do have a fully integrated purified phosphoric acid plant in Israel.

Although we start with the ore, convert that into the MGA, as Tim talked about, into purified sulfuric acid. And that comes up in say large vessel sailing to the U. S., which we use as raw materials to produce phosphates, and also sell as phosphoric acid.

Secondly, we have a long-term supply contract for phosphorous both one of our predecessor

companies, a company called Monsanto, so some of that phosphorus is turned into phosphoric acid. So we can take phosphorous to phosphoric acid and either sell that as acid or use that as raw materials to make things like SHMP.

Thirdly, then, we also have the long-term supply PPA contract, purified acid contract, with a third party. Sop we have three supplies of the raw materials as well.

MS. TURNER: Have there been any constraints on raw materials during the last three to four years time period?

MR. MOFFATT: Not that we've experienced.

MR. TREINEN: Very minor, as it relates to logistics, occasionally we would have an interruption of sulphur or rock, which just might mean that one of our units is down for a day while we're restocking.

But that normally doesn't affect the processes further upstream. We can operate from in-process inventories.

MS. TURNER: Okay. I've got a question that I'm raising because actually of something Mr. Treinen said in his testimony. And, Mr. Treinen, this is really directed to you regarding scope.

My understanding from reading the scope, but

not being an expert on the chemical aspects of this, is that it does not include any of the blends that Mr. Treinen talked about.

I guess the question is, first of all: Are you going to propose to Commerce that the scope be changed to include those blends? You raise this issue in the testimony which, as you know, we don't have really anything to do with scope. We have to take the scope and run with it.

So I guess we're somewhat asking: Whether there is any indication that you are going to propose a change, so that we know, and that we can accordingly make sure that our information includes that? If you can elaborate how you're going to address this issue of the blends?

MR. CANNON: We didn't change the scope and we did not intend to include blends. We excluded blends from the scope. However, in answering questions from Commerce about the questionnaire, they pushed us on: Well, what happens if we haven't any dumping order and post-order people mix other materials in with SHMP, not in the form of the blends now on the market or blends as we know it.

Blends as we know it, the SHMP, is like 10 or 20% of the total, so it's really another product

like sodium tripoly. They want to change the ph a little bit, so they put in a little SHMP.

What if someone approached it from the other direction and they added just a little bit of something else, like in aspirin, we had aspirin with starch. So what if they were to add starch, or something that doesn't do anything particularly physically, or in performance-wise to the SHMP, wouldn't you want to include that?

And we said: Yes, we would want to include that.

So then they said: Well, then, you will need to modify your scope language, so that you account for the fact that there could be other materials, and that it might not be 100% SHMP.

Then we said that exists in the market today. But, definitely, if people were to start doing this to evade, we would want to cover that. So I think that I haven't seen a notice of initiation. I'm hoping they initiate. I think what they're going to have is another sentence that says something like: As long as it's a majority of SHMP, then it's covered in the scope.

MS. TURNER: Okay. So you do expect that there's going to be -- you're supporting a

modification to the scope that deals with a potential anti-circumvention issue?

MR. CANNON: Exactly, exactly. And it's from that perspective. We are not arguing that people who make blends, in the sense that we understand blends today in the market; we're not arguing that that is part of this product.

That's a higher-value product. It does not perform in the same way. In fact, the SHMP is a very minor part of blends, typically.

MS. TURNER: Okay.

MR. CANNON: So we're not trying to say that should be part of this case.

MS. TURNER: So the blends, as you know it today, are not interchangeable?

MR. CANNON: Correct.

MS. TURNER: They're not used for what you would use SHMP for. On the other hand, some anti-circumvention, some attempt to circumvent the order, there is a potential to create a different type of blend that may be interchangeable?

MR. CANNON: You know --

MS. TURNER: You don't know of one, at this point?

MR. CANNON: No, we don't. But I think

their concern, as they expressed it to us, was driven by thinking about Customs. What if someone threw a little bit of stuff in here and called it a blend, they would get into a different SHMP number and then they would escape. You don't want that to happen.

And we said: Yes, that's true. We would think that would be circumvention.

Then why don't you fix the scope line in order to deal with this?

So we talked to them about it. That's why this arose.

MS. TURNER: Okay.

MR. CANNON: The reason that it was in the testimony is exactly so that we'd put it on the table for you all. I don't really think it has implications particularly for the ITC.

MS. TURNER: Well, okay, no at this point. If it is that way, it probably doesn't. But it's good for us to know that we know that the scope is potentially going to be modified at least. That might be something that could be in your post-conference brief. It would be helpful.

Whether, in fact, Commerce has come out with it in their initiation, or it's something that you are proposing that we at least get on the record, as well

your take as to what this proposed scope change may be. So we can, at least, make sure that the Commission addresses it, and has knowledge of it in terms of when they are making their decision.

MR. CANNON: Okay. We'd be happy to address that.

MS. TURNER: That would be helpful.

I also wanted to get some clarification, now hearing this, in terms of the blends. Mr. Cannon, in your discussion on these, in the list of your attachments, you were talking about related products and P&G with the Chinese company having a -- and I see here the development of sodium tripolyphosphate is the product.

Okay, then this is then a blend, or this is a different product?

MR. CANNON: It's a different product.

MS. TURNER: So a related product is just not --

MR. CANNON: It's related in the sense that it uses the same molecules. It's a sodium phosphate but it is very different. It doesn't use the furnace. for example; it doesn't have the same level of solubility. So we don't consider it to be a like product.

The only point of raising the article was that Procter & Gamble has clearly been working with the largest Chinese producer of SHMP, and that producer also makes sodium tripoly STPP.

Given that Procter & Gamble is working with them on one product, and we found that this was public knowledge, we don't think it's a great leap to assume that they may be working with them on SHMP as well.

MS. TURNER: Okay. So it's getting at their ability to come into the U. S. market, or have relationships in the U. S. market is what that is; it's not the product itself, other than it's got some of the same raw materials?

MR. CANNON: Exactly. All we're citing that article for is the fact that the two companies have been cooperating on products, that's all.

