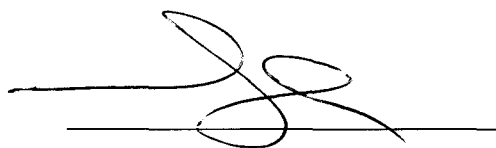


## **Report No. 246**

# **Investigation into the alleged dumping of citric acid originating in or imported from the People's Republic of China: Preliminary determination**

The International Trade Administration Commission of South Africa herewith presents its **Report No. 246: INVESTIGATION INTO THE ALLEGED DUMPING OF CITRIC ACID ORIGINATING IN OR IMPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA: PRELIMINARY DETERMINATION**

A handwritten signature in black ink, consisting of a series of loops and a horizontal line, positioned above a solid horizontal line.

**Itumeleng Masege**  
**ACTING CHIEF COMMISSIONER**

**PRETORIA**

12/9/ 2007

# **INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA**

## **INVESTIGATION INTO THE ALLEGED DUMPING OF CITRIC ACID ORIGINATING IN OR IMPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

### **SYNOPSIS**

On 23 February 2007, the International Trade Administration Commission of South Africa (the Commission) formally initiated an investigation into the alleged dumping of citric acid originating in or imported from the People's Republic of China (PRC). Notice of initiation of the investigation was published in Notice No.194 of 2007 of *Government Gazette* No. 29636 dated 23 February 2007.

The Application was lodged on behalf of the Southern African Customs Union (SACU) industry by Isegen South Africa (Pty) Ltd (Isegen), being the sole manufacturer of citric acid in SACU, which claimed that dumped imports were causing it material injury.

The investigation was initiated after the Commission considered that there was sufficient evidence to show that the subject product was being imported at dumped prices, causing material injury to the SACU industry.

Upon initiation of the investigation, known producers and exporters of the subject product in the PRC were sent foreign manufacturers/ exporter's questionnaires to complete. Importers of the subject product were also sent questionnaires to complete. The information submitted by the importers of the subject product, CJ Petrow Chemicals and Protea Chemicals was verified on 1 June and 2 August 2007 respectively. The information submitted by the exporters of the subject product, Anhui BBKA Biochemical Co. Ltd (BBKA), Shangdong TTCA

Biochemistry Co. Ltd (TTCA) and RZBC Co. Ltd (RZBC) was verified from 11 June to 22 June 2007. The China Chamber of Commerce of Metals Mineral and Chemical Importers and Exporters (CCCMMC) also submitted detailed information regarding malic and citric acid.

The Commission made a preliminary determination that citric acid and malic acid are not like products for purposes of comparison, in terms of article 2.6 of the Anti-Dumping Agreement. The Commission, therefore, made a preliminary determination to recommend to the Minister of Trade and Industry that the investigation be terminated.

<b>1. APPLICATION AND PROCEDURE</b>
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- 1.1 The Application was lodged by Isegen South Africa (Pty) Ltd (Isegen) (the Applicant), being the sole manufacturer of malic acid in the SACU.
- 1.2 The application was accepted by the Commission as being properly documented in accordance with Article 5.2 of the Anti-Dumping agreement on 13 December 2006. The trade representative of the country concerned was advised accordingly.
- 1.3 The Applicant alleged that citric acid originating in or imported from the PRC were being dumped on the SACU market, thereby causing and threatening to cause material injury to the SACU industry manufacturing malic acid. The basis of the alleged dumping was that citric acid is being exported to SACU at prices less than the normal value in the country of origin.

The Applicant alleged that as a result of the dumping of citric acid from the PRC, the SACU industry was suffering material injury in the form of price undercutting, decline in sales, decline in profit, decline in market share, decline in return on investment, negative growth, decline in output and negative effect on cash flow.

- 1.4 The Commission formally initiated an investigation into the alleged dumping of citric acid originating in or imported from the PRC pursuant to Notice No. 194 of 2007 which was published in *Government Gazette* No. 29636 on 23 February 2007.

Prior to the initiation of the investigation, the trade representative of the country concerned was notified of the Commission's intention to

investigate, in terms of Article 5.5 of the Anti-Dumping Agreement. All known interested parties were informed and requested to respond to the questionnaires and the non-confidential version of the application.

The information submitted by the importers of the subject product was verified on 1 June 2007 and 2 August 2007. The information submitted by the exporters of the subject product was verified from 11 to 22 June 2007.

The Commission made a preliminary determination that citric acid and malic acid are not like products for purposes of comparison, in terms of article 2.6 of the Anti-Dumping Agreement. The Commission, therefore, made a preliminary determination to recommend to the Minister of Trade and Industry that the investigation be terminated.

