

UNITED STATES TARIFF COMMISSION

NORTHERN BLEACHED HARDWOOD KRAFT PULP
FROM CANADA

Determination of Injury in
Investigation No. AA1921-105
Under the Antidumping Act, 1921, as Amended



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UNITED STATES TARIFF COMMISSION

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Determination of Injury

On September 28, 1972, the Tariff Commission received advice from the Treasury Department that northern bleached hardwood kraft pulp from Canada is being, or is likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act, 1921, as amended. In accordance with the requirements of section 201(a) of the Antidumping Act (19 U.S.C. 160(a)), the Tariff Commission instituted investigation No. AA1921-105 to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States.

Notice of the investigation and hearing was published in the Federal Register of October 6, 1972 (37 F.R. 21210). A public hearing was held on November 21, 1972. Appearances at the hearing were entered by representatives of importers. No appearances were entered for the domestic industry.

In arriving at a determination in this case, the Commission gave due consideration to all written submissions from interested parties, evidence adduced at the hearing, and all factual information obtained by the Commission's staff from questionnaires, personal interviews, and other sources.

On the basis of the investigation, the Commission has determined by a vote of 3 to 3 1/ that an industry in the United States is being injured by reason of the importation of northern bleached hardwood kraft pulp from Canada, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

1/ Chairman Bedell and Commissioners Leonard and Moore determined in the affirmative; Vice Chairman Parker and Commissioners Young and Ablondi determined in the negative. Pursuant to section 201(a) of the Antidumping Act, 1921, as amended, the Commission is deemed to have made an affirmative determination when the Commissioners voting are equally divided.

Statement of Reasons for Affirmative Determination
by Chairman Bedell and Commissioners Leonard
and Moore

The Antidumping Act, 1921, as amended, requires that the Tariff Commission find two conditions satisfied before an affirmative determination can be made.

First, there must be injury, or likelihood of injury, to an industry in the United States, or an industry in the United States must be prevented from being established. 1/ Second, such injury, or likelihood of injury, must be by "reason of" the importation into the United States of the class or kind of foreign merchandise the Secretary of the Treasury determined is being, or is likely to be, sold at less than fair value (LTFV).

In our judgment, both of the aforementioned conditions are satisfied in the instant case. Accordingly, for the reasons set forth below, we have determined that an industry in the United States is being or is likely to be injured by reason of imports of Canadian bleached hardwood kraft pulp sold at LTFV.

Description of the product

Bleached hardwood kraft pulp, made from hardwood (deciduous) by the chemical sulphate (kraft) process, is a relatively short-fibered pulp used chiefly in the production of fine printing and

1/ Prevention of establishment of an industry is not an issue in this investigation.

writing papers in which cleanliness, brightness, softness, and good formation are more important requirements than strength; it is also used in the manufacture of absorbent tissue paper. Bleached hardwood kraft pulp is usually sold at a delivered price, with freight allowed. Although shipments to distances more than 1,000 miles are not unusual, most shipments tend to be confined to less than 1,000 miles.

Industry

The industry in the United States which we have determined to be injured or likely to be injured consists of approximately 30 firms operating some 56 establishments in which bleached hardwood kraft pulp is produced. Domestic production of the subject product involves two elements--captive production and production for the market. Most U.S. production is captive--that is, the majority of domestic production is further processed in the producer's mill into paper and paperboard. However, the portion sold on the open market is in direct competition with LTFV imports from Canada and represents an important source of revenue, especially during periods of soft demand. Although the industry is nationwide, the firms located in the Northeast region, constituting a competitive market area, suffered irreparable financial hardship by reason of sales of LTFV imports from Canada.

Impact of LTFV sales on the U.S. industry

Sales of the subject product from Canada tend to be concentrated in the Northeast and North Central parts of the United States. Almost all of the imports sold at LTFV were consumed in those regions.

The effect of the LTFV imports was felt most severely by those pulp producers located in the Northeast whose output consists, to a large extent, of market pulp. There the price discrimination practiced by one Canadian LTFV supplier was so great that its ex-factory price was often less than \$100 per short ton, far below what is considered "normal" in the trade. Such unfair pricing by that particular supplier forced prices down to an unprofitable level of \$110 per short ton, causing the loss of a substantial volume of sales to certain Northeastern producers. Confronted with such unfair competition, those domestic producers had little choice but to reduce sharply their prices to avoid the loss of the domestic market. In spite of efforts to meet such competition, domestic producers suffered financial adversity which stemmed directly from depressed prices and lost sales caused by LTFV imports from Canada. This injury to Northeastern producers constitutes an injury to an industry in the United States within the meaning of the Antidumping Act. 1/

1/ See, e.g., the determinations of the Commission in: Steel Bars, Reinforcing Bars, and Shapes from Australia, AA1921-62 (1970); Carbon Steel Bars and Shapes from Canada, AA1921-39 (1964); Steel Reinforcing Bars from Canada, AA1921-33 (1964).

