

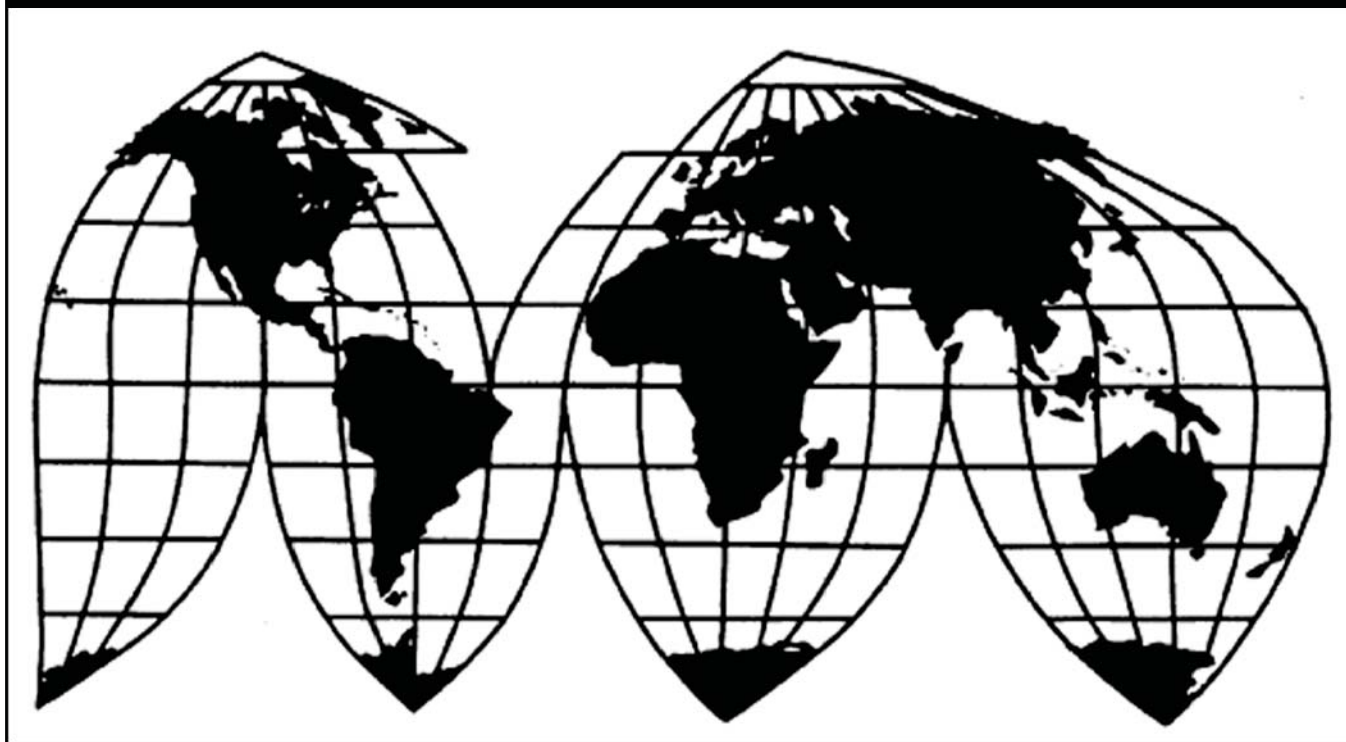
Supercalendered Paper from Canada

Investigation No. 701-TA-530 (Preliminary)

Publication 4529

April 2015

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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Russell Duncan, Statistician

Michael Haldenstein, Attorney

James McClure, Supervisory Investigator

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436
www.usitc.gov

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UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 701-TA-530 (Preliminary)

Supercalendered Paper from Canada

DETERMINATION

On the basis of the record¹ developed in the subject investigation, the United States International Trade Commission (“Commission”) determines, pursuant to the Tariff Act of 1930 (“the Act”), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of supercalendered paper, provided for in subheading 4802.61.30 of the Harmonized Tariff Schedule of the United States, that are alleged to be subsidized by the government of Canada.²

COMMENCEMENT OF FINAL PHASE INVESTIGATION

Pursuant to section 207.18 of the Commission’s rules, the Commission also gives notice of the commencement of the final phase of its investigation. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission’s rules, upon notice from the Department of Commerce (“Commerce”) of an affirmative preliminary determination in the investigation under section 703(b) of the Act, or, if the preliminary determination is negative, upon notice of an affirmative final determination in that investigation under section 705(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigation need not enter a separate appearance for the final phase of the investigation. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

BACKGROUND

On February 26, 2015, the Coalition for Fair Paper Imports, which is an ad hoc association of U.S. producers that includes Madison Paper Industries, Inc., Madison, ME and Verso Corp., Memphis, TN, filed a petition with the Commission and Commerce, alleging that an industry in the United States is materially injured or threatened with material injury by reason of subsidized imports of supercalendered paper from Canada. Accordingly, effective February

¹ The record is defined in sec. 207.2(f) of the Commission’s Rules of Practice and Procedure (19 CFR § 207.2(f)).

² Commissioner F. Scott Kieff did not participate in this investigation.

26, 2015, the Commission, pursuant to section 703(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)), instituted countervailing duty investigation No. 701-TA-530 (Preliminary).

Notice of the institution of the Commission's investigation and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of March 5, 2015 (80 FR 12036). The conference was held in Washington, DC, on March 19, 2015, and all persons who requested the opportunity were permitted to appear in person or by counsel.

Views of the Commission

Based on the record in the preliminary phase of this investigation, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of supercalendered paper (“SC paper”) that are allegedly subsidized by the government of Canada.¹

I. The Legal Standard for Preliminary Determinations

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determinations, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.² In applying this standard, the Commission weighs the evidence before it and determines whether “(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation.”³

II. Background

The Coalition for Fair Paper Imports, which consists of two U.S. producers of SC paper, Madison Paper Industries (“Madison”) and Verso Corporation (“Verso”) (collectively “petitioners”) filed the petition in this investigation on February 26, 2015. Petitioners appeared at the staff conference and submitted a postconference brief.

The following respondents appeared at the staff conference and submitted postconference briefs: Catalyst Paper Corporation and Catalyst Pulp and Paper Sales Inc., producers and exporters of subject merchandise, and Catalyst Paper (USA) Inc., an importer of subject merchandise; Irving Paper Limited (“Irving Paper”), a producer and exporter of subject merchandise; Port Hawkesbury Paper LP (“PHP”) a producer and exporter of subject merchandise; and Resolute Forest Products Inc. (“Resolute”), a producer and exporter of subject merchandise.

The Commission received questionnaire responses from three producers that are believed to have accounted for all U.S. production of SC paper during the 2012-2014 period of

¹ Commissioner Kieff is recused from this investigation.

² 19 U.S.C. §§ 1671b(a), 1673b(a) (2000); *see also American Lamb Co. v. United States*, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); *Aristech Chem. Corp. v. United States*, 20 CIT 353, 354-55 (1996). No party argues that the establishment of an industry in the United States is materially retarded by the allegedly unfairly traded imports.

³ *American Lamb Co.*, 785 F.2d at 1001; *see also Texas Crushed Stone Co. v. United States*, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

investigation (“POI”).⁴ U.S. import data are based on responses to Commission questionnaires.⁵ The Commission received usable responses to its questionnaires from seven U.S. importers of subject merchandise, accounting for all U.S. imports of subject merchandise from Canada during the period of investigation.⁶ The Commission also received completed questionnaires from the four Canadian producers of SC paper.⁷

III. Domestic Like Product

A. In General

In determining whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the “domestic like product” and the “industry.”⁸ Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Tariff Act”), defines the relevant domestic industry as the “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”⁹ In turn, the Tariff Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation.”¹⁰

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.¹¹ No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the

⁴ Confidential Staff Report (“CR”) and Public Report (“PR”) at III-1. Industry data are based on only 2 of the 3 responses because, as explained *infra*, we have excluded one producer from the definition of the domestic industry as a related party.

⁵ CR at IV-2, PR at IV-2. Official import statistics compiled using the pertinent HTS statistical reporting numbers include paper products other than SC paper. CR at IV-2 n. 3, PR at IV-2 n. 3.

⁶ CR at IV-1, PR at IV-1.

⁷ CR at VII-2, PR at IV-2.

⁸ 19 U.S.C. § 1677(4)(A).

⁹ 19 U.S.C. § 1677(4)(A).

¹⁰ 19 U.S.C. § 1677(10).