MS. TURNER: Okay. You've addressed this in some ways, but let me just seek clarification. What determines how much SHMP you'll produce? Is it the demand for SHMP? Is the need to keep plants near full capacity? Is it the availability of the raw materials at the time?

Can you speak a little to that.

MR. TREINEN: Okay. It's strictly based on the demand that we have. So we, of course, do our job

in the sales area and sell as much product as we can, get contracts and pricing agreements.

We then forecast that demand, and we set targets for our inventory levels that we would need to adequately service that demand. So we would produce to reach those inventory target levels.

But, as we said, it's most efficient to run 24 hours a day, seven days a week, so we'll run at that level. What we don't sell gradually builds into inventory. If we see that that inventory we're going to have difficulty selling it, based on the contracts we have in place and the business we have in hand, then we have to make decisions like we made last year: to close a furnace down while we bring our inventories down as that product is sold.

We would only restart the furnace when we saw that our inventories were going to get too low to provide adequate service to the customer. So that time we were down should, in the long run, be equal to the excess capacity that we have that we can't sell.

But it is not something that you can do every week. You have to do it over a long period of time because of the inefficiency of starting up the furnace.

One thing that we didn't mention is that the

refractory in the furnace also has some detriment when you start-up and stop a furnace. Normally, we build a furnace every 18 months, but if you start to stop it during that 18-month period, then you would have to rebuild it in a shorter period than 18 months.

There are a number of things that are affected by this, but what we try to do is: run wide open, and build inventory. But as soon as we see inventories getting beyond target, then we have to make a decision to adjust production levels to get back to the level of demand.

MS. TURNER: Okay, thank you.

I see Mr. Moffatt.

MR. MOFFATT: Similarly, we also run the plant until the brakes split and products split against a customer forecast.

Again, in late 2003, it starts at the time to make a permanent furnace shut-down in Trenton, Michigan. But, again, we had the same critical-mass issue. And over the course of time, we have I guess the luxury perhaps of having two furnaces.

So we swing the furnaces back-and-forth in terms of production rate. But we oftentimes do find ourselves with inventory beyond any kind of reasonable level because of the issue inherent with this high-

energy-furnace kind of operation.

MS. TURNER: Okay, thank you.

Do either of the two U. S. producers import subject SHMP? This is, of course, a public forum, so if anyone had any responses, and, as I said at the beginning, that are confidential, please just put that in your confidential post-conference brief.

MR. CANNON: Thank you. We'll answer in our confidential brief, although I can probably say no as well --

MS. TURNER: Well, my other question is --

MR. CANNON: -- during the period of review.

MS. TURNER: Okay.

MR. MOFFATT: There's a minor adjustment to that, if I could. After ICL purchased Astaris in 2005, we did bring in very, very small amounts of a special grade of SHMP being made by ICL in Germany. The idea there was to look at the product, do some blending for a specialty meat product, one of these 90/10, 80/20 kind of product.

We brought the product basically to look at, so we could start to produce the small-volume product in our Lawrence, Kansas facility.

So if someone looked at the import records hard enough, they would find a very small amount of

product imported by ICL.

MS. TURNER: But that's a German product?

MR. MOFFATT: That's a German product.

MR. TURNER: Subject which is China, but no, actually that's helpful as well to know.

If either of you are importing any subject, meaning Chinese product, we also will need an explanation as to why you're doing that: whether it's to meet a product line, some of which you just indicated as to why because we do have to look at related-party issues.

Actually, Germany raises a nice seque into my next question. This is for you, Mr. Cannon, in particular.

On page 39 of the petition, it states that the average unit values of imports from Germany, Iceland, Japan and Spain are substantially higher than the average unit values of all imports, suggesting that the imports from these companies are not SHMP.

The paragraph continues on to note in fact that imports, which are listed in the basket category for Canada, are probably not SHMP because there's not SHMP production in Canada. But my question then is about the conclusion: You don't not include German imports.

In concluding this discussion, you indicate that "it must be assumed that imports from Canada, Iceland, Japan and Spain are not SHMP, and you don't include Germany in that. Yet Germany, supposedly, has the higher unit values, which is the reasoning there as to why the other four countries are not considered to be SHMP in that, so why is Germany ?

Again, if this is confidential, please address this. And I have a follow-on somewhere else, two other countries, but if you could?

MR. CANNON: It's not confidential, but, actually, they were adjusted too. They explained to me the belief by looking at the data, particularly Tim, went through the data and average unit values, also Jim, and they picked off which countries. There's not a supplier here, there's not a supplier here. We don't think it's SHMP.

In Germany, there are companies that produce SHMP. In fact not all the companies are even related to ICL. There is a company, Prayon in France also, so we were uncertain, essentially our being conservative, and given that it's a basket category, although I noted that the average unit value appears to be too high, it's an average.

There could be product mix, and some of that

could be SHMP. So I thought, to be conservative in reflecting China's share, so I should just leave it in. That's what we did in the petition.

MS. TURNER: Okay. Then to follow-on from that: On the Exhibit Injury 3, where you've got the list of all the import levels, the value as well as quantity levels in charts, in that, you've included a sub-total that doesn't include the four countries that you were excluding when you discussed, meaning Canada, Iceland, Japan and Spain.

But you've also proposed excluding any imports from Israel and Taiwan; and there is no discussion anywhere in the petition as to why those two countries, they're not considered to be the higher average until value, so they aren't considered to be SHMP. So there is no rationale provided, if you could --

MR. CANNON: All right. Actually, Commerce asked us that too. In between the draft petition stage and the actual filing, I was queried about Israel in particular because ICL operates in Israel, and we were able to determine that that shouldn't be included because that's not SHMP. So I had that disconnect in the petition.

In this case, we have to somehow work this

into the case, right, because it talks about SHMP. So the stooge in this case is me and not my clients. I will clarify in the post-conference brief.

MS. TURNER: Please address all these different countries that you propose to be excluded, and the reasoning for why. If it's a matter of, just for clarity sake, go through each country separately, and just tell us what the reasoning is, in a sentence or two, that would be helpful, so that we don't potentially have a disconnect between one chart and the other and not knowing.

