UNITED STATES SENATOR · MAINE

SUSAN COLLINS

P R E S S   R E L E A S E

International Trade Commission
Coated Free Sheet Paper from China
Testimony of Senator Susan Collins (R-ME)
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Mr. Chairman and Members of the Commission, I appreciate the opportunity to testify before you today as you consider, for the first time ever, whether Chinese subsidies are causing injury to a United States industry.

Our nation's manufacturers and their employees can compete against the best in the world, but they cannot compete against nations that provide huge subsidies and other unfair advantages to their producers. Time and time again, I hear from Maine manufacturers whose efforts to compete successfully in the global economy simply cannot overcome the practices of illegal pricing and subsidies of nations such as China. The results of these unfair practices are lost jobs, shuttered factories, and decimated communities.

Over the past decade China has undergone a significant economic transformation, and today China's economy is no longer completely owned and controlled by the government. The problem is not China's economic liberalization and modernization, however. The problem is that while China is becoming a key international economic player, it has repeatedly refused to comply with standard international trading rules and practices. These violations include the use of subsidies and other economic incentives that are designed to give its producers an unfair competitive advantage.

I have long been a proponent of applying our nation's countervailing duty laws to China. For the past four years, I have introduced a bipartisan, bicameral bill called the "Stopping Overseas Subsidies Act" to ensure that the Department of Commerce treats countervailing duty petitions filed against China the same way as the Department does in cases filed against our other trading partners. I have been concerned for many years by this unequal treatment.

I was very pleased when, on November 22, 2006, the Department of Commerce finally accepted the first countervailing duty petition against a non-market economy since the 1986 court decision. This is the case you are considering today filed by NewPage Corporation, a coated free sheet paper company with operations in Maine, Ohio, Michigan, Kentucky, and Maryland. Despite its efficient, state-of-the-art mills, skilled and dedicated employees, strong relationships with customers, strategically located mills and distribution facilities and growing markets for its products, NewPage has been forced to curb its production lines as a result of unfair foreign competition.

U.S. paper mills, including several mills in Maine, enjoy a huge competitive advantage over producers in other parts of the world. In Maine, we have an abundant supply of the primary renewable resource -- timber -- which produces very high quality pulp for paper production. We have ample hydroelectric power to run our mills, and we have the best trained, the most efficient, and most dedicated paper workers.

With this winning combination, U.S. producers should easily succeed in this market, but instead we have witnessed large market share increases from countries like China that don't even produce their own pulp. There is a reason for that – China cheats. The government of China has targeted its domestic coated paper industry with subsidies that have directly hurt U.S. producers like NewPage. For example, the Chinese government provides low-cost policy loans through government-owned banks. It also provides grants for the development of new paper capacity, and tax breaks based on export performance and domestic equipment purchases.

In the NewPage case, the Department of Commerce found in its recent investigation that China has used a number of subsidies considered illegal under WTO rules to give its paper industry an advantage – including policy loans to the paper industry; income tax reductions for foreign-invested companies; exemptions and reductions of local income taxes for foreign-invested companies; value-added tax rebates on purchases of domestically produced equipment; tariff exemptions on imported equipment; and grants to state-owned enterprises.

The result is that in the United States, Chinese coated free sheet imports have increased by an average 75 percent annually over the past four years, despite the Chinese having to ship their products thousands of miles to reach the U.S. market Ironically, and in contrast to U.S. paper producers, China has no natural advantage in the production of paper. It does not have an abundant supply of the requisite inputs and must import much of the pulp that it uses to make paper. It is only because of illegal subsidization that China can compete in the paper products market in the U.S. and Europe.

Unfortunately, this behavior is no surprise. In its 2006 Report to Congress, the U.S.-China Economic and Security Review Commission, a bipartisan organization established by Congress in 2000 to provide recommendations to Congress on the relationship between the United States and China, noted, "China has a centralized industrial policy that employs a wide variety of tools to promote favored industries. In particular, China has used a range of subsidies to encourage the manufacture of goods meant for export over the manufacture of goods meant for domestic consumption, and to secure foreign investment in the manufacturing sector."

Similar conclusions are contained in the United States Trade Representative's 2006 Report to Congress, which concludes, "China continues to pursue problematic industrial policies that rely on trade-distorting measures such as local content requirements, import and export restrictions, discriminatory regulations and prohibited subsidies, all of which raise serious WTO concerns."

These practices run counter to China's obligations under its 2001 World Trade Organization accession agreement. In its accession protocol, China explicitly agreed that it would be subject to the subsidy disciplines of other member countries. In fact, it agreed to specific provisions in Article 15 of the protocol which permit WTO countries to use alternative benchmarks for measuring subsidies in China.

Unfair trade practices in China and other countries have had a tremendous negative effect on many industries in Maine. The pulp and paper industry in Maine has often been referred to as the "backbone" of my State's economy, and with good reason. The industry contributes nearly $1.5 billion to the state's GDP every year. In total, the pulp and paper industry accounts for 22 percent of all manufacturing wages in the state. In some communities, the mill can represent 60-80 percent of total tax revenues and be the only major employer in the whole community. When machines or mills are shut down, it is, quite simply, devastating. And Maine has lost nearly 600 jobs in the coated free sheet, uncoated free sheet and uncoated groundwood sectors due to machine and mill closures over the last five years. This means the loss not only of the jobs of the paper workers themselves, but also the jobs that are dependent on these primary jobs. For every job directly lost at a paper mill, another 2-3 jobs are indirectly affected, including transportation and service-related jobs.

Three producers in Maine make coated free sheet paper. NewPage has a mill in Rumford, Maine. Verso Paper has two mills, one in Bucksport and one in Jay, Maine. And Sappi Fine Paper North America has two mills, one in Westbrook and the other in Skowhegan, Maine. Altogether, some 4,000 workers in Maine derive their employment from the production of coated free sheet paper. I am very proud of these producers. The mills are efficient and up-to-date. They employ sustainable forestry practices that ensure a viable long-term supply of timber, while protecting our environment. But I am deeply worried. Already, Sappi shut down one of its coated free sheet machines in Westbrook, Maine. NewPage had a temporary shut down of one of its machines in Rumford during the first quarter of this year. These mills need to have a healthy rate of return that will not only allow them to stay in business, but to be able to invest in upgrades and the latest production technologies. In a capital-intensive industry like this one, capital investment is critical.

I also am concerned that without offsetting duties to counteract the unfair trade, we might see a continued tidal wave of imports, particularly from China. The industry has provided you with data that shows that between now and the end of 2009, the Chinese industry will add some three million tons of new-coated free sheet capacity. This is the equivalent of one half of all U.S. production in 2006.

Given these circumstances, I urge you to consider the record carefully, as I believe you will find that if the violations of international trading rules and practices are not properly addressed, Maine's proud tradition of the pulp and paper industry could ultimately be lost to unfairly advantaged foreign competition.

Thank you very much for allowing me to speak to you today.