1.5 The investigation period for dumping is from 1 July 2005 to 31 August 2006. The injury investigation involved evaluation of data for the period 1 March 2003 to 31 August 2006.

1.6 The SACU industry consists of only one producer of malic acid, namely Isegen South Africa, who submitted the application.

1.7 The following exporters/ manufactures responded to the Commission's exporters questionnaires:

(a) Anhui BBKA Biochemical Co. Ltd (BBKA)

(b) Shangdong TTCA Biochemistry Co. Ltd (TTCA)

(c) RZBC Co. Ltd (RZBC)

Information submitted by the exporters was verified from 11 to 22 June 2007. No other exporters or manufacturers in the PRC responded to

the Commission's exporter's questionnaire.

1.8 The following SACU importers were identified as interested parties:

- (a) Metmar Trading
- (b) Crest Chemicals
- (c) CJ Petrow Chemicals
- (d) Protea Chemicals
- (e) Savannah Fine Chemicals

## **2. PRODUCTS, TARIFF CLASSIFICATION AND DUTIES**

### **2.1 IMPORTED PRODUCTS**

#### **2.1.1 Description**

The subject product is described as citric acid, and is normally manufactured in two forms, namely citric acid monohydrate (CAM) and citric acid anhydrous (CAA). They are both white crystalline white powders, except that anhydrous citric acid is water free whereas monohydrate citric acid contains one water molecule for every molecule of citric acid.

#### **2.1.2 Tariff classification**

The subject product is classifiable as follows:

Tariff subheading	Description	Statistical Unit	Rate of customs Duty		
			General	EU	SADC
2918.14	Citric acid	kg	10%	10%	Free

#### **2.1.3 Other applicable duties and rebates**

Currently, rebate item 306.02/2918.14/01.06 is used to rebate duties on citric acid for the manufacture of pharmaceutical products. The extent of rebate is full duty.

#### **2.1.4 Import Statistics**

The import statistics, as contained in paragraph 5.1.1 of this report, indicated that the volume of the alleged dumped imports of the subject product from the PRC accounted for 81.7 per cent and 88 per cent of the total imports during the financial years 2003/4 and 2005/6 respectively.



#### **2.1.5 Country of origin/export**

The subject product originates and is exported from the People's Republic of China (PRC).

#### **2.1.6 Application/end use**

Used as an acidulent in the food and beverage market. Non-food use includes pharmaceuticals and cosmetics, household detergents and cleaners, metal finishing and cleaning, and as a starting material for citrate plastisizers

#### **2.1.7 Production process**

Fermentation of carbohydrates is the preferred process for citric acid production. Starches are first hydrolyzed to sugars and then fermented to citric acid using propriety strains of the *Aspergillus niger* mould. Extensive purification of the fermentation broth is then undertaken to yield CAM, which can be recrystallised and dehydrated to produce CAA.

### **2.2 SACU PRODUCT**

#### **2.2.1 Description**

Malic acid (also known as "apple acid") is a synthesized white odourless, free flowing granular, which occurs in nature in virtually all fruits and vegetables and forms an integral part of the Krebs Cycle in the human body. It has a refreshing mellow smooth enduring sourness, intensifying the impact of many flavours in foods and beverages. According to the Applicant, its malic acid is the only granular malic acid manufactured in the world and is therefore unique.

### **2.2.2 Application/end use**

Used as an acidulent in the food and beverages to provide the lingering tart taste. Used for masking the bitter/sweet after-taste of artificial sweeteners used in low calorie foods and drinks. It also finds industrial use in textile finishing, metal treatment and plating, and in detergent formulations. It is also used by the pharmaceutical industry.

### **2.2.3 Tariff classification**

The SACU product is classifiable under tariff subheading 2918.19.10

### **2.2.4 Production process**

Butane is catalytically oxidized to maleic anhydride in process reactors, with the generation of excess steam. The maleic anhydride is then hydrolysed to maleic acid, which is converted to malic acid by heating with steam under pressure. The final step entails the granulation, purification, drying, and packing of the malic acid.

## **2.3 LIKE PRODUCTS**

### **2.3.1 General**

In order to establish the existence and extent of injury to the SACU industry, it is necessary to determine at the outset whether the products produced by the SACU industry are like products to those originating in or imported from the PRC.

For likeness test the Commission considers inter alia, the criteria in table 2.3.2.