Likelihood of injury

The evidence in this case indicates clearly that domestic producers are not only being injured by the Canadian LTFV imports but also are likely to be injured in the future.

According to data made available to the Commission, the inventory of one Canadian producer supplying the Northeast market is growing and is currently equivalent to approximately two or three months' demand in that market. That particular mill has often in the past sold at a discount, determined by the Treasury to be at LTFV, in the Northeast market. Although that firm's primary market is allegedly Europe, it is our judgment that the size of these inventories in conjunction with the convenience of selling to the United States market could well prove conducive to continued injurious LTFV sales especially during periods of slack world demand. Consequently, we believe that there is a real likelihood of injury to an industry in the United States by reason of the LTFV imports.

Conclusion

Based upon the aforementioned evidence of injury to United States producers in the Northeast region and evidence of the probability of future injury, we conclude that an industry in the United States is being injured or is likely to be injured by reason of the importation of bleached hardwood kraft pulp from Canada which is being, or is likely to be, sold at less than fair value.

Statement of Reasons for Negative Determination of Vice
Chairman Parker and Commissioner Young 1/

In our opinion an industry in the United States is not being injured nor is likely to be injured, nor is prevented from being established, by reason of imports of northern bleached hardwood kraft pulp from Canada found by the Secretary of the Treasury to be, or likely to be, sold at less than fair value (LTFV).

Description of product

Bleached hardwood kraft pulp is made entirely from hardwood (deciduous) species by the chemical sulphate (or kraft) process. The quality of the pulp may vary considerably according to the types of pulpwood used, the degree of brightness (whiteness) obtained, and other physical characteristics. Bleached hardwood kraft pulp is relatively short fibered and is normally low in strength; it is used in papers where cleanliness, brightness, softness, and good formation are the important factors rather than strength.

Northern bleached hardwood kraft pulp from Canada is of the same kind as is produced in the northern region of the United States. Both are usually made from the same species of wood, namely, beech, maple, and poplar. Bleached hardwood kraft pulp produced in the southern region of the United States is derived mostly from gum or oak species of wood. The hardwood pulp from the southern region is readily interchangeable with northern bleached kraft pulp in making certain papers such as tissue paper but not for all papers. It can be

1/ Commissioner Ablondi concurs in the result.

utilized in many instances, however, for the same uses as the northern type by certain additional manufacturing operations.

Some of the pulp imported from Canada determined to have been sold at LTFV was an "offgrade" pulp which is inferior in quality and specification to "prime grade" pulp. It was characterized by such elements as excessive dirt or foreign matter, discoloration, lack of brightness, and weakness in strength, the quality shortcomings inherent in startup production of a new pulp mill. Such offgrade pulp is readily interchangeable with prime grade for some papers; in most instances, however, it has to be further processed before it can be used. Offgrade pulp is an accidental or undesired result of a manufacturing operation intended to produce prime pulp. It is generally sold at a lesser price than the prime product.

The industry

This investigation was aimed principally at the industry which consists of all those facilities in the United States manufacturing hardwood kraft pulp. There were some 30 companies in the United States producing bleached hardwood kraft pulp in 1971, operating in 56 individual establishments which varied in production from less than 100 tons to over 1,200 tons per day. These establishments were located in the following areas of the United States: Eleven in the Northeast, five in the North Central, five in the West, and thirty-five in the South.

Some pulp manufacturing facilities produce all their pulp primarily for their own papermaking while others usually sell some or all of their pulp on the open market. Of the 56 establishments in the

United States, 33 ordinarily use most of the pulp they manufacture in their own papermaking operations. The remaining establishments, as a general practice, produce pulp for sale in the open market as well as for their own needs. When the demand for paper declines and integrated mills have less need for pulp in their own operations, they offer the excess production on the open market. If the integrated establishments require a larger quantity of pulp than they produce to satisfy their demand for paper, they purchase pulp from other pulp producers.

The evidence of record in this investigation shows that all geographical areas of production of bleached hardwood pulp in the United States not only sell such pulp within their particular area but to the other areas as well. Even though Canadian hardwood pulp is principally marketed into the northeast and north-central areas, there are indications that some is sold to the other two areas.