This actually gets to also an issue regarding subject imports. You know, while the subject imports have increased during the period of investigation, non-subject imports of SHMP, even with the proposed exclusions of the certain countries that you've proposed, have also increased; and it seems to be at a higher rate than what apparent consumption was increasing at, across the period; maybe not per different years.

You haven't discussed in here in the petition, and if you could in the post-conference brief -- please discuss whether the Commission should find that the Federal Circuit decisions in Bratsk Aluminum versus United States and Caribbean Ispat;

whether they are applicable to the Commission's consideration of non-subject imports in this case.

As part of that discussion, I mean, I guess first of all, the question is, do you think, in brief, that the Federal Circuit decisions and the tests that they have regarding non-subject imports in those cases, whether those apply to this case.

MR. CANNON: I'll be happy to address that in the brief. At least, in part, the product line implicates the "C" word and is, therefore, a commodity. So I understand the question.

Briefly, if you were to look at the non-subject imports from the import stats, in our analysis in which we were conservative and we think over inclusive, you find that the non-subject imports are a fraction of the Chinese imports. In this case, the subject imports are 70 percent or more of all imports. So in the U.S. markets, the other imports wouldn't amount to enough.

Secondly, Mexico, which is the next largest producer, has tiny capacity compared to the volume of Chinese imports. The entire capacity in Mexico is about a third of the total volume of China. So Mexico couldn't replace the Chinese.

Thirdly, the import prices of the imports

from other countries are substantially higher than the Chinese prices. The Chinese, stated differently, are the lowest average unit value of all.

The other imports trade at prices more like the domestic industry. So there would be no reason to assume that if the Chinese were not in the market, the domestics would be unable to get those sales. It isn't that other imports were cheaper. We can compete with the other imports. They aren't being dumped. So I'll elaborate in the brief, thanks.

MR. TURNER: If you not only elaborate in terms of particularly the later part of that as to why they would not, in the second part of the test; as to why the other imports would not get; any evidence you've got that would suggest why that would be, that would be helpful.

As part of this discussion, as well, the issue was raised this morning about raw material costs, as well as energy costs, and how these have increased to significant levels over the period of investigation. One of the charts showed that.

Thus, these potentially are other causes. If you could address Bratsk and Caribbean Ispat, that might deal with non-subject imports. But the Commission still also has to look at potential other

causes, as well, regardless of Bratsk and Caribbean Ispat. Thus, if you could, address why other causes such as energy cost or raw material costs are not the material cause of injury to the domestic industry in the post-conference brief.

MR. CANNON: Certainly we'd be happy to address that. The very short answer to that is that the Chinese also experienced a rise in raw material costs for phosphorus and natural gas, as do we. That's just everyone in the world. Those are globally traded, thanks.

MR. TURNER: Then I have one very quick question, and that's got to do with, do you know of any dumping findings or anti-dumping remedies imposed on SHMP in other foreign countries? You noted that this morning, in Mexico and China. If you have any materials on that, if you haven't already provided them to us, if you'd provide those to us -- the Mexican determination order.

If there's any others, if you could please provide us that information. I know it's a questionnaire question, but it's also helpful to have in the brief, those materials provided.

There are two questions that I have regarding statutory factors, and one has to do with

price. It's my understanding that you've alleged that there are price effects in your discussions, although you haven't actually treated that as a statutory factor; if you could do that in your post-conference brief. It is a separate statutory factor. Right now, the petition alleges volume effects and impact effects, but does not necessarily allege that there are separate price effects.

The other is a question on page two of the petition. You allege that the domestic industry is threatened with further injury by reason of the subject imports. However, there are no arguments presented in the petition regarding the statutory threat factors. So I guess the question is, are you actually alleging that there is a threat of material injury?

MR. CANNON: This is an injury case. These companies are seriously injured. They lost money in all three of these years, and it's injury.

MR. TURNER: So it's a present injury case.

MR. CANNON: If the Commission wants to find threat, we didn't elaborate on that. We did have a slide show on the overhanging capacity.

MR. TURNER: Right.

MR. CANNON: So it's certainly within the

Commission's judgment and discretion. But this industry is materially injured.

MR. TURNER: So the allegation is primarily an allegation of present material injury, and not an allegation of threat.

MR. CANNON: Exactly, and I didn't particularly see any need to go through those factors. I think some cases just shout out, it's injury.

MR. TURNER: No, I mean, that's fine. If it's a present injury case, it's just making sure. If it's not, we would like arguments regarding that.

MR. CANNON: I would point out that we have Census data of a basket category, the kind of imports that we see. We always are nervous, uncertain, whether that's actually our product. The data that you get from importer questionnaires may tell us something a little different about the China imports. So we may, indeed, see an increase, for example, in 2006. I don't know.

So it could modify, once we see the confidential data. It could modify what our position might be, although I still think we're injured.

MR. TURNER: Okay, well, no, that is fine if you do want to allege it as a threat case, that the data does support that. Granted, if you don't really

have much to say about it, and it truly is a present material injury case, then presenting arguments that really have no real basis to them, it's better not to, we'd prefer. But if you do find that there is, please run through the factors for us.

That actually just is one final question, because you just actually raised something that I had forgotten. You've got a chart that deals with the capacity in China, and I believe you've taken it from the SRI data.

Are there materials in the SRI date -- and I don't recall that there is -- that deal with capacity utilization; i.e., the excess capacity issue?

MR. TURNER: No, the SRI data do give capacity data for producers of phosphates around the world, in terms of P2O5. But it's very difficult to figure out how to match that up with production to figure out utilization, and they are gaps.

In the case of China, the capacity figures that we're showing there, those were obtained from press releases and so forth regarding the Chinese industry. The SRI data shows production in China, but not capacity.

So we, at least at this point, are unable to address whether there is, or the extent to which there

is excess capacity. But we, of course, believe there is and that it's targeted here.

MR. TREINEN: I might note that in the press release that was attached on Hubei Xingfa, buried in the second paragraph, they said, "The company will reach 70,000 tons per annum at that time, after their 20,000 ton expansion, accounting for 29 percent of the world's total.

