

**TESTIMONY OF S. B. LEE
DIRECTOR OF OVERSEAS SALES,
KYESUNG GROUP**

Good afternoon Mr. Chairman and members of the Commission. My name is SB Lee. I am the Director of the Overseas Department of Kyesung Paper Co., Ltd. Kyesung is affiliated with Namhan Paper Co., another Korean producer of coated free sheet paper. I act as the Director of overseas sales for both companies. Kyesung and Namhan are the oldest Korean exporters of CFS Paper.

Until this year, Kyesung produced CFS paper in its only facility located in Osan, Korea and Namhan has three other facilities. In 2005, Kyesung/Namhan began to reduce their exports to the United States as part of our overall restructuring. In early 2006, Kyesung made its decision to close its Osan facility completely and consolidate all CFS production into Namhan's more efficient mills. This decision was due to the fact that the Osan plant was a high cost and inefficient facility.

As a result of this closure, Kyesung eliminated approximately 78,000 tons of paper making capacity from the Korean market and consolidated its production in the more efficient Namhan plants.

I will be happy to answer any questions.

TESTIMONY OF LEONARD ARONICA CEO, GRAPHIC PAPER INC.

Good afternoon Mr. Chairman and members of the Commission. My name is Leonard Aronica and I am the C.E.O. of Graphic Paper Inc., a family-owned paper distributor and converter located in Central Islip, New York. I began working in the paper industry in 1986 for my father who owns a paper brokerage company. We have one subsidiary located in Mansfield, Massachusetts. Our combined companies have 105 employees in the United States.

Graphic Paper has distribution facilities in New York, New Jersey and Massachusetts allowing us to distribute paper throughout the Northeast.

This investigation is important to Graphic Paper and its employees because we rely on imported coated free sheet paper from Korea to run our business. In fact, all the CFS we sell is imported either from Europe or Asia. We have no domestic suppliers. We have tried, since the mid-1990's, to become a distributor for domestic manufacturers. However, the domestic manufacturers limit their distribution in each region. Feeling frustrated with our inability to grow our business with domestic manufacturers, we took on suppliers from Europe and Asia to satisfy our growing customer base. Italy is our current source of European CFS. We continue to seek domestic supply, but we have not been successful. We have been told that since we don't have any large web printing accounts, which is the

primary business of domestic manufacturers, they cannot risk upsetting their national distribution by adding a regional merchant.

Imports play a vital role in the U.S. market for coated freesheet. The shortfall in the domestic production is supplied by Asian and European imports, which are an important component of the U.S. coated paper market. The Korean and European prices for sheet are generally competitive with each other.

Printers depend on the runability and reliability of the paper. Consistency of quality is the most important factor in our customers' purchasing decisions. This is not to say that prices are not important. But quality issues trump price in terms of what most of our customers demand from us. Inconsistencies in quality lead to delays and production problems. We have found that of all the Asian suppliers, Korean paper is of the highest quality.

The Korean manufacturers have been a long-term and steady supplier to the U.S. market. It has been my experience that they have always taken a cautious and commercial approach to the U.S. market. The Korean manufacturers have not been the price leader; their pricing has always been consistent with market conditions.

Korean manufacturers, and for that matter all foreign manufacturers of CFS, face a number of competitive disadvantages in the U.S. market. U.S. manufacturers are closer to their customer base, and provide marketing support, technical and logistical support and an extensive sales and distribution network. In

In addition, U.S. manufacturers can ship merchandise out almost immediately, while imports from Asia take anywhere from 10-12 weeks to reach the United States. As already discussed, U.S. manufacturers offer a full line of products, including both web and sheet products in a wide variety of sizes and specifications. U.S. manufacturers have the flexibility to offer custom sheet sizes, for example, while Korean manufacturers supply only pre-cut sizes of CFS sheets to the U.S. market and only in standard sizes.

To accurately compare the cost of domestic CFS to imported CFS, you must account for the impact of these competitive disadvantages faced by imports. Since the lead-time for most Asian suppliers is 10-12 weeks, the distributor of imported CFS must keep anywhere from 10-12 weeks of inventory on the floor. We estimate the cost of capital and warehousing associated with these inventory and lead time requirements to be as much as \$50-60 per short ton. These costs must be added to the purchase price in comparing the real cost to the distributor for imported CFS.

Additionally, most of our customers cannot unload overseas containers directly shipped to them. As imported CFS comes in large bulk shipments that need to be unloaded from overseas containers, this means paper needs to be unloaded into a warehouse, and then reloaded into delivery trucks to be delivered to our customers. The domestic mills ship products directly to the printers so the

merchants avoid these costs. We estimate the cost of these logistics to be as much as \$30-40 per ton.

Finally, most imported CFS is sold without any marketing support from the manufacturer. These additional marketing costs are also borne by the distributor.

In short, it is more expensive to be a distributor of CFS from Asia than it is to be a distributor of domestically produced paper, and this is reflected in the price at which paper is imported from Korea or Asia.

There has been discussion today about the distinctions between web rolls and sheets. Based on my experience, the web-roll and sheet markets are separate segments of the CFS market. Due to the differences in coating, moisture, and heat resistance between web rolls and sheets, domestic manufacturers will not guarantee their paper if you use web rolls for a sheet fed press or sheeter rolls for a web offset press.