¹¹ See, e.g., *Cleo Inc. v. United States*, 501 F.3d 1291, 1299 (Fed. Cir. 2007); *NEC Corp. v. Department of Commerce*, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Torrington Co. v. United States*, 747 F. Supp. 744, 749 n.3 (Ct. Int’l Trade 1990), *aff’d*, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See *Nippon*, 19 CIT at 455 n.4; *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

facts of a particular investigation.¹² The Commission looks for clear dividing lines among possible like products and disregards minor variations.¹³ Although the Commission must accept Commerce's determination as to the scope of the imported merchandise that is allegedly subsidized and/or sold at less than fair value,¹⁴ the Commission determines what domestic product is like the imported articles Commerce has identified.¹⁵

B. Product Description

In its notice of initiation, Commerce defined the imported merchandise within the scope of the investigation as follows:

SC paper is uncoated paper that has undergone a calendering process in which the base sheet, made of pulp and filler (typically, but not limited to, clay, talc, or other mineral additive), is processed through a set of supercalenders, a supercalender, or a soft nip calender operation.¹⁶

The scope of this investigation covers all SC paper regardless of basis weight, brightness, opacity, smoothness, or grade, and whether in rolls or in sheets. Further, the scope covers all SC paper that meets the scope definition regardless of the type of pulp fiber or filler material used to produce the paper.

¹² See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

¹³ See, e.g., *Nippon*, 19 CIT at 455; *Torrington*, 747 F. Supp. at 748-49; see also S. Rep. No. 96-249 at 90-91 (Congress has indicated that the like product standard should not be interpreted in "such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.").

¹⁴ See, e.g., *USEC, Inc. v. United States*, 34 Fed. App'x 725, 730 (Fed. Cir. 2002) ("The ITC may not modify the class or kind of imported merchandise examined by Commerce."); *Algoma Steel Corp. v. United States*, 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), *aff'd*, 865 F.3d 240 (Fed. Cir.), *cert. denied*, 492 U.S. 919 (1989).

¹⁵ *Hosiden Corp. v. Advanced Display Mfrs.*, 85 F.3d 1561, 1568 (Fed. Cir. 1996) (the Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); *Cleo*, 501 F.3d at 1298 n.1 ("Commerce's {scope} finding does not control the Commission's {like product} determination."); *Torrington*, 747 F. Supp. at 748-52 (affirming the Commission's determination defining six like products in investigations where Commerce found five classes or kinds).

¹⁶ Commerce explained that "{s}upercalendering and soft nip calendaring processing, in conjunction with the mineral filler contained in the base paper, are performed to enhance the surface characteristics of the paper by imparting a smooth and glossy printing surface. Supercalendering and soft nip calendaring also increase the density of the base paper." *Supercalendered Paper from Canada: Initiation of Countervailing Duty Investigation*, 80 Fed. Reg. 15981, 15984 (March 26, 2015).

Specifically excluded from the scope are imports of paper printed with final content of printed text or graphics.¹⁷

SC paper is an uncoated printing paper made from mechanical pulp, chemical pulp, fillers, and additives. The glossy finish of SC paper is produced by the movement of the paper web through a supercalender, a vertical stack of alternating steel rolls and cotton rolls. The rolls apply heat and pressure to the paper, imparting a gloss to the surface and increasing the paper's smoothness and density.¹⁸ SC paper is sold to end users such as retailers, publishers, catalogers, and printers and to paper merchants/brokers. It is used for a variety of color printed materials such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials, corporate brochures, and coupons.¹⁹ Although the scope of the investigation covers sheets, SC paper is only sold in rolls.²⁰

C. Arguments and Analysis

Petitioners argue that the Commission should find a single domestic like product that is coextensive with the scope of Commerce's investigation, and that this single like product should not include any other type or form of paper.²¹ They contend that the Commission should not subdivide the domestic like product in this investigation and/or define it more broadly because SC paper is a continuum of grades and is distinct from the other forms of paper (coated, Hi-Brite, and newsprint) that Irving Paper seeks to include in the definition of the domestic like product.²²

Respondent Irving Paper appears to accept that, for the purpose of the preliminary determination, the appropriate definition of the domestic like product includes only SC paper because it recognizes that the Commission has not collected data on other paper products.²³ However, Irving Paper requests that the Commission in any final phase of this investigation define SCA grade SC paper ("SCA paper") and SCB grade SC paper ("SCB paper") as separate domestic like products. It additionally argues that the Commission should include paper products outside the scope of investigation in each of these separate like products. It urges the

¹⁷ *Supercalendered Paper from Canada: Initiation of Countervailing Duty Investigation*, 80 Fed. Reg. 15981, 15984 n.28 (March 26, 2015). Commerce indicated that subject merchandise primarily enters under Harmonized Tariff Schedule of the United States (HTSUS) subheading 4802.61.3035, but may also enter under subheadings 4802.61.3010, 4802.62.3000, 4802.62.6020, and 4802.69.3000. It noted that although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive. *Id.*

¹⁸ CR at I-9, PR at I-7.

¹⁹ CR at I-13, PR at I-10.

²⁰ Tr. at 31-32 (Johnston).

²¹ Petition at I-9 to I-13; Petitioners' Postconference Brief at 4.

²² Petitioners' Postconference Brief at 4.

²³ Irving Paper's Postconference Brief at 2. The other respondents take no position with respect to the definition of the domestic like product.

Commission to include one grade of lightweight coated paper (coated groundwood No. 5)²⁴ in the domestic like product definition including SCA paper and Hi-Brite²⁵ and newsprint in the like product definition including SCB paper.²⁶ Finally, it contends that even if the Commission declines to define two domestic like products, it should still include in the domestic like product definition three out-of scope products: coated groundwood No. 5, Hi-Brite and newsprint.²⁷

Although the Commission did not collect data in the preliminary phase of this investigation concerning products other than SC paper, the record does contain some information about the different grades of SC paper, as well as about the out-of-scope paper products that Irving Paper asserts are indistinguishable in characteristics and uses from SC paper. We consequently consider below the like product arguments that Irving Paper has asserted on the basis of the current record.

1. Whether to Define Two Domestic Like Products: SCA Grade and SCB Grade

Physical Characteristics and Uses. SC paper is sold in a variety of grades. In descending order of brightness and smoothness, they are SCA++, SCA+, SCA, SCB, and SNC. SCA++, SCA+, SCA, and SCB are produced by the supercalendering process, while SNC is produced by the soft nip calendaring process.²⁸ Brightness, gloss, and smoothness are some of the more important physical characteristics of SC paper.²⁹ There is a range of specifications for each grade, and there is some overlap between grades in the ranges for brightness and gloss, according to company websites.³⁰ There are no industry standards to determine grades; rather, each individual producer sets the criteria for its grades of SC paper.³¹ Irving Paper argues that SCA paper is used for magazines and catalogs and SCB paper is used in low-end advertising materials, but petitioners maintain that the same purchasers buy both and sometimes substitute SCA paper for SCB paper.³²

Interchangeability. The parties dispute the degree of interchangeability between SCA and SCB paper. Petitioners claim that the lines between the grades are “blurry” and they all compete with each other. Petitioners argue that purchasers switch between SCA paper and

²⁴ Coated papers are generally categorized into five grades (#1 through #5) based on brightness and basis weight. CR at I-24 n.48, PR at I-18 n.48.

²⁵ Hi-Brite paper is a specialty newsprint paper product that consists of a groundwood paper of higher brightness and basis weight and better quality surface finish than that of standard newsprint and is capable of reproducing higher quality images; it is often used for advertising inserts. CR at I-29 n.63, PR at I-21 n.63.

²⁶ Irving Paper’s Postconference Brief at 6.

²⁷ Irving Paper’s Postconference Brief at 6.

²⁸ CR at I-11, PR at I-9.

²⁹ See CR at I-13, I-19, Table I-2, PR at I-10, I-14.

³⁰ See CR/PR at Table I-2.

³¹ See Tr. at 85-86 (Drechsel).

³² Petitioners’ Postconference Brief at 10; Irving Paper’s Postconference Brief at 3.

SCB paper.³³ Irving Paper acknowledges “some interchangeability” between the two grades but claims that the interchangeability between SCA paper and SCB paper is no greater than that between SC paper and out-of scope products.³⁴ We find that the record in this preliminary phase indicates that there is at least some interchangeability between SCA and SCB paper.

Manufacturing Facilities, Production Processes, and Employees. The record indicates that both Madison and Verso produce SCA and SCB grade paper on the same production line using the same process and employees. SCA paper receives additional calendaring to make it more glossy and smooth.³⁵

Channels of Distribution. Petitioners and Irving Paper agree that the channels of distribution for SCA paper and SCB paper are the same.³⁶ Both are sold to end users such as catalogers, retailers, and publishers and then shipped to printers.³⁷

Producer and Customer Perceptions. The parties dispute whether market participants view SCA paper and SCB paper as distinct products or simply different grades of the same product. Testimony at the staff conference indicated that retailers switch back and forth between SCA paper and SCB paper.³⁸ The record indicates that producers market their products as SCA paper or SCB paper, rather than simply SC paper, to their customers and on their websites.³⁹

Price. During the POI, SCA paper averaged \$*** per short ton, whereas SCB paper averaged \$*** per short ton.⁴⁰ Accordingly, SCA paper sells for a modest premium over SCB paper.⁴¹

Conclusion. Evidence in the record of the preliminary phase of this investigation does not indicate the existence of a clear dividing line between SCA paper and SCB paper. In particular, there is no industry standard on what distinguishes the two products. Moreover, SCA paper and SCB paper share similar physical characteristics and uses and may overlap in ranges of brightness and gloss; are made using the same manufacturing facilities, production processes, and employees; and are sold in the same channels of distribution at roughly similar prices. The record indicates at least some interchangeability between the two types of paper, which would indicate some similarity in customer and producer perceptions. In view of the foregoing, we do not define SCA paper and SCB paper as separate domestic like products.