So that would imply that the world total is 240,000 tons of capacity. That doesn't get us any closer to the specifics of your question. But it does give you a little bit of a range here.

The SRI data, in most cases, refers to sodium phosphates as a group. So if it's talking about a producer and what their capability is, it will put it in a category that you can't break out SHMP as a singular product.

MR. TURNER: Okay, so what we're getting at is, aside from showing -- and it's good to know and to put into perspective -- the production capacity that China has; but also whether all of it is being used; or whether, in fact, there's known excess capacity levels. But if the data is not something that we readily have available, then we understand that.

I'm finished with questions at this time.

Thank you very much for your responses.

MR. CARPENTER: Craig Thompson, the economist?

MR. THOMPSON: Good morning, still -- you mentioned that this is a product that is used in many other downstream products. It's not necessarily consumed by itself.

I was wondering if you had any kind of data as to what is happening to demand for these downstream, both in water processing and in other food there off the top of your head, or what you're predicting to be going on, or if there's anything that you have in terms of your hard data, that you could submit in a post-conference brief. I'll turn it over to you, to see if you have any thoughts, just off the top of your head.

MR. MOFFATT: In my perspective, as a general rule, that Section P is tending to follow essential kind of GDP-kind of rates.

Now there is a little bit of growth in the beverage segment. But the beverage segment, again is one of the smaller parts of segment. So even though it could be going quickly, it has relatively minor impact on the total SHMP demand.

Again, as we talked about, things like

toothpaste, in my view, kind of are going to grow with the population growth and those sort of things. So I can't speak for any Innophos. But my view is, it's essentially a GDP-kind of growth business in total.

MR. THOMSEN: Mr. Treinen?

MR. TREINEN: Yes, I would say that maybe there's one other exception to that would be water treatment. As municipalities' needs for water treatment expands, that may cause some increase in demand that approximately could be different than GDP, as population migrates from rural to more municipal areas.

But I think that's a fairly small differentiation between that segment of growth rate and the rest of the GDP. But otherwise, I don't think we know of any other factors that would allow us to estimate what that growth rate would be.

MR. THOMSEN: So you would expect a rate of growth of urban populations to be in the ballpark of how you see growth to be?

MR. TREINEN: Well, maybe I can just say that in our internal estimates forecasts, we use generally one to two percent per annum growth rate fairly minor as a ballpark of what we think the growth rates would be overall.

MR. THOMSEN: Okay, thank you; in terms of the long chain versus regular chain, are you seeing the competition in the regular chain and the long chain segments from China; or are they just focusing on the regular chain; or how do you see that playing out in the market right now?

MR. TREINEN: I see Chinese imports going after both markets. As I mentioned earlier, initially, the Chinese imports seemed to focus on technical grade markets; the high volume demand customers, such as clay fields and water treatment.

But since then, we've seen their penetration into the long chain customer grades, as well as the food customers. So there certainly is long chain product available from China that customers are using.

MR. MOFFATT: And yes, we have seen similar things. The Chinese now appear to be available to produce all the products, to meet all the different segments.

I think we mentioned once or twice, one of the issues that has evolved is the emergence of the large U.S. chemical distributors actively re-selling Chinese product. So they're actually taking back to China more specialty products and these sort of things as a request, that the Chinese may not have heard

about without the three large distributors involved at every segment of the industry.

So the distribution community in the U.S. has actually educated China on the products needed, and China has been able to respond to a greater product line.

MR. THOMSEN: Do you have an estimation of the timing of when they may have entered the food grade or long chain? Is it before 2003 or before 2004, when they entered the markets that are not just the regular chain technical grade?

MR. MOFFATT: I think they always had sort of a minor presence or played at the edges of all the grades for a long time. But really over the last three years is when, at least in our perspective, we have seen their impact much greater in all the food segments, the more specialty segments.

MR. THOMSEN: And Mr. Treinen, you noted in your testimony that you have lost sales in most segment, or lost volume. Could you either here, or in the post-conference brief, let us know what segments you have not lost any sales in, or how much they account for?

MR. TREINEN: Yes, we'll do that in the post-brief.

MR. THOMSEN: Okay, and would that be due to some sort of technical reason; or could you just explain also why you believe you've been able to hang on to that volume and those sales in those segments where you have not lost any?

MR. TREINEN: Well, I would have to attribute it to those customers that we had sold to who typically did not buy from distribution and, therefore, didn't have the typical access to the Chinese supply through distribution.

So if we're selling to a direct customer, and they're exposure to the availability of Chinese supply was more limited, then generally those would be smaller customers who are not going to have access to that distribution network.

MR. THOMSEN: That's very helpful. This may be also business proprietary, but it may be common knowledge. I'm not sure. Do either of your companies engage in the forward market for natural gas; or are you pretty subject to the whims of what the price of natural gas is?

MR. MOFFATT: Given the fact we're a division of a publicly traded company, I'd prefer to give clarification and answer post-brief, if possible.

MR. THOMSEN: That's fine. Mr. Treinen?

MR. TREINEN: Likewise, I think any comment, we should clear first.

MR. THOMSEN: Absolutely; you've noted in your testimony also about the price for acid and the price for natural gas. Now the other component that goes into this, the soda ash or caustic, has been missing from your testimony. What's happened to the prices for that component?

MR. KEMP: There's several publicly available indices for caustic, and delivered Gulf Coast, Rayon grade, et cetera, et cetera. At best, certainly, those are indirect indicators of soda ash pricing. For soda ash, other than list price, which in many cases in the short term is fictional, other than list price, there's no soda ash index at all.

MR. CANNON: In other words, I didn't have a public chart.

(Laughter.)

MR. CANNON: But we've obviously given you our raw material cost, which you can do per unit; and I believe the testimony was by Mr. Treinen that, in fact, soda ash prices are also rising.

MR. THOMSEN: Oh, okay, thank you -- when the furnace is closed for relining, can you produce blended products at that time, since you already have

the SHMP in your inventory? Can you make those blended products, or does the factory just have to completely shut down at that time?