To my knowledge, the Korean manufacturers do not ship any web rolls to the U.S. market and only a limited amount of sheeter rolls. Of the total tonnage we import from Korea only a small percentage is sheeter rolls. This is because CFS in roll form is very costly to ship.

Thank you and I would be happy to answer any questions the Commission or staff may have.

**TESTIMONY OF RONNIE H. DAVIS, PH.D.
VICE PRESIDENT AND CHIEF ECONOMIST, PRINTING
INDUSTRIES OF AMERICA/GRAPHIC ARTS
TECHNICAL FOUNDATION**

Good afternoon Mr. Chairman and members of the Commission. My name is Ron Davis and I am the Vice President and Chief Economist for the Printing Industries of America/Graphic Arts Technical Foundation, which is a business association representing approximately 8,000 printing firms and around 2,000 industry suppliers in North America.

I have been with PIA since 1988. My job responsibilities include economic and market research, economic forecasting, and industry and public policy analysis.

The U.S. printing industry ranks high on the list of U.S. manufacturing industries by total shipments and total employment. The dollar value of printing shipments produced by U.S. printing plants was \$171.5 Billion in 2006, an increase of approximately 3.3 percent (\$5.3 Billion) over 2005 levels.

Coated Free Sheet paper is used extensively to produce magazines, brochures, annual reports, *etc.* The domestic coated paper producers do not have the capacity to supply the entire market, so imports are essential to the market. In fact, even with imports being present, some of our members have

complained from time to time about being put on allocation by domestic suppliers.

According to our Members on the West Coast, the problem of supply is especially acute there. The majority of U.S. CFS production is centered in the East and Mid-West. Imports, on the other hand, have long had a strong and important presence on the West Coast, both because of relatively low transportation costs and because they fill a market need.

There has been a lot of discussion today about the distinctions between sheet fed printing and web offset printing. As someone who has particular expertise in the printing industry, I can say that the U.S. market for coated free sheet paper is segmented between coated free sheet paper in web form and sheet.

The type of paper that a printer will purchase depends on the type of press that it runs. If the printer runs a sheet-fed press, then it will use sheets. If a printer runs a web-offset press then it will buy web rolls. Generally, sheets and web rolls are not interchangeable because they are designed for use in distinct and different printing processes. CFS web rolls must have higher heat resistance and lower moisture content in order to withstand the web-offset printing process. Specifically, because web-offset printing uses heat to set the ink – rather than air drying as in sheet-fed printing – CFS web

rolls require lower moisture content than sheets, as well as the use of slightly different types of latex (included in the coating) in order to withstand the heat without blistering. Web printing is also generally used in high volume jobs.

Printers normally run either web offset presses or sheet fed presses. A relatively small share of printers own both types of presses. Even printers with both types of presses, however, still require the correct paper type for each press. Printers who have dual capability typically base their decisions on which type of press to use for a particular job depending on the length of run and the nature of the job. Traditionally, sheet-fed presses were preferred for shorter runs and for very high-quality runs, while web presses were used for long runs. However, in recent years, web printing technology has improved, and printers are now able to get nearly the same quality from a web press as from a sheet-fed press.

Some printers have the capability to purchase CFS in roll form and then cut it into sheets themselves (or hire a converter to do it for them) and then use the resulting sheets in a sheet-fed printing press. In these instances, they purchase special CFS rolls, called sheeter rolls, that are designed and marketed for that purpose. It is of course theoretically possible to cut a web-roll into sheets for use in a sheet-fed press, but in my experience it is rarely

done. There is simply no reason to do so since U.S. producers offer sheeter rolls, which are expressly designed to make sheets for sheet-fed presses.

CFS sheets cannot be used in web offset printing at all. A web press requires a rolled paper input, not individual sheets. Sheeter rolls, while they are in roll form, also would not be used on web presses. Sheeter rolls are formulated for sheet-fed printing and are not designed to withstand the web-offset printing process. Sheeter rolls typically have a higher moisture content than web rolls and could blister if used in web printing. Manufacturers of sheeter rolls typically will not guarantee these products for use in web printing.

Both U.S. government data on the Producer Price Index and PIA/GATF surveys indicate that paper prices have increased over the past few years. Printers indicated that their average paper prices rose 5.4 percent from June 2006 to June 2007. Recently, our Members have informed us that U.S. producers have again raised prices. We also recently learned that the U.S. industry will become further concentrated as New Page has announced the acquisition of Stora Enso North America. The result will be greater concentration in the U.S. CFS market, which will now have only two major domestic suppliers—the expanded NewPage and Sappi. Our members are

from both domestic and import sources. The imposition of duties on subject imports would directly impact the printing industry by reducing our access to imported paper. While this result would harm the printing industry, it would not benefit domestic paper producers. Printers already face increasing competition from off-shore printers located in Asia and elsewhere. You can be sure that those off-shore printers are not buying their paper from NewPage or other U.S. producers. Forcing more print business offshore will just reduce domestic demand for CFS.

Thank you and I would be happy to answer any questions the Commission or staff may have.