No injury from import penetration

Domestic consumption of pulp rose fairly steadily from 3.8 million tons in 1967 to 4.9 million tons in 1971. Consumption in the first six months of 1972 totaled 2.7 million tons compared to 2.5 million tons in the like period in 1971. On the other hand, imports of bleached hardwood kraft pulp during the period January 1967 to June 1972 were quite small relative to U.S. consumption, averaging about five percent or less annually except in 1969 when such imports amounted to slightly more than six percent of consumption. Canada

was the major import source and during 1971 it was the only foreign supplier. The Canadian product has traditionally filled only a small part of the U.S. demand for pulp and during no one year has there been a dramatic rise in the Canadian share of the U.S. market. Although substantial sales are made in the U.S. market, the Canadian producers are geared to exporting to other countries, particularly in Europe.

Price comparisons

Sales to the United States market of northern bleached hardwood pulp from Canada were investigated by the Treasury Department for the period from May 1, 1971 to October 31, 1971. A substantial percentage of the investigated sales to the United States, were determined to be at fair value. Information developed by the Commission in this investigation indicates that in the vast majority of Canadian sales to the United States, the price of Canadian pulp exported to this country was equivalent to or higher than the price of comparable U.S.-produced pulp. This was true even in instances when the price of the exported Canadian pulp was lower than the price realized for pulp sold at home (i.e., sold at less than fair value). In the very few instances in which the price of Canadian pulp was lower than that of U.S. pulp of comparable quality, the difference was minor and short-lived.

The one Canadian firm which sold at LTFV prices and in a few isolated instances undersold domestic firms in 1971, was a firm which had begun production in the latter part of 1970. This Canadian firm in 1971 was still trying to perfect the quality of its product and was in fact selling an offgrade product in the isolated instances when

it undersold domestic producers. It is customary in the trade in the United States to offer offgrade pulp at a lesser price than the prime grade. Two-thirds of the sales of the particular Canadian producer to the United States during the period of Treasury's investigation was offgrade pulp. The new Canadian mill underwent the typical difficulties of a new mill in standardizing quality and in obtaining acceptance of its product on the market.

No injury due to loss of sales

The only allegation of loss of sales and injury on the part of all the domestic producers by reason of LTFV sales of bleached hardwood pulp from Canada was made by the complainant producer in this case. This producer was the principal competitor of the Canadian firm whose sales at LTFV undersold it in a few isolated instances. Assuming that this single U.S. firm did not make some relatively small sales which it might have made had there been no competition at LTFV prices, this would not in our opinion constitute injury to the U.S. industry within the meaning of the antidumping statute. Such assumed minor loss of business by one U.S. firm in the northeast area, if indeed it could be attributed to LTFV sales, would not in our opinion constitute injury even if such area were to be considered a separate geographical market area.

The year of 1971 was a depressed year for the pulp industry, not only in the United States but world-wide. In that year the exports of bleached hardwood pulp from the United States dropped by about 283,000 tons from the previous year. World-wide, as well as in the United States and Canada the pulp industry was in a period of recession. The southern producing area of the United States was particularly hard

hit by the loss of export sales to Europe. Domestic production fell from 5.2 million tons to 5.0 million tons in the year exports dropped off. In an attempt to alleviate the effects of the drop in the export market, the southern producers made efforts to increase sales in the other geographic areas. Prices which had been trending downward in 1970 continued to decline early in 1971 prior to any offers by Canadian producers to customers of the complainant. The general decline of domestic prices was caused by general market conditions and not by the Canadian sales at LTFV.

Financial experience

The extent of the alleged loss, by reason of LTFV imports, to the complainant in 1971 is not substantiated by its profit-and-loss statements. The complainant compared favorably with the rest of the industry--which was suffering from an economic recession. For each of three years, 1969-71, the complainant's ratio of net profit to total net sales on its pulp operations approached or substantially exceeded the average of that reported to the Commission by the other firms. (In fact its profit in 1971 was higher than that enjoyed by more than half of the reporting firms.) The complainant is the only firm which has attributed its profit decline to Canadian dumping of pulp.

Market outlook for bleached hardwood pulp

The down-turn in the world-wide demand for pulp has been reversed, consumption has increased during 1972, and the European market is

requiring additional quantities of pulp. Prices have increased on the domestic market and the 1971 recession has been reversed. The future demand for bleached hardwood pulp both in the United States and in the European market appears to be very good. There is no indication that the Canadian producers in view of changed economic conditions are likely to resort to cut-throat sales in the United States market in the future. The one Canadian producer which had entered the U.S. market in 1971 is believed to be primarily oriented to the European market.

Conclusion

In view of the above it is our determination that an industry in the United States is not being injured nor is likely to be injured, nor is prevented from being established, by reason of imports of northern bleached hardwood kraft pulp from Canada.