³³ CR at I-21, PR at I-16. *See also* Tr. 86 (Drechsel).

³⁴ Irving Paper’s Postconference Brief at 4.

³⁵ CR at I-20, PR at I-15 to I-16.

³⁶ CR at I-22, PR at I-17.

³⁷ CR at II-2, PR at II-2.

³⁸ CR at I-22 (citing Tr. at 59-60 (Johnston), PR at I-16.

³⁹ Tr. at 105-106 (Ostrowski).

⁴⁰ CR at I-23, PR at I-17.

⁴¹ CR at I-22, PR at I-17.

2. Whether to Include Coated Groundwood Paper in the Definition of the Domestic Like Product

Physical Characteristics and Uses. Coated groundwood paper is a clay coated paper made with substantial proportions of mechanically derived pulp.⁴² Coated groundwood paper differs from SC paper due to the coating that enhances its print quality and shelf life; coated papers tend to be heavier due to the coating.⁴³ In contrast, SC paper is uncoated but has a glossy finish because of the use of a particular mix of fillers and the supercalendering process.⁴⁴ Coated groundwood paper and SCA grade paper do, however, have considerable overlap in brightness, gloss, and opacity.⁴⁵

The record indicates that, due to its durability, coated groundwood paper is used in publications designed to be used for several days to a month -- primarily magazines, merchandising catalogs, and better quality newspaper inserts.⁴⁶ On the other hand, SC paper is generally better suited for advertising and direct mail where weight is a consideration because SC paper typically has lower basis weights than coated groundwood paper.⁴⁷

Interchangeability. Available information suggests there is some interchangeability between SC paper and coated groundwood paper at the higher SC paper grades for use in published materials such as magazines.⁴⁸ If SC paper prices decline enough relative to the price of coated groundwood paper, there is the potential for substitution.⁴⁹

Manufacturing Facilities, Production Processes, and Employees. The record indicates that coated groundwood paper and SC paper are typically made in different production facilities through different production processes.⁵⁰ The final calendering step in the production of SC paper differs from the coating process used to produce coated groundwood paper.⁵¹

***⁵²

Channels of Distribution. Petitioners and Irving Paper agree that there are similar channels of distribution for SC paper and coated groundwood paper.⁵³

Producer and Customer Perceptions. The limited information on the record indicates that coated groundwood paper and SC paper are perceived to be distinct products.⁵⁴

⁴² CR at I-7, PR at I-6.

⁴³ Tr.at 31 (Johnston).

⁴⁴ CR at I-25.

⁴⁵ See CR at I-26 (table of specifications), PR at I-19.

⁴⁶ CR at I-7, PR at I-6.

⁴⁷ Petitioners' Postconference Brief at 11.

⁴⁸ CR at I-27, PR at I-20.

⁴⁹ Tr. at 13 (Johnston).

⁵⁰ Petitioners' Postconference Brief at 11.

⁵¹ CR at I-26, PR at I-20.

⁵² CR at II-6, PR at II-4.

⁵³ CR at I-28, PR at I-21.

⁵⁴ CR at I-28, PR at I-21; Tr. at 33 (Johnston).

Price. Coated groundwood paper sells for an appreciable premium over SC paper. Pricing data indicate that during December 2014, the price for coated groundwood No.5 (34lb) was \$*** per short ton and SCA paper (35lb) was \$*** per short ton.⁵⁵

Conclusion. The record of the preliminary phase of this investigation indicates that, although coated groundwood paper has some overlap in uses and is interchangeable with SC paper for some applications, its physical characteristics, manufacturing process, price, and perception in the marketplace all differ from SC paper and indicate the existence of a clear dividing line between the two forms of paper. Therefore, for purposes of our preliminary determination, we decline to include coated groundwood paper in the domestic like product.⁵⁶

3. Whether to Include Hi-Brite Paper and Newsprint in the Definition of Domestic Like Product

Physical Characteristics and Uses. There is limited information in the record concerning Hi-Brite and newsprint. The record indicates that, unlike SC paper, the surface porosity of newsprint precludes it from being used for printing graphic material in color and at higher resolutions.⁵⁷ SC paper is produced using a different mixture of fillers than Hi-Brite and newsprint; the mixture enables the supercalendering process to give SC paper a glossy finish.⁵⁸ Irving Paper indicates, however, that SCB paper and newsprint have similar basis weight, brightness, and opacity.⁵⁹

Interchangeability. The available information concerning whether SC paper is interchangeable with newsprint and Hi-Brite is limited, but there appears to be some interchangeability for use as advertising materials. Retailers have switched between SCB paper, Hi-Brite, and newsprint for flyers and inserts that have short lives.⁶⁰

Manufacturing Facilities, Production Processes, and Employees. The record indicates some significant differences in production processes and facilities among newsprint, Hi-Brite, and SC Paper. The pulp mixture (mechanical vs. kraft pulp) and types of fillers and additives differ depending on the type of product being produced. The mixture of fillers and additives used in the production of SC paper permits the supercalendering to result in the glossy finish that characterizes SC paper.⁶¹ Hi-Brite and newsprint do not go through a supercalendering

⁵⁵ CR at I-27 n.62, PR at I-20 n.62.

⁵⁶ We also note that in a prior investigation of coated groundwood paper, the Commission declined to include SC paper in the domestic like product. *See Coated Groundwood Paper from Austria, Belgium, Finland, France, Germany, Italy, Netherlands Sweden, and the United Kingdom*, Inv. Nos. 731-TA-486-494 (Preliminary), USITC Pub. 2359 (Feb. 1991) at 7-8 (finding that SC paper has different end uses, a different appearance, a different production process, and is priced significantly lower than coated paper).

⁵⁷ Tr.at 32 (Johnston).

⁵⁸ CR at I-30 to I-31, PR at I-22.

⁵⁹ CR at I-30, PR at I-22.

⁶⁰ CR at I-32, PR at I-23; Irving Paper's Postconference Brief at 9-10.

⁶¹ Tr. at 34 (Johnston).

process.⁶² There are no overlapping production facilities because the domestic SC paper producers do not produce newsprint.

Channels of Distribution. The available information indicates that newsprint, Hi-Brite, and SC paper have similar channels of distribution.⁶³

Producer and Customer Perceptions. Petitioners and Irving Paper offered differing viewpoints concerning how newsprint, Hi-Brite, and SC paper are perceived in the marketplace.⁶⁴ Petitioners assert that due to their different physical characteristics, newsprint and SC paper are perceived to be different products. Irving Paper, however, claims that the interchangeability between the two products causes customers and producers to view newsprint and SC paper to be similar products.⁶⁵

Price. According to both petitioners and Irving Paper, SC paper generally sells at higher prices than Hi-Brite and newsprint.⁶⁶

Conclusion. The record indicates, that although Hi-Brite and newsprint have some overlap in uses and channels of distribution with SC paper and are interchangeable with certain types of SC paper for some applications, SC paper has different physical characteristics and a distinct manufacturing process with different fillers and additives and supercalendering. These distinctions in physical characteristics and manufacturing processes support finding a clear dividing line between the products. Accordingly, for purposes of our determination in the preliminary phase of this investigation, we do not include Hi-Brite and newsprint with SC paper in the definition of domestic like product.

In view of the foregoing, for purposes of this preliminary determination we define a single domestic like product that is coextensive with the scope of the investigation.

IV. Domestic Industry

The domestic industry is defined as the domestic “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”⁶⁷ In defining the domestic industry, the Commission’s general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

A. Related Parties

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to Section 771(4)(B) of the Tariff Act. This provision allows the Commission, if appropriate circumstances exist, to exclude from the

⁶² CR at I-31, PR at I-23.

⁶³ CR at I-33, PR at I-24.

⁶⁴ CR at I-32, PR at I-23.

⁶⁵ CR at I-32, PR at I-23.

⁶⁶ CR at I-33, PR at I-24.

⁶⁷ 19 U.S.C. § 1677(4)(A).

domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers.⁶⁸ Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.⁶⁹

Resolute USA is a related party because it is a domestic producer of SC paper that also directly imports the subject merchandise.⁷⁰ Additionally, it is also a wholly owned subsidiary of Resolute Forest Products, Inc., an exporter of the subject merchandise.⁷¹ Petitioners *** concerning whether Resolute should be excluded from the domestic industry as a related party.⁷² No respondent has addressed the issue.

Resolute USA was responsible for *** percent of U.S. production of SC paper during the POI and was ***.⁷³ It has been, however, one of the ***, accounting for over *** during the POI.⁷⁴ Its subject imports as a ratio to its production ranged from *** percent to *** percent during the POI.⁷⁵ Resolute *** on the petition.^{76 77}

We find that Resolute USA's primary interest is not in ***.⁷⁸ Accordingly, we find that appropriate circumstances exist to exclude Resolute USA from the definition of the domestic industry and we define the domestic industry to include all U.S. producers of SC paper with the exception of Resolute USA.