MR. MOFFATT: From my Lawrence, Kansas perspective, the blender is a separate operation, separate equipment piece. So if you have the finished products in inventory, SHMP and STTP, for example, they are physical blends of the product. So you put the products in the proper ratio and blend them up together.

MR. THOMSEN: Is that the same for Innophos?

MR. KEMP: Innophos would be strikingly similar. We basically produce it first and put it in inventory, and blend it later rather than blend right off the line.

MR. THOMSEN: Do you blend while you're relining your furnaces?

MR. MOFFATT: Yes.

MR. THOMSEN: Okay, Mr. Treinen, during your shut-down in 2006, was there any other work going on in the plant or improvements to the plant being made while you were shut down for that extended period of time?

MR. TREINEN: Well, yes, there was some maintenance work done. But while we were down, we did

as much pent up demand for maintenance as we had available. But the downtime was significantly more than what was required for maintenance.

MR. THOMSEN: Okay.

MR. TREINEN: And it was not a furnace rebuild. So you know, it wasn't the time to do that kind of work. So just small amounts of maintenance were done during that shut-down.

MR. THOMSEN: Was any equipment installed?

MR. TREINEN: Yes, we did have some equipment that could only be installed during a shut-down.

MR. THOMSEN: And how long did that equipment take to install?

MR. TREINEN: I don't know. Do you know?

MR. KEMP: I don't know specifically. I have not seen the schedule for this apparatus. But based on experience at other plants, it would have probably taken a maximum of down time to install it under normal conditions.

MR. THOMSEN: Okay.

MR. CANNON: I think, Mr. Thomsen, it's fair to say that when they were not operating, they didn't want to lay off all their work force. They wanted to keep them employed. So they found other things at the

plant to keep them busy doing. We could tell you more specifically, if you care, exactly what they were doing in the post-conference brief.

MR. THOMSEN: Sure, that would be great.

Just in a theoretical sense, when you compare your long chain versus your regular chain production, if you're running at your plant at 100 percent on regular chain, you're producing a certain amount of chain. But if you switch over to long chain, you're able to produce a different amount, or your capacity is a different amount?

MR. KEMP: To answer the question broadly, the capacities are different. To actually come up with actual numbers, it's probably best to show that in the post-conference brief.

MR. THOMSEN: I just didn't know. Is there a general sense you can give, if you're running 100 percent regular chain versus 100 percent long chain -- which I understand, based on how the market is, you wouldn't be running 100 percent long chain for a full year. But I'm just trying to get the difference as to the amount of output that you would have, in terms of regular chain versus long chain.

MR. KEMP: It's probably proprietary, and it's just as well, because I don't remember the

figure, anyway.

(Laughter.)

MR. CANNON: There's a figure like quantity per day, and there are two different numbers; one for long chain and one for regular chain. Because long chain has to sit in the furnace longer, or it has to sit in the mixer longer, to get the longer chains.

Those two numbers were blended together to produce total capacity, using this ratio of how much launch and how much regular chain do they produce. I think we said it was like 80/20. But publicly, he just said that.

MR. THOMSEN: Right.

MR. CANNON: So that's how we got the capacity numbers, and I believe both companies got it this way, for the questionnaire response. That number is how many hours per day, long chain versus regular chain. We could easily give you that. We probably will have the same thing for that.

MR. TREINEN: Just to give you an idea though, long chain takes longer so you produce less during a day. The difference is, I'm sure, less than a 20 percent difference.

MR. THOMSEN: Oh, okay.

MR. TREINEN: You know, we can give you more

specific data. It's not a substantial difference.

MR. THOMSEN: Okay, and on page 44 of your petition and in Table 9, there are some numbers that somewhat relate to capacity or utilization that seem a little strange. Being that this is a public hearing, I don't want to get into any specifics of that. But for your post-conference brief, could you just try to explain those numbers, or how you got them, or the anomalies?

MR. CANNON: I think you'll find that in the questionnaire responses, when companies have looked into this issue, and particularly the balance of long and regular chain, they have come up with a good capacity number. At the time when they did the petition, we were still exploring that issue. So we can explain the differences.

MR. THOMSEN: Okay, that's great. At any time during 2004 or 2005, did either of your companies have to turn away any customers because you were running at full capacity and had drawn down your inventories to the point that you couldn't supply customers with what they needed at that time?

MR. MOFFATT: As we've explained in our questionnaire, there was a short amount of time in, I think it was 2006 actually, where we had an unexpected

production issue. At that point, we actually, quite frankly, purchased a little bit of product from Innophos.

I'm not aware of other times earlier. I'm not aware of anything in 2004 or 2005, where we had issues supplying customers.

MR. THOMSEN: Okay, Mr. Treinen?

MR. TREINEN: The only time I recall missing any orders because of not having enough inventory would have been following our shut-down last year. I don't think, in hindsight, we started up quite soon enough, and we had a couple of categories of inventory that were lower, or we had demand that was beyond what we had forecasted.

So we might have missed a few orders during that period. But otherwise, there's no significant difference between our demand and our capability to produce. There was no shortage of capacity, other than one off-incident like that.

MR. THOMSEN: Okay, and do you know when that anti-dumping order in Mexico went on against China? The anti-dumping order that Mexico now has against China, do you know what time that went into effect?

MR. ORELLANA: I believe it's 2004.

MR. THOMSEN: Can you check on that when you're providing all the information for Ms. Turner?

MR. ORELLANA: Yes.

MR. THOMSEN: I believe that's all the questions that I have. I'll turn it over to our next member.

MR. CARPENTER: John Ascienzo, the auditor.

MR. ASCIENZO: Thank you, and officially, good afternoon -- I just heard the church bell going. It's still going.

(Laughter.)

MR. ASCIENZO: Let me get back to food versus technical grade, if I could. We're kind of beating this into the ground, but I just wanted to make sure. It sounds as if the ratios of the chemicals that go into making food and technical grade are the same, period, the same; and the only difference would be more stringent recordkeeping or process management, something like that. Does that sound right -- maybe packaging at the end?

Okay, so could both companies here, but probably in the post-conference brief, give me an estimate of the increased cost of producing food versus technical grade, dollars or percent, you know, for 2006? I'm assuming it's not terribly -- I

shouldn't say anything.

MR. CANNON: Do you want total cost? In other words, there's below-the-line costs. Food grade requires more products liability insurance, for example. I'm trying to think in your terms what you want us to tell you. As you rightly observe, in terms of how much natural gas we use, how much phos acid and how much soda ash, it's all the same. We're not going to be able to separate that.

Overhead costs -- there might be some associated perhaps with food grade. If you go in the plant, you have to take off your metal so that none of it falls into the vat. That's because they're making food grade, and you don't your metal ring to fall in. But that's not much of a cost.

MR. ASCIENZO: Okay, so what I'm looking for would be an estimate of the cost per ton, down through the operating level, and then if there's anything below that, also. Because as you know, the Commission typically focuses on operating income. But if you've got costs below the line, tell us, too -- dollars per metric ton, dollars per pound, whatever you want to do, however you decide to do it, thank you.

Getting back to the differences between long chain and regular chain, the long chain sits in the

furnace longer, and maybe there are some other processes involved. So that presumably has a higher cost. Could you do the same thing? For both companies, could you give me an estimate or actual dollar value of the cost in 2006, let's say, for long chain versus regular chain? Is that possible?

MR. KEMP: Yes, it's certainly possible. I see them taking notes. I will say that because long chain has a higher P205 value, and that represents acid now being a higher proportion of the molecule in soda ash -- since acid costs us more, there will be a significant real operating cost difference between those two.

MR. CANNON: I think you'll have standard cost sheets, and it breaks down by grade in this aspect. So we could just give you the standard cost, and you would see how much that is. Then you would be able to weight the word "significant" or whether it should be the word "insignificant".

MR. ASCIENZO: Fine, and so for purposes of this conference, is there also a difference in the ratio of input materials, long chain versus regular chain?

MR. KEMP: Yes, it's the ratio and acid and phos acid to soda ash that drives the chain link. So

that ratio being different, the cost is then different.

MR. ASCIENZO: Okay.

MR. KEMP: And just to clarify, by significant, I meant in comparison with the food text. It's actually a real definable cost.

MR. ASCIENZO: Thank you, and then also you've had a chart up that showed that the cost of natural gas has gone up. We all know that, I guess. Then it turned around and went back down.

So tell me, if you could, in your post-conference brief, and if you can't, please give me a call ahead of time or email me and tell me what you can or can't give me. But what I would like would be for each company, for each of the three years, your natural gas cost per metric ton or pound of the finished product.

You don't have to break it out long versus short. You can just give me, you know, for all of the sales that you've indicated here, what's your cost per ton please; thank you.

Oh, delivery costs -- we talked about this with respect to pricing. Some companies put in the freight, and some companies don't. You don't have to tell me now, but could you make an affirmative

statement in the post-conference brief whether or not freight is included in your profit and loss statement? I believe it's question 311, whatever the statement is.

And if it is included, could you please give me, for each of the three years, the amount, you know; and then tell me where it would be below. If it's included in a revenue, presumably, it's down in SG&A. So just tell me; thank you very much.

Then let's get back, if we could, to the phosphoric acid. Correct me if I'm wrong and, once again, if this is confidential, you can do it in the brief. But I think this was discussed publicly. It sounds as if both companies have three different ways of getting their phosphoric acid. Is that correct?

MR. MOFFATT: Well, that's correct for ICL.

MR. ASCIENZO: And also for Innophos?

MR. TREINEN: Right, in fact, comparing Jim's answer to mine, we each have two of the same processes. So we each have purchased phosphoric acid, and we each have our own purified acid production. Then the third, in our case, was we produce, in Mexico, from rock, all the way up. In Jim's case, his third example was from phosphorous.

MR. ASCIENZO: So I'm trying to figure out

the importance, and I know that the cost has gone up. You had a chart. I think it was 20 percent. But that seems to be an open market price. Certainly, if you're producing it, perhaps your cost went up just as much, but perhaps not. That's really not so sure if you're making it from the rock and adding acids or however it's done.

MR. CANNON: You've got the raw material costs which are phos acid and soda ash.

MR. ASCIENZO: Right.

MR. CANNON: And so you can divide by the tons which you have, and you've now got both of those in the questionnaire in terms of our unit costs to see the trend. If what you're asking is, you want us to break out phos acid and soda ash, you know, I suppose we could.

MR. ASCIENZO: Oh, could you? Thank you very much.

(Laughter.)

MR. ASCIENZO: Thank you very much.

MR. CANNON: It might be sufficient.

MR. ASCIENZO: It might be sufficient. If you could do that for 2003 -- excuse me, 2004, 2005, and 2006, and then one extra step would be, in your post-conference brief, tell the Commission how much

was produced internally versus how much was purchased.

In other words, was it one-third, one-third, one-third; or excuse me, one-half, one-half, three-quarters, one-quarter, something along those lines, so we could get a feel for how much was produced versus how much was purchased?

With that, that's it; thank you very much.

MR. CARPENTER: Philip Stone, our industry analyst?

MR. STONE: Without giving any proprietary data, can you just give me a rough idea of how much of your product goes into each of the uses; how much goes into water or how much goes into clay mining or food?

MR. TREINEN: There is, I believe, a market analysis that is done in SRI that would show for North America what is the split of SHMP required by each of those markets. Would that be sufficient? Is that what you're looking for?

MR. STONE: Is that included in the submission in your petition?

MR. CANNON: The SRI is in Exhibit INJ-1. If what you're asking is how much goes to water treatment, clay mining, we would have other breakouts. It would be much smaller. We haven't supplied it that way. What we did supply is by grade. You know, we

have regular, long chain, and we have food and tech. But this would be a different cut. I would think we could give you a percentage into the markets. Is that what you're looking for?

MR. STONE: Yes, just a rough percentage of how it's used.

MR. CANNON: Okay, I think we can do that.

MR. TREINEN: Just for further clarification, are you asking for our sales by those markets, or the North American demand?

MR. STONE: The demand in the U.S. markets.

MR. TREINEN: That's in the SRI report.

MR. STONE: Okay, yes, that would be good.

I also understand that this product has a finite shelf life. What causes the degradation over time, and how is your expired product handled?

MS. STACHIW: I think, as Russ alluded to earlier, the produce is hygroscopic. So it can pick up moisture. We do give an 18 month shelf life for the product. Our experience is, you know, customers use it within that time. If there is an incident where it has not been used, it can be used as reworked back into our process.

MR. STONE: And for the SHMP that's used for water treatment, is that usually a Government

regulation that requires it; or do municipalities just do it to improve the quality of their water?

MS. STACHIW: Our water standards, the municipalities must meet. SHMP is one of the ways that they can meet those water standards. You know, each municipality or city will determine how they're going to accomplish that, and SHMP is a chemical that they use typically. If they have problems with hard water, it's water softener; or to prevent scale formation.

MR. STONE: Thank you; which customers use the long chain and which use the regular chain?

MS. STACHIW: It depends on the application. The long chain is typically used in beverage formulations. It's used in meat applications. It can be used in the some dairy. The regular chain is more common in most of the industrial applications. But I mean, it could be long chain, as well. There are differences and reasons why you might want to use one over the other. They have different PH values. A longer chain has a higher charge, a higher data potential. So it gives more defloculation. So there might be reasons why you want one over the other, and that's up to the customer in their formulation.

MR. STONE: Also, about the Chinese

production, are they using similar furnaces? Are they fired by natural gas, or does anyone use coal, or do you know how they're made?

MR. MOFFATT: I personally don't have too much knowledge in that area, to be honest with you.

MR. TREINEN: The only thing I can say in that regard is that the furnace that we had in Canada, before we shut it down, was originally fired with fuel oil, and then we converted to gas. So certainly, you can produce with either fuel. But I have no knowledge of what's used in China.

MR. STONE: Thank you, that was all the questions I have.

MR. CARPENTER: Mr. Deyman, the supervisory investigator?

MR. DEYMAN: Good afternoon, George Deyman, Office of Investigations -- do you have any information on the market for SHMP in China? Do you know of any sources?

MR. CANNON: No, not other than what SRI says about it -- we don't really have information on that.

MR. DEYMAN: One of you mentioned earlier that among the products that are imported and classified under the same statistical reporting number

as SHMP are -- and I hope I got this right -- di-sodium pyrophosphate and tetra sodium pyro pyrophosphate. Do you know if those products are imported from China into the United States?

MR. KEMP: They may be. We certainly don't encounter them in the marketplace. Based on the assessment that Jim presented, of how closely the ships manifest data on the sodium hex balance for the total imports in that category -- clearly, there may be a container or two. But it certainly didn't appear to be major.

MR. DEYMAN: Okay, good, that's helpful. Also, the Procter and Gamble product that was in your chart -- sodium tri-polyphosphate -- does that come in under the same statistical reporting number?

MR. KEMP: That's a category of it's own. It's in 2835, but it's large enough where it's actually got it's own tariff code, and that's for detergent.

MR. DEYMAN: Okay, one of you mentioned earlier that the product from Mexico and China and the U.S. product are substitutable. Does that, Mr. Cannon, mean that this is a commodity product?

MR. CANNON: For some end users, it's a chemical product, and if it meets the chemistry, it

can be substituted. They could stir Innophos together with ICL, and mix in the Chinese, too, and that's a commodity.

For some end users, particularly for things like meat, seafood, poultry, or beverage or higher end applications, niche applications, they might have a spec; in which case, it starts to lose some of that commodity aspect, to some degree. However, the Chinese are also able to make to the spec. I think there's a reasonable overlap.

MR. DEYMAN: Okay, thank you; is there any blending of the Chinese or other imported product with each other, or with the U.S. product in the U.S. market? I mean, do I need distributors, for example, to buy from various sources and then blend the product together?

MR. TREINEN: I believe some distributors buy it from multiple sources. But I can't imagine why they would blend the product, because they have to show the country of origin. Yes, I was talking hypothetically, and that's always dangerous to let me talk.

You have to have that certificate of analysis -- those three pages -- and you have to give that to the customer, because that's what they buy.

They buy that package like you have there, with that certificate of analysis, which is the first three pages of our handout. So you couldn't mix, because then you couldn't give the customer a certificate analysis.

So even in the distribution chain, the large distributors wouldn't do what I was saying. They wouldn't. Now an end user who is in a clay mine, at the mind dumping bags of this stuff into the water to help the slurry, to help the clay move along -- they could dump a bag of ICL product, and then right after that, dump a bag of Innophos product. In that regard, they would be mixing it.

But a distributor wouldn't do that, because they would lose that traceability aspect on that certificate, correct?

MR. DEYMAN: Okay, in the samples that you passed around earlier, the bottle with the crushed product was labeled, I believe, "food grade," and the bottle with the chunk product was labeled "technical grade." Is that right, Phillip? I'm still learning about the product. But is the food grade always crushed, and is the technical always in chunks; or is it just that's the way it happened to be in your sample?

MS. STACHIW: We wanted to send a representative amount of samples. We have food and type grades of all the different grades. So we wanted to send one food and one technical.

MR. DEYMAN: Okay, that's helpful, thanks. My last question is, I believe that it was mentioned that ICL has separate furnaces for the food grade and the technical grade product. Do you keep separate financial data for the two grades?

MR. MOFFATT: Effectively, the answer is no. We effectively look at this as one business.

MR. DEYMAN: Okay, thank you, I have no further questions.

MR. CARPENTER: Are there any additional questions from staff; Ms. Baker?

MS. BAKER: Debra Baker, Office of Investigations -- to follow-up on a couple of Phillips' questions, perhaps it would be helpful for the post-conference brief, if you could prepare like two grids; maybe one separately for food grade and one separately for technical grade, with the end users across the top and then the different types of product down -- you know, crushed, granular, powder.

Then in the grids, just fill in the end users. Actually, we'd be putting end user in the

cells of the grid. They wouldn't be on the top grid. But it would be just to indicate both where the different types of product go by end use. That would also show if you didn't have a particular type of product.

In other words, if you didn't have crushed food grade, that would also show up. I wouldn't fill in quantities or numbers necessarily, but just a qualitative grid.

MR. CANNON: Yes, I think so. I think you're asking, like, a matrix,

MS. BAKER: Precisely.

MR. CANNON: Then in the boxes, we could put regular chain or long chain, and tack food across the top and the uses down the side.

MS. BAKER: Well, maybe do two separate grids -- because I think the end uses for food and technical are so separate.

MR. CANNON: Okay.

MS. BAKER: You could maybe just have two separate grids, and then in the cells themselves, perhaps put the end uses and then the product characteristics against the top. Maybe we could talk further as you're doing it, or whatever seems to make sense.

MR. CANNON: Yes, I think we can do that.

MS. BAKER: Okay, and also to follow up on something that Phillip had asked, in terms of what fuels or energizes the Chinese furnaces, there's very limited information about the Chinese industry on the record.

But what we have downloaded from the Web does talk about the impact of the Three Gorges or the completion of the Three Gorges Dam on the operations of the largest Chinese producer who, of course, produces many products in addition to sodium hex.

I mean, I would think that the dam would primarily promote their development in terms of electricity; whereas, I see, of course, the natural gas.

MR. CANNON: Electricity is what you need at the mine. Because they need to convert the rock into phosphorous. Then you need electricity to take the phosphoric acid.

Natural gas is what you need in the furnace when you take that phosphoric acid and you make SHMP. So natural gas comes in more to play, say, at their furnace.

MS. BAKER: That's exactly what I was asking.

MR. CANNON: The electricity is more important. It may even be the most significant cost back at the mine or at the processing of the phosphate rock.

MR. TREINEN: Just one correction to what Jim said, the electricity is not used to convert phosphorous to acid; but rather in the production of phosphorous. It's the major cost in the production of phosphorous from rock. It's the election reduction process.

So once that's produced, Jim is right. You then convert the phosphorous to acid and that's used downstream, and then the natural gas comes in when you produce the SHMP.

MS. BAKER: Thank you, that was my exact question -- no recent to directly tie these reports to the production of the SHMP itself, directly. What's going to fuel these furnaces is either natural gas or perhaps, as Phillip asked, another fossil fuel.

Okay, thank you, the third question I have is about ICL Germany. Did I understand you correctly, Mr. Moffatt, that you are affiliated to another firm, ICL Germany, that produces SHMP in Germany?

MR. MOFFATT: Yes, that is correct. The company goes by the name of BEKAPHOS or BK Giulini,

and they are also a wholly-owned company of the ICL group.

MS. BAKER: Okay, we had requested separate data on Germany in the importers' questionnaire, but have not yet received any real data on imports of the product from Germany. Would it be possible to double check with your affiliated firm to see if they can report any U.S. exports of the product from Germany; or at least find out whether they are, in fact, exporting the product from Germany to the United States?

MR. MOFFATT: In terms of SHMP.

MS. BAKER: Yes.

MR. MOFFATT: The only SHMP we have imported has been the small amount that we talked about earlier.

MS. BAKER: Right, but not just to you directly, but to other U.S. customers.

MR. MOFFATT: No, I understand.

MS. BAKER: We're trying to measure the market as a whole.

MR. MOFFATT: I'll make sure, but my belief is, we have been doing that.

MS. BAKER: Okay, that would be helpful in cleaning up the import statistics. Secondarily, if

you could also find out if there are any other German producers of the product, that would be helpful.

Last of all, with reference to misclassification, I think you had indicated in the petition that you were not aware of any misclassification. Sometimes we do get petitions where firms are aware of it. Is that something that you somehow try to track or monitor through some sort of commercial on-line service?

The reason I'm asking is, we do have one report so far of the product being misclassified under, I believe it's sodium tripolyphosphate. George did much better than I did on the pronunciation.

I mean, how could a firm do that? Those are two separate chemicals and, as you indicated, it has it's own HTS classification. Is there something about those two that are so similar, that that could be a logical error on the part of the broker, number one? Number two, is there any reason to think there might be other such misclassifications out there?

MR. CANNON: That particular break-out is at the "A" digit level. One is the .1000 and the other one is the .5000, and there's no tariff impact.

MS. BAKER: Precisely.

MR. CANNON: So it's possible that a broker

might have entered it under the 1,000 category, instead of the 5,000. Since there's no tariff impact, it wouldn't be the type of thing that there might be a lot of diligence by Customs in terms of correcting it. It's just a statistical.

In fact, there could be imports. We recognize the limitations of the database we're doing. We think that between the ship's manifest and the Census data, that's as good as we're able to do.

MS. BAKER: Okay, thank you, that's all I have.

MR. CARPENTER: On behalf of the Commission and the staff, I want to thank the witnesses who came here today, as well as counsel, to share your insights with us, to help us develop the record in this investigation.

Before concluding, let me mention a few dates to keep in mind. I understand that importer questionnaires and foreign producer questionnaires have been late in arriving and, as a result, we haven't been able to provide an APO release at this point.

Because of that, and also because of all the additional information that we've asked you for in your brief, we are going to give you a one day

extension on the brief. Therefore, the deadline for the submission of corrections to the transcript and for briefs in the investigation will be Wednesday, March 7th. If briefs contain business proprietary information, a public version is due on March 8th.

The Commission has tentatively scheduled its vote on the investigation for March 23rd at 11:00, and will report its determination to the Secretary of Commerce on March 26th. Commissioners' opinions will be transmitted to Commerce on April 2nd.

Thank you for coming. This conference is adjourned.

(Whereupon, at 12:29 p.m., the hearing in the above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Sodium Hexametraphosphate from China

INVESTIGATION NO.: 731-TA-1110 (Preliminary)

HEARING DATE: March 1, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: March 1, 2007

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

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

SIGNED: Carlos E. Gamez
Signature of Proofreader

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

SIGNED: Christina Chesley
Signature of Court Reporter