## 2.3.2 Analysis

**Table 2.3.2: Like product** (Information from the applicant and exporters)

Criteria	Imported product: CITRIC ACID	SACU product: MALIC ACID
Raw materials	Starch or sugar. Other sugar containing material such as molasses can also be used.	Maleic anhydride and water. The latter is produced in-house from butane received from the adjacent Sapref oil refinery. Steam and electricity are secondary inputs. All raw materials are sourced in the RSA
Physical appearance	Colourless and odourless powder with a strong acidic taste. It is commonly available in either the hydrated form or the anhydrous form. Its scientific name is 2-hydroxy-1,2,3-propanetricarboxylic.	It is a colorless granular powder with a sour taste. Scientific name L-Hydroxy butanedioic acid.
Tariff classification	2918.14	2918.19.10
Production process	Fermentation of carbohydrates is the preferred process for citric acid production. Starches are first hydrolyzed to sugars and then fermented to citric acid using propriety strains of the <i>Aspergillus niger</i> mould. Extensive purification of the fermentation broth is then undertaken to yield CAM, which can be recrystallised and dehydrated to produce CAA.	Butane is catalytically oxidized to maleic anhydride in process reactors, with the generation of excess steam. The maleic anhydride is then hydrolysed to maleic acid, which is converted to malic acid by heating with steam under pressure. The final step entails the granulation, purification, drying, and packing of the malic acid.
Application or end use	Used as an acidulant in the food and beverage market. Non-food use includes pharmaceuticals and cosmetics, household detergents and cleaners, metal finishing and cleaning, and as a starting material for citrate plasticizers	Used as an acidulant in the food and beverages to provide the lingering tart taste. Used for masking the bitter/sweet after-taste of artificial sweeteners used in low calorie foods and drinks. It also finds industrial use in textile finishing, metal treatment and plating, and in detergent formulations. It is also used by the pharmaceutical industry.
Substitutability	Characteristics and functions of citric acid and malic acid are distinctly different, they do not have the same end use, and therefore they are not substitutable in most applications.  In certain applications citric and malic acid need to supplement each other. Even under these	The local product is chemically distinct from the imported citric acid but is regarded as a substitute product for citric acid in some applications.

	<p>circumstances more citric acid is added in comparison to malic acid.</p> <p>In the beverage industry, some manufacturers exclusively use citric acid but never malic acid based on product formulation.</p> <p>Best performer and excellent additive when utilized as an acidulant in aquaculture feed.</p>	
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The Commission conducted further research to determine the degree of substitutability as well the likeness of the two products. The Commission interviewed academics, importers as well as the end-users of the two products. The Commission established that the two acids are formulated from different sources, citrus fruit and apples. Although they are both organic acids they have different scientific formulas, therefore different chemical structures. Different chemical structures make them not to be fully interchangeable.

Both acids have common usage in food and beverage sectors. The choice of usage depends on the taste that the product developers desire to achieve. Different flavour profiles influence the appropriateness of an acid from application to application and therefore cannot be regarded as substitutes. The two products are used as complements in some products.

The two products may not be interchangeable at all in pharmaceuticals. Any change from the use of one acid to the other would require a new application with the Medical Control Council of South Africa for approval. It may also affect tablet hardness and disintegration time, and there is therefore no guarantee that it would work. In the beverage sector there is no difference in taste between malic and citric acid especially for energy drinks, according to Tiger Brands

The Commission found that there are quite a number of acids utilized in beverages i.e. fumaric, tartaric, lactic, citric and malic acid. All these acids have different flavour/ taste profiles and they have different usage within the industry. Their usage/selection depends on the flavour that the product developers desire to achieve. As a result in the production of certain end -use products they are even utilised as a combination, therefore complementary. The exclusive use of the acid is greatly influenced by the taste/flavour profile of the acid.

The Commission made a preliminary determination that malic and citric acid are not fully substitutable, and are therefore not like products for purposes of comparison in this investigation, in terms of Article 2.6 of the Anti-Dumping Agreement.

Interested parties will be invited to submit comments and make representations on the preliminary determination within the specified time periods, which the Commission will consider prior to making its final determination and recommendation to the Minister of Trade and Industry.

<b>4.       INDUSTRY STANDING, DUMPING, MATERIAL INJURY AND CAUSAL LINK</b>
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Since the Commission found that citric acid and malic acid are not like products for purposes of comparison in terms of article 2.6 of the Anti-Dumping Agreement, it did not consider the matters of industry standing, dumping, material injury and causal link.

## **5. PRELIMINARY DETERMINATION**

The Commission made a preliminary determination that:

- the imported product, citric acid, and the SACU like product, malic acid, are not “like” products for purposes of comparison, in terms of article 2.6 of the Anti-Dumping Agreement;
- Since the Commission found that citric acid and malic acid are not like products for purposes of comparison in terms of article 2.6 of the Anti-Dumping Agreement, it did not consider dumping, material injury and causal link.

The Commission, therefore, made a preliminary determination to recommend to the Minister of Trade and Industry to terminate the investigation.

Interested parties will be invited to submit comments on the preliminary determination within the specified time periods, which the Commission will consider prior to making its final determination and recommendation to the Minister of Trade and Industry.