⁶⁸ See *Torrington Co. v. United States*, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), *aff'd without opinion*, 991 F.2d 809 (Fed. Cir. 1993); *Sandvik AB v. United States*, 721 F. Supp. 1322, 1331-32 (Ct. Int'l Trade 1989), *aff'd mem.*, 904 F.2d 46 (Fed. Cir. 1990); *Empire Plow Co. v. United States*, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987).

⁶⁹ The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include the following:
(1) the percentage of domestic production attributable to the importing producer;
(2) the reason the U.S. producer has decided to import the product subject to investigation, *i.e.*, whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market; and
(3) the position of the related producer vis-à-vis the rest of the industry, *i.e.*, whether inclusion or exclusion of the related party will skew the data for the rest of the industry. See, *e.g.*, *Torrington Co. v. United States*, 790 F. Supp. at 1168.

⁷⁰ CR at III-9, PR at III-5; CR/PR at Table III-2 n.3. See 19 U.S.C. § 1677(4)(B)(i).

⁷¹ CR/PR at Table III-1. See 19 U.S.C. § 1677(4)(B)(ii)(II).

⁷² Petitioners' Postconference Brief at 12.

⁷³ CR/PR at Table III-1.

⁷⁴ CR/PR at Table IV-1.

⁷⁵ CR/PR at Table III-5.

⁷⁶ CR/PR at Table III-1.

⁷⁷ Resolute USA's ratio of operating income to net sales was *** percent in 2012, *** percent in 2013 and *** percent in 2014. CR/PR at Table VI-3. Its operating performance was *** than the industry average. See *Id.*

⁷⁸ Indeed, Resolute USA indicates that its production of SC paper ***. CR at VI-10 n.12, PR at VI-3 n.12.

V. Reasonable Indication of Material Injury by Reason of Subject Imports^{79 80}

A. Legal Standard

In the preliminary phase of antidumping and countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of the imports under investigation.⁸¹ In making this determination, the Commission must consider the volume of

⁷⁹ Pursuant to Section 771(24) of the Tariff Act, imports from a subject country of merchandise corresponding to a domestic like product that account for less than 3 percent of all such merchandise imported into the United States during the most recent 12 months for which data are available preceding the filing of the petition shall be deemed negligible. 19 U.S.C. §§ 1671b(a), 1673b(a), 1677(24)(A)(i), 1677(24)(B); *see also* 15 C.F.R. § 2013.1 (developing countries for purposes of 19 U.S.C. § 1677(36)). Negligibility is not at issue in this investigation. In the January-December 2014 period, which is the most recent 12-month period for which data are available, subject imports from Canada accounted for *** percent of total imports of SC paper by quantity. CR at IV-5, PR at IV-3.

⁸⁰ Resolute argues that the Canadian province of Quebec is entitled to a separate injury determination by the Commission. It states that Canadian provinces are not signatories to the WTO Agreements and countervailable subsidies they may provide are therefore cognizable in U.S. trade law only because of 19 U.S.C. § 1677(3), which recognizes a "political subdivision" as a "country." *See* Resolute's Postconference Brief at 1-6.

We reject this argument for the same reasons the Commission rejected an identical argument in *Softwood Lumber from Canada*, Inv. No. 701-TA-312 (Remand), USITC Pub. 2689 (Oct. 1993) at 16-21. There the Commission explained that it does not have the authority to change Commerce's scope of investigation and is required to make an injury determination with respect to subject merchandise within the scope of investigation as defined by Commerce. The Commission specifically rejected Quebec's assertion that as a political subdivision of Canada, Quebec is a "country" pursuant to 19 U.S.C. § 1677(3), is a "country under the Agreement" for purposes of application of the injury test, and is consequently entitled to a separate injury determination. USITC Pub. 2689 at 19.

The Commission further explained that nothing in the statute suggests that the Commission may rely on 19 U.S.C. § 1677(3) to vary the scope of imports considered in its injury analysis from the scope defined by Commerce. The Commission found that the statutory definition of "country" is intended to allow Commerce, the "administering authority," to define country in various ways in countervailing duty cases in recognition of the fact that the national government of a country need not be the authority which grants and administers a subsidy program. Further, the statute does not authorize the Commission to determine what constitutes a "country" for purposes of a countervailing duty investigation. In particular, the statute does not authorize the Commission to define "country" differently than Commerce in the same investigation. USITC Pub. No. 2689 at 21. The Binational Panel upheld the Commission's conclusion on this issue. *See* United States-Canada Free Trade Agreement Binational Panel Review, *In the Matter of: Softwood Lumber from Canada, Decision of the Panel on Review of the Remand Determination of the U.S. International Trade Commission*, at 4-7, USA-92-1904-02 (Jan. 28, 1994). Accordingly, in this investigation, we are bound by Commerce's scope of investigation covering subject merchandise from Canada, and we do not render separate determinations on subject imports from each province.

⁸¹ 19 U.S.C. §§ 1671b(a), 1673b(a).

subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.⁸² The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”⁸³ In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.⁸⁴ No single factor is dispositive, and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”⁸⁵

Although the statute requires the Commission to determine whether there is a reasonable indication that the domestic industry is “materially injured by reason of” unfairly traded imports,⁸⁶ it does not define the phrase “by reason of,” indicating that this aspect of the injury analysis is left to the Commission’s reasonable exercise of its discretion.⁸⁷ In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation under the “by reason of” standard must ensure that subject imports are more than a minimal or tangential cause of injury and that there is a sufficient causal, not merely a temporal, nexus between subject imports and material injury.⁸⁸

In many investigations, there are other economic factors at work, some or all of which may also be having adverse effects on the domestic industry. Such economic factors might include nonsubject imports; changes in technology, demand, or consumer tastes; competition among domestic producers; or management decisions by domestic producers. The legislative history explains that the Commission must examine factors other than subject imports to

⁸² 19 U.S.C. § 1677(7)(B). The Commission “may consider such other economic factors as are relevant to the determination” but shall “identify each {such} factor ... {a}nd explain in full its relevance to the determination.” 19 U.S.C. § 1677(7)(B).

⁸³ 19 U.S.C. § 1677(7)(A).

⁸⁴ 19 U.S.C. § 1677(7)(C)(iii).

⁸⁵ 19 U.S.C. § 1677(7)(C)(iii).

⁸⁶ 19 U.S.C. §§ 1671b(a), 1673b(a).

⁸⁷ *Angus Chemical Co. v. United States*, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) (“{T}he statute does not ‘compel the commissioners’ to employ {a particular methodology}.”), *aff’d* 944 F. Supp. 943, 951 (Ct. Int’l Trade 1996).

⁸⁸ The Federal Circuit, in addressing the causation standard of the statute, has observed that “{a}s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement.” *Nippon Steel Corp. v. USITC*, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was re-affirmed in *Mittal Steel Point Lisas Ltd. v. United States*, 542 F.3d 867, 873 (Fed. Cir. 2008), in which the Federal Circuit, quoting *Gerald Metals, Inc. v. United States*, 132 F.3d 716, 722 (Fed. Cir. 1997), stated that “this court requires evidence in the record ‘to show that the harm occurred “by reason of” the LTFV imports, not by reason of a minimal or tangential contribution to material harm caused by LTFV goods.’” See also *Nippon Steel Corp. v. United States*, 458 F.3d 1345, 1357 (Fed. Cir. 2006); *Taiwan Semiconductor Industry Ass’n v. USITC*, 266 F.3d 1339, 1345 (Fed. Cir. 2001).

ensure that it is not attributing injury from other factors to the subject imports, thereby inflating an otherwise tangential cause of injury into one that satisfies the statutory material injury threshold.⁸⁹ In performing its examination, however, the Commission need not isolate the injury caused by other factors from injury caused by unfairly traded imports.⁹⁰ Nor does the “by reason of” standard require that unfairly traded imports be the “principal” cause of injury or contemplate that injury from unfairly traded imports be weighed against other factors, such as nonsubject imports, which may be contributing to overall injury to an industry.⁹¹ It is clear that the existence of injury caused by other factors does not compel a negative determination.⁹²

Assessment of whether material injury to the domestic industry is “by reason of” subject imports “does not require the Commission to address the causation issue in any particular way” as long as “the injury to the domestic industry can reasonably be attributed to the subject imports” and the Commission “ensure{s} that it is not attributing injury from other sources to

⁸⁹ SAA, H.R. Rep. 103-316, Vol. I at 851-52 (1994) (“{T}he Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.”); S. Rep. 96-249 at 75 (1979) (the Commission “will consider information which indicates that harm is caused by factors other than less-than-fair-value imports.”); H.R. Rep. 96-317 at 47 (1979) (“in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or dumped imports is attributable to such other factors;” those factors include “the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry”); *accord Mittal Steel*, 542 F.3d at 877.

⁹⁰ SAA at 851-52 (“{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports.”); *Taiwan Semiconductor Industry Ass’n*, 266 F.3d at 1345. (“{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.” (emphasis in original)); *Asociacion de Productores de Salmon y Trucha de Chile AG v. United States*, 180 F. Supp. 2d 1360, 1375 (Ct. Int’l Trade 2002) (“{t}he Commission is not required to isolate the effects of subject imports from other factors contributing to injury” or make “bright-line distinctions” between the effects of subject imports and other causes.); *see also Softwood Lumber from Canada*, Inv. Nos. 701-TA-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that “{i}f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, *i.e.*, it is not an ‘other causal factor,’ then there is nothing to further examine regarding attribution to injury”), *citing Gerald Metals*, 132 F.3d at 722 (the statute “does not suggest that an importer of LTFV goods can escape countervailing duties by finding some tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.”).

⁹¹ S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47.

⁹² *See Nippon*, 345 F.3d at 1381 (“an affirmative material-injury determination under the statute requires no more than a substantial-factor showing. That is, the ‘dumping’ need not be the sole or principal cause of injury.”).

the subject imports.”⁹³ ⁹⁴ Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed “rigid adherence to a specific formula.”⁹⁵

The Federal Circuit’s decisions in *Gerald Metals*, *Bratsk*, and *Mittal Steel* all involved cases in which the relevant “other factor” was the presence in the market of significant volumes of price-competitive nonsubject imports. The Commission interpreted the Federal Circuit’s guidance in *Bratsk* as requiring it to apply a particular additional methodology following its finding of material injury in cases involving commodity products and a significant market presence of price-competitive nonsubject imports.⁹⁶ The additional “replacement/benefit” test looked at whether nonsubject imports might have replaced subject imports without any benefit to the U.S. industry. The Commission applied that specific additional test in subsequent cases, including the *Carbon and Certain Alloy Steel Wire Rod from Trinidad and Tobago* determination that underlies the *Mittal Steel* litigation.

Mittal Steel clarifies that the Commission’s interpretation of *Bratsk* was too rigid and makes clear that the Federal Circuit does not require the Commission to apply an additional test nor any one specific methodology; instead, the court requires the Commission to have “evidence in the record ‘to show that the harm occurred ‘by reason of’ the LTFV imports,’” and requires that the Commission not attribute injury from nonsubject imports or other factors to

⁹³ *Mittal Steel*, 542 F.3d at 877-78; see also *id.* at 873 (“While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured ‘by reason of’ subject imports, the Commission is not required to follow a single methodology for making that determination ... {and has} broad discretion with respect to its choice of methodology.”) citing *United States Steel Group v. United States*, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75.

⁹⁴ Vice Chairman Pinkert does not join this paragraph or the following three paragraphs. He points out that the Federal Circuit, in *Bratsk*, 444 F.3d 1369, and *Mittal Steel*, held that the Commission is *required*, in certain circumstances when considering present material injury, to undertake a particular kind of analysis of non-subject imports, albeit without reliance upon presumptions or rigid formulas. *Mittal Steel* explains as follows:

What *Bratsk* held is that “where commodity products are at issue and fairly traded, price competitive, non-subject imports are in the market,” the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether non-subject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1369. Under those circumstances, *Bratsk* requires the Commission to consider whether replacement of the LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.

542 F.3d at 878.

⁹⁵ *Nucor Corp. v. United States*, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005); see also *Mittal Steel*, 542 F.3d at 879 (“*Bratsk* did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was ‘by reason’ of subject imports.”).

⁹⁶ *Mittal Steel*, 542 F.3d at 875-79.

subject imports.⁹⁷ Accordingly, we do not consider ourselves required to apply the replacement/benefit test that was included in Commission opinions subsequent to *Bratsk*.

The progression of *Gerald Metals*, *Bratsk*, and *Mittal Steel* clarifies that, in cases involving commodity products where price-competitive nonsubject imports are a significant factor in the U.S. market, the Court will require the Commission to give full consideration, with adequate explanation, to non-attribution issues when it performs its causation analysis.⁹⁸

The question of whether the material injury threshold for subject imports is satisfied notwithstanding any injury from other factors is factual, subject to review under the substantial evidence standard.⁹⁹ Congress has delegated this factual finding to the Commission because of the agency's institutional expertise in resolving injury issues.¹⁰⁰

B. Conditions of Competition and the Business Cycle

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of subject imports.

1. Demand Conditions

Demand for SC paper depends on the demand for printed paper materials that use SC paper. End uses include retail newspaper inserts, retail circulars and coupons, magazines, and catalogs.¹⁰¹

The parties agree that U.S. demand for SC paper has been declining in recent years and will continue to decline due to the migration from print to electronic media.¹⁰² Commercial advertising has moved from print to digital online media, and print periodicals such as

⁹⁷ *Mittal Steel*, 542 F.3d at 873 (quoting from *Gerald Metals*, 132 F.3d at 722), 875-79 & n.2 (recognizing the Commission's alternative interpretation of *Bratsk* as a reminder to conduct a non-attribution analysis).

⁹⁸ To that end, after the Federal Circuit issued its decision in *Bratsk*, the Commission began to present published information or send out information requests in final phase investigations to producers in nonsubject countries that accounted for substantial shares of U.S. imports of subject merchandise (if, in fact, there were large nonsubject import suppliers). In order to provide a more complete record for the Commission's causation analysis, these requests typically seek information on capacity, production, and shipments of the product under investigation in the major source countries that export to the United States. The Commission plans to continue utilizing published or requested information in final phase investigations in which there are substantial levels of nonsubject imports.

⁹⁹ We provide in our respective discussions of volume, price effects, and impact a full analysis of other factors alleged to have caused any material injury experienced by the domestic industry.

¹⁰⁰ *Mittal Steel*, 542 F.3d at 873; *Nippon Steel Corp.*, 458 F.3d at 1350, citing *U.S. Steel Group*, 96 F.3d at 1357; S. Rep. 96-249 at 75 ("The determination of the ITC with respect to causation is ... complex and difficult, and is a matter for the judgment of the ITC.").

¹⁰¹ CR at I-13, PR at I-10.

¹⁰² CR at IV-6 n.8, PR at IV-3 n.8 ; PHP's Postconference Brief at 17; Petitioners' Postconference Brief at 15-16.

newspapers and magazines have experienced declining circulation.¹⁰³ The record indicated that the trend is not unique to SC paper; printed paper products have generally experienced a decline in demand.¹⁰⁴

SC paper accounts for a moderate-to-high share of the cost of the products for which it is used.¹⁰⁵ In addition, other products can sometimes be substituted for SC paper. As a result, the elasticity of demand for SC paper is relatively high.¹⁰⁶ During the POI, there was a shift to SC paper from coated groundwood paper, a more expensive product, which may account for the increase in apparent U.S. consumption during the POI, notwithstanding the reported long-term decline in demand for SC paper.¹⁰⁷

As measured by quantity, apparent U.S. consumption rose by *** percent from 2012 to 2014, increasing from *** short tons in 2012 to *** short tons in 2013, and then declining to *** short tons in 2014.¹⁰⁸

2. Supply Conditions

During the POI, subject imports were the largest source of supply to the U.S. market, followed by the domestic industry and then by nonsubject imports.¹⁰⁹ Subject import market share increased over the POI,¹¹⁰ while the market share of the domestic industry declined.¹¹¹ The market share of nonsubject imports was small relative to subject imports and decreased irregularly over the period.¹¹² The largest sources of nonsubject SC paper during 2014 were (1) Finland, (2) Norway, (3) Sweden, (4) Belgium, and (5) Germany.¹¹³

Two major events during the POI affected supply in the U.S. market. A fire at Verso's Sartell, Minnesota paper mill in May 2012 resulted in the loss of 35,000 short tons of domestic

¹⁰³ CR at II-11, PR at II-7. For instance, two large retailers, Kohl's and Target Corp., recently announced they are shifting away from using advertising inserts. CR at II-11 n.20, PR at II-7 n.20. See also Tr. at 65 (Johnston) (discussion of Kohl's and Target's announcements).

¹⁰⁴ Tr. at 108 (Ostrowski).

¹⁰⁵ CR at II-9, PR at II-6.

¹⁰⁶ See CR at II-9, PR at II-6.

¹⁰⁷ See CR at II-11, II-13, PR at II-8 to II-9.

¹⁰⁸ CR/PR at Table IV-3

¹⁰⁹ CR/PR at Table IV-3.

¹¹⁰ As measured by quantity, subject import market share increased from *** percent in 2012 to *** percent in 2013 and *** percent in 2014. CR/PR at Table IV-3.

¹¹¹ CR/PR at Table C-2. As measured by quantity, the market share of the domestic industry declined from *** percent in 2012 to *** percent in 2013 and then increased to *** percent in 2014. CR/PR at Table C-2.

¹¹² As measured by quantity, nonsubject import market share was *** percent in 2012, *** percent in 2013, and *** percent in 2014. CR/PR at Table IV-3.

¹¹³ CR at IV-3, PR at IV-2.

SC paper production capacity.¹¹⁴ As a result, the domestic industry's capacity declined over the POI from *** short tons to *** short tons.¹¹⁵

In October 2012, PHP restarted production of SC paper at its 400,000 ton mill in Nova Scotia.¹¹⁶ Because the Canadian producers have a *** and over *** percent of their shipments were to the United States during 2013 and 2014, the reopening of the PHP mill essentially added supply to the U.S market.¹¹⁷ Petitioners claim that the anticipated re-opening of the 400,000 ton PHP mill in Canada was part of the reason for Verso's decision not to rebuild and restart the Sartell, Minnesota mill.¹¹⁸

3. Substitutability

SC paper is sold in several grades. As discussed above in section III, these grades, which include SCA++, SCA+, SCA, SCB, and SNC, are not industry standards, and vary from producer to producer.¹¹⁹ The parties dispute the degree to which the domestic like product and subject imports are substitutable. Petitioners assert that SC paper is a commodity-like product that competes on the basis of price.¹²⁰ Respondents, on the other hand, emphasize the importance of non-price factors in purchasing decisions. Irving Paper and PHP stated that the ease with which SC paper runs through the presses and prints is an important purchasing factor for purchasers. Irving reported that in addition to quality, flexibility of supply is an important purchasing factor.¹²¹ Respondents also contend that competition is attenuated between the Canadian producers of SC paper and the domestic industry because they produce different grades of SC paper.¹²²

¹¹⁴ CR at III-4, PR at III-3. Verso indicated that it considered reopening the plant but the *** of doing so, the length of time to rebuild, and marketplace challenges led to its decision not to reopen the mill. CR at III-4, III-4 n.7, III-3 n.7.

¹¹⁵ CR/PR at Table C-2. Verso purchased a mill in Duluth, Minnesota from NewPage Holdings, Inc., which had entered bankruptcy. CR at III-5, PR at III-3. Verso reported data for SC paper operations at both the Sartell, Minnesota and Duluth, Minnesota mills. CR at III-5 n.8, PR at III-3 n.8.

¹¹⁶ CR at III-5, PR at III-3.

¹¹⁷ In 2014, *** percent of subject producers' shipments of SC paper were to the United States. CR/PR at Table VII-2.

¹¹⁸ Petitioners' Postconference Brief at 32. PHP contends that PHP's re-opening played no role in the decision not to rebuild Verso's Sartell plant. PHP's Postconference Brief at 2-3 & 5.

¹¹⁹ CR at I-12, PR at, PR at I-9; Tr. at 85- 86 (Drechsel).

¹²⁰ Petitioners' Postconference Brief at 16-17.

¹²¹ See CR at II-15, PR at II-9.

¹²² Respondents contend that Canadian producers focus on production of SCA++ and SCA+ grades of SC paper, while U.S. producers primarily produce SCA grade SC paper. PHP's Postconference Brief at 3. Irving Paper also contends that competition is limited because the domestic industry makes limited quantities of SCB grade paper and no soft nipped (SNC) paper, while Canadian producers produce these grades. Irving Paper's Postconference Brief at 13-14. The collected pricing data, however, indicate that the domestic industry is producing and selling SCB, SCA, and SCA+ grades of SC paper. See CR/PR at Tables V-3 to V-9. Moreover, as stated in section III.C above, the parties agree that there is at least some interchangeability among SC paper products of different grades.

(Continued...)

The record in the preliminary phase of this investigation suggests a moderate to high degree of substitutability between domestically produced SC paper and SC paper imports from Canada.¹²³ A majority of all questionnaire respondents reported that the domestic like product and subject imports were either always or frequently interchangeable.¹²⁴ A majority of both producers and importers reported that non-price factors were sometimes important in their purchasing decisions, with minorities of producers stating that such differences were either never important or frequently important.¹²⁵

4. Other Conditions

The production of SC paper is capital intensive. Petitioners estimate a new greenfield pulp and paper facility would cost approximately \$500 to \$700 million.¹²⁶ Producers seek to run their paper machines on a near continuous basis to maximize efficiency.¹²⁷

The main raw materials used in the production of SC paper are mechanical pulp, chemical pulp, fillers, and additives.¹²⁸ *** reported that the cost of raw material inputs has increased since January 1, 2012, while *** indicated that the cost of raw materials has fluctuated.¹²⁹ The domestic industry's cost of goods sold ("COGS") per short ton of SC paper declined from \$*** in 2012 to \$*** in 2014.¹³⁰ Both Madison and Verso reported that energy costs were significant for SC paper production. Verso reported that energy costs accounted for *** percent of its COGS during 2014, while Madison reported that the share of COGS accounted for by energy costs was *** percent in 2014.¹³¹

SC paper is made-to-order and is not held in inventory; printers purchase SC paper for specific end users.¹³² Domestic producers reported lead times that ranged from 28 to 60 days, and U.S. importers reported that lead times ranged from 28 to 45 days.¹³³

(...Continued)

We will further explore substitutability between SC paper grades in any final phase of this investigation, including the extent to which differences in grades supplied may limit competition between subject imports and the domestic like product.

¹²³ CR at II-14, PR at II-9.

¹²⁴ CR/PR at Table II-4. A majority of all questionnaire respondents also indicated that nonsubject SC paper and Canadian SC paper were either always or frequently interchangeable. *Id.*

¹²⁵ CR/PR at Table II-5.

¹²⁶ Tr. at 20 (Dreschel).

¹²⁷ CR at VI-10, VI-10 n.14, PR at VI-3 n.14.

¹²⁸ CR at I-14, PR at I-11.

¹²⁹ CR/PR at Table C-2.

¹³⁰ CR/PR at Table C-2.

¹³¹ CR at V-2, PR at V-1.

¹³² CR at II-2 n.12, PR at II-2 n.12; CR at II-14, PR at II-9.

¹³³ CR at II-15, PR at II-9.

C. Volume of Subject Imports

Section 771(7)(C)(i) of the Tariff Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”¹³⁴

The volume of subject imports, as measured by quantity, increased from *** short tons in 2012 to *** short tons in 2013 and *** short tons in 2014, an increase of *** percent over the POI.¹³⁵ The market share of subject imports increased steadily, as the subject imports remained the largest source of supply to the U.S. market throughout the POI. On a quantity basis, the market share of subject imports increased from *** percent in 2012 to *** percent in 2013 and *** percent in 2014.¹³⁶

Subject imports took market share from both the domestic industry and nonsubject imports. The domestic industry lost *** percentage points of market share over the POI, while nonsubject imports lost *** percentage points of market share.¹³⁷ Further, the ratio of subject imports to domestic industry production increased from *** percent in 2012 to *** percent in 2014, an increase of more than *** percentage points.¹³⁸

We find for purposes of the preliminary phase of this investigation that the volume of subject imports is significant both in absolute terms and relative to consumption and production in the United States.

D. Price Effects of the Subject Imports

Section 771(7)(C)(ii) of the Tariff Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether –

(I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and

(II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.¹³⁹

¹³⁴ 19 U.S.C. § 1677(7)(C)(i).

¹³⁵ CR/PR at Table IV-2

¹³⁶ CR/PR at Table IV-3. PHP has asserted that the loss of domestic capacity because of the 2012 fire at Verso’s mill explains the increase in subject imports. PHP’s Postconference Brief at 5. The record indicates that subject imports’ increase in volume and market share continued into 2014, when subject import volume and market share rose despite a decline in apparent U.S. consumption. See CR/PR at Table C-2.

¹³⁷ See CR/PR at Table C-2.

¹³⁸ CR/PR at Table IV-2.

¹³⁹ 19 U.S.C. § 1677(7)(C)(ii).

As stated above, the current record indicates a moderate to high degree of substitutability between subject imports and the domestic like product. Moreover, most domestic producers and importers described differences other than price between subject imports and domestically produced SC paper as being only sometimes important.¹⁴⁰ We therefore find that price is an important consideration in purchasing decisions.¹⁴¹

The Commission requested domestic producers and importers of subject merchandise to provide quarterly weighted-average delivered prices for product sold directly to unrelated customers.¹⁴² Three domestic producers¹⁴³ and four importers submitted data regarding seven SC paper products.¹⁴⁴ Subject imports undersold the domestic like product in *** out of *** possible quarterly comparisons and oversold it in the remaining *** comparisons.¹⁴⁵ The volume of subject imports that undersold the domestic like product amounted to *** percent of the volume of subject imports accounted for in the pricing data.¹⁴⁶ For purposes of our preliminary determination, we do not find that subject imports undersold the domestic like product to a significant degree.

With respect to whether subject imports depressed prices to a significant degree, we considered changes in U.S. and subject import prices over the POI. According to questionnaire data, the domestic industry's weighted-average prices for all seven pricing products decreased overall between the first quarter of 2012 and the fourth quarter of 2014.¹⁴⁷ Prices of U.S.

¹⁴⁰ CR/PR at Table II-5.

¹⁴¹ As stated above, we will consider the issue of substitutability further in any final phase of this investigation.

¹⁴² CR at V-7, PR at V-5. The pricing data reported by domestic producers accounted for approximately 58.8 percent of the domestic industry's U.S. shipments of SC paper during the POI and 61.5 percent of U.S. shipments of subject imports in the same period. CR at V-8, PR at V-5.

¹⁴³ We have excluded from our analysis the pricing data of Resolute USA consistent with our decision to exclude it as a related party.

¹⁴⁴ The Commission collected data for two SCA+ grade products, three SCA grade products, and two SCB grade products. CR at V-7, PR at V-5. The majority of U.S. producers' price data were for sales of ***. Importers reported price data primarily for sales of ***. CR at V-8, PR at V-5 to V-6.

¹⁴⁵ Subject imports' margins of underselling ranged from *** to *** percent during the POI. CR/PR at Table V-11 (revised to exclude Resolute USA). Subject imports' margins of overselling ranged from *** to *** percent during the POI. *Id.*

¹⁴⁶ See CR/PR at Table V-11 (revised to exclude Resolute USA).

¹⁴⁷ The domestic industry's price for product 1 decreased irregularly from \$*** per ton in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-3 (revised to exclude Resolute USA). Its price for product 2 decreased irregularly from \$*** per short ton in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-4 (revised to exclude Resolute USA). Its price for product 3 decreased irregularly from \$*** per short ton in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-5 (revised to exclude Resolute USA). Its price for product 4 decreased irregularly from \$*** per short ton in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-6 (revised to exclude Resolute USA). Its price for product 5 decreased irregularly from \$*** per short ton in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-7 (revised to exclude Resolute USA). Its price for product 6 decreased irregularly from \$*** per short in the first (Continued...)

shipments of SC paper from Canada also declined during the POI to an extent comparable to that of domestically produced SC paper.¹⁴⁸

The record indicates that, because domestic producers need to run their mills at high capacity utilization,¹⁴⁹ domestic mills have priced their product competitively and often below the level of subject imports to maintain their sales volumes.¹⁵⁰ We therefore find for purposes of the preliminary phase of this investigation that subject imports depressed prices for domestically produced SC paper to a significant degree. However, we intend to explore alternative reasons for any price declines in any final phase of the investigation, including the long-term decline in demand and the degree to which prices for coated groundwood paper affect prices for SC paper.

We also examined whether subject imports prevented price increases, which would have otherwise occurred, to a significant degree during the POI. As discussed above, apparent U.S. consumption increased from 2012 to 2014.¹⁵¹ During that time, the domestic industry's average unit net sales values declined steadily from \$*** per short ton in 2012 to \$*** per short ton in 2013 and \$*** per short ton in 2014.¹⁵² By comparison, the domestic industry's unit COGS declined by a considerably smaller amount during the POI. Unit COGS was \$*** per short ton in 2012, \$*** per short ton in 2013, and \$*** per short ton in 2014.¹⁵³ As a result, the domestic industry's COGS as a ratio to net sales increased steadily from *** percent in 2012 to *** percent in 2013 and *** percent in 2014.¹⁵⁴ Consequently, the record indicates that the domestic industry was increasingly unable to price its SC paper at levels that permitted it to cover its costs.¹⁵⁵

The record also indicates that ***. ***.¹⁵⁶ This is consistent with the pricing data that reflect increasing prices during 2013 followed by falling prices during 2014 for six of the seven pricing products (products 1-5, and 7).¹⁵⁷

Respondents maintain there were several factors other than subject imports that accounted for the domestic industry's inability to maintain its prices at profitable levels during the POI. They cite competition among the domestic producers, competition from substitute

(...Continued)

quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-8 (revised to exclude Resolute USA). Its price for product 7 decreased irregularly from \$*** per short in the first quarter of 2012 to \$*** per short ton in the fourth quarter of 2014. CR/PR at Table V-9 (revised to exclude Resolute USA).

¹⁴⁸ See CR/PR at Tables V-3 to V-9 (revised to exclude Resolute USA).

¹⁴⁹ CR at VI-5, VI-10, PR at VI-2, VI-3.

¹⁵⁰ Tr. at 41 (Clancy) (Verso has "had to reduce prices to maintain sales volumes"); CR at VI-19, PR at VI-6 (Madison has ***).

¹⁵¹ See CR/PR at Table C-2.

¹⁵² CR/PR at Table C-2.

¹⁵³ CR/PR at Table C-2.

¹⁵⁴ CR/PR at Table C-2.

¹⁵⁵ See CR/PR at Table C-2.

¹⁵⁶ Petitioners' Postconference Brief at 21-22, 22 n.83.

¹⁵⁷ See CR/PR at Tables V-3 to V-9 (revised to exclude Resolute USA).

products, and the long-term decline in demand for paper products generally, as all playing a role in the domestic industry's unprofitable pricing.¹⁵⁸ We intend to explore further the factors affecting the domestic producers' inability to price their SC paper in a manner commensurate with costs in any final phase of this investigation. Nonetheless, for purposes of the preliminary phase of the investigation, we find evidence that subject imports prevented price increases that otherwise would have occurred to a significant degree.¹⁵⁹

E. Impact of the Subject Imports

Section 771(7)(C)(iii) of the Tariff Act provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry." These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."

During the POI, the domestic industry's performance indicators generally declined. In light of its supply conditions, an increase in output was not likely even with increased consumption. The domestic industry's production capacity declined due to the 2012 fire at Verso's Sartell, Minnesota mill.¹⁶⁰ The fire also appears to have been responsible for the domestic industry's lower U.S. shipments, net sales, and production because they declined from 2012 to 2013 before increasing in 2014.¹⁶¹ The domestic industry's capacity utilization increased, however.¹⁶² Employment and wages declined, but productivity increased.¹⁶³

¹⁵⁸ PHP's Postconference Brief at 11-15. PHP argues that the fire at Verso's Sartell mill caused a supply shock in 2012. PHP's Postconference Brief at 2-3; Tr. at 110 (Ostrowski); 114 (Malashevich). While PHP asserts that the supply shock following the closure of Verso's Sartell mill in 2012 was responsible for higher volumes of subject imports, PHP's Postconference Brief at 8-9, it is unclear whether PHP is also arguing that this supply tightness resulted in a price effect in 2012.

¹⁵⁹ The domestic industry made 12 lost sales allegations totaling \$*** and involving *** short tons of SC paper, and 217 lost revenue allegations totaling \$*** and involving *** short tons of SC paper. CR at V-26, PR at V-9. For a large share of these allegations (*** lost sales and *** lost revenue), the Commission did not receive a response from the purchaser. For the remainder, purchasers either did not know or disagreed with the alleged lost sales and lost revenue claims. CR/PR at Tables V-12 and Table V-13. One *** purchaser (***) reported switching between SCB grade paper and SCA grade paper and purchasing from U.S. producers and subject producers. CR/PR at Table V-13. We also note that petitioners provided additional detailed information on price competition at several purchaser accounts. Petitioners' Postconference Brief at 27-30. We intend to examine carefully the information we receive from purchasers concerning their buying decisions in any final phase of this investigation.

¹⁶⁰ Average production capacity was *** short tons in 2012 and *** short tons in 2013 and 2014. CR/PR at Table C-2.

¹⁶¹ The domestic industry's U.S. shipments were *** short tons in 2012, *** short tons in 2013, and *** short tons in 2014. Its net sales were *** short tons in 2012, *** short tons in 2013, and *** short tons in 2014. The domestic industry's production was *** short tons in 2012, *** short tons in (Continued...)

The domestic industry's financial performance deteriorated during the POI. Sales revenues decreased from 2012 to 2014.¹⁶⁴ The domestic industry's ratio of COGS to net sales rose throughout the POI,¹⁶⁵ and its ratio of operating income to net sales declined.¹⁶⁶ Operating income declined from \$*** in 2012 to \$*** in 2013 and to a *** in 2014.¹⁶⁷ The decline in the domestic industry's operating income over the POI was primarily the result of the decrease in unit sales values exceeding the decline in unit costs.¹⁶⁸

The POI was characterized by increasing and significant volumes of subject imports that were good substitutes for the domestic like product and competed on price. To maintain sales and capacity utilization, the domestic industry was required to price its products competitively. The record of the preliminary phase of this investigation indicates that the significant volumes of subject imports depressed prices for the domestic like product and prevented price increases that otherwise would have occurred. The record indicates that, because of these adverse movements in prices, the domestic industry's revenues declined absolutely and were lower than they would have been absent subject import competition. These lower revenues, in turn, caused poor and declining operating performance. Accordingly, for purposes of this preliminary determination, we find that the significant volume of subject imports from Canada had a significant impact on the domestic industry.

In reaching this conclusion, we have considered whether there are factors other than subject imports that may have had an adverse impact on the domestic industry during the POI to ensure that we are not attributing any injury from other such factors to the subject imports.

(...Continued)

2013, and *** short tons in 2014. CR/PR at Table C-2. Its inventories were *** during the POI because, as discussed in section IV.B.4, SC paper is typically not held in inventory.

¹⁶² The domestic industry's capacity utilization rose from *** percent in 2012 to *** percent in 2013 and *** percent in 2014. CR/PR at Table C-2.

¹⁶³ Production-related workers, hours worked, and wages decreased over the POI. See CR/PR at Table C-2. The industry's number of workers declined from *** workers in 2012 to *** workers in 2013 and *** workers in 2014. *Id.* The domestic industry's hours worked fell from *** in 2012 to *** in 2013 and 2014. *Id.* The wages the industry paid to its workers fell from \$*** in 2012 to \$*** in 2013, and then increased to \$*** in 2014. *Id.* The industry's productivity increased from *** short tons per 1,000 hours in 2012 to *** short tons per 1,000 hours in 2013 and *** short tons per 1,000 hours during 2014. *Id.*

¹⁶⁴ The domestic industry's sales revenues fell from \$*** in 2012 to \$*** in 2013 and \$*** in 2014. CR/PR at Table C-2.

¹⁶⁵ The domestic industry's COGS as a ratio to net sales increased steadily, and was *** percent in 2012 to *** percent in 2013 and *** percent in 2014. CR/PR at Table C-2.

¹⁶⁶ The domestic industry's operating income margin declined from *** percent in 2012 to *** percent in 2013 and *** percent in 2014. CR/PR at Table C-2.

¹⁶⁷ The domestic industry's capital expenditures increased from \$*** in 2012 to \$*** in 2014. CR/PR at Table VI-4. Its research and development expenses increased from \$*** in 2012 to \$*** in 2014. *Id.*

¹⁶⁸ See CR Table C-2.

As discussed above, apparent U.S. consumption generally increased during the POI,¹⁶⁹ and imports from nonsubject countries had a declining presence in the U.S. market and were at low volumes relative to the subject imports.¹⁷⁰ Accordingly, nonsubject imports do not appear to have been a substantial cause of the domestic industry's declining prices.¹⁷¹ Therefore, neither demand conditions nor nonsubject imports appear to explain the domestic industry's declines in prices and revenues and deteriorating financial performance during the POI. However, as discussed above, we will consider in any final phase of this investigation the extent to which alternative causes, such as a long-term decline in demand for paper products and declining prices of alleged substitute products, explain the declining prices and injury to the industry.

VI. Conclusion

For the reasons stated above, we determine that there is a reasonable indication that an industry in the United States is materially injured by reason of subject imports of SC paper that are allegedly subsidized by the government of Canada.

¹⁶⁹ Apparent U.S. consumption of SC paper increased overall during the POI, from *** million short tons in 2012 to *** million short tons in 2014. CR/PR at Table IV-3.

¹⁷⁰ As measured by quantity, nonsubject import market share was *** percent in 2012, *** percent in 2013, and *** percent in 2014. CR/PR at Table IV-3.

¹⁷¹ Vice Chairman Pinkert does not undertake a *Bratsk/Mittal Steel* analysis in this investigation because he does not find that nonsubject imports were a significant factor in the U.S. market.

PART I: INTRODUCTION

BACKGROUND

This investigation results from a petition filed on February 26, 2015, by the Coalition for Fair Paper Imports, which is an ad hoc association of U.S. producers that includes Madison Paper Industries, Inc. (“Madison”) and Verso Corp. (“Verso”),¹ alleging that an industry in the United States is materially injured or is threatened with material injury, by reason of imports from Canada of supercalendered paper (“SC paper”)² that are allegedly subsidized by the government of Canada. The following tabulation provides information relating to the background of these investigations.^{3 4}

Effective date	Action
February 26, 2015	Petition filed with Commerce and the Commission; institution of Commission investigation (80 FR 12036, March 5, 2015)
March 18	Commerce’s notice of initiation of a countervailing duty investigation (80 FR 15981, March 26, 2015)
March 19	Commission’s conference
April 10	Commission’s vote
April 14	Commission’s determination
April 21, 2015	Commission’s views

STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

Statutory criteria

Section 771(7)(B) of the Tariff Act of 1930 (the “Act”) (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission--

shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and. . .

¹The petition stated that it is also supported by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (“USW”), which represents a significant number of employees at Madison’s Madison, Maine paper mill.

² See the section entitled “The Subject Merchandise” in *Part I* of this report for a complete description of the merchandise subject to this investigation.

³ Pertinent *Federal Register* notices are referenced in app. A, and may be found at the Commission’s website (www.usitc.gov).

⁴ A list of witnesses that appeared at the conference is presented in app. B of this report.

may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.

...

In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether. . .(I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.

...

In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to . . . (I) actual and potential decline in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.

Organization of report

Part I of this report presents information on the subject merchandise, alleged subsidy margins, and domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV* and *V* present the volume of subject imports and pricing of domestic and imported products, respectively. *Part VI* presents information on the financial experience of U.S. producers. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury as well as information regarding nonsubject countries.

MARKET SUMMARY

The U.S. market for SC paper totaled approximately \$*** and *** short tons in 2014. The Commission received questionnaire responses from three firms, Madison, Resolute FP US, Inc. (“Resolute USA”), and Verso, that produce SC paper in the United States, which accounted for all U.S. SC paper production during the period of investigation. The Commission received questionnaire responses from seven firms that reported importing SC from Canada and nonsubject countries during the period of investigation.

U.S. producers’ U.S. shipments of SC paper totaled *** short tons valued at \$*** in 2014, and accounted for *** percent of apparent U.S. consumption by quantity (***) percent by value). U.S. imports of SC paper from Canada totaled *** short tons valued at \$*** in 2014, and accounted for *** percent of apparent U.S. consumption by quantity (***) percent by value). U.S. imports from all other sources combined totaled *** short tons valued at \$*** in 2014, and accounted for *** percent of apparent consumption by quantity (***) percent by value). SC paper is generally used to produce printed materials such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials, corporate brochures, and coupons.

SUMMARY DATA AND DATA SOURCES

A summary of data collected in this investigation is presented in appendix C, table C-1. U.S. industry data are based on questionnaire responses of three U.S. producers of SC paper that accounted for all of U.S. production of SC paper during the period of investigation. Data for U.S. imports from Canada and nonsubject countries are based on seven responses to the Commission's U.S. importer questionnaire and accounted for all U.S. imports of SC paper from Canada and approximately 60.0 percent of U.S. imports from nonsubject countries. Foreign industry data are based on four responses to the Commission’s U.S. foreign producer questionnaire which accounted for all production of SC paper in Canada during the period of investigation. Appendix C, table C-2 presents domestic industry data excluding Resolute USA, which is related to a foreign producer in Canada.

PREVIOUS AND RELATED INVESTIGATIONS

SC paper has not been the subject of any prior antidumping or countervailing duty investigations in the United States.

NATURE AND EXTENT OF ALLEGED SUBSIDIES

On March 26, 2015, Commerce published a notice in the *Federal Register* of the initiation of its countervailing duty investigation on SC paper from Canada. In its notice,

Commerce determined that there was sufficient information in the petition to investigate 28 alleged countervailable subsidy programs.⁵

THE SUBJECT MERCHANDISE

Commerce's scope

Commerce has defined the scope of this investigation as follows:

The merchandise covered by this investigation is supercalendered paper (SC paper). SC paper is uncoated paper that has undergone a calendering process in which the base sheet, made of pulp and filler (typically, but not limited to, clay, talc, or other mineral additive), is processed through a set of supercalenders, a supercalender, or a soft nip calender operation.¹

The scope of this investigation covers all SC paper regardless of basis weight, brightness, opacity, smoothness, or grade, and whether in rolls or in sheets. Further, the scope covers all SC paper that meets the scope definition regardless of the type of pulp fiber or filler material used to produce the paper.

⁵*Supercalendered Paper from Canada: Initiation of Countervailing Duty Investigation*, 80 FR 15981, March 26, 2015.

Commerce found that sufficient information existed to initiate countervailing duty investigations on 28 of the 29 subsidy allegations provided in the petition. The following subsidy allegations are to be investigated by Commerce: (1) Government of Nova Scotia ("GNS") Loan for Working Capital; (2) GNS Loan to Improve Productivity and Efficiency; (3) Richmond County (Nova Scotia) Promissory Note for Property Taxes; (4) Uncreditworthiness of the Port Hawkesbury Mill in 2011 and 2012; (5) Richmond County (Nova Scotia) Property Tax Reduction; (6) Retention of Accumulated Tax Loss to Carry Forward; (7) GNS Purchase of Land for More than Adequate Remuneration; (8) GNS Grants from the Hot Idle and Forestry Infrastructure Fund; (9) GNS Grants for the Promotion of Forest Management and Sustainable Harvesting; (10) GNS Provision of Funds for Worker Training; (11) GNS Preferential Electricity Rate for PHP; (12) GNS Subsidized Biomass Plant Supplying Steam; (13) GNS Provision of Stumpage and Biomass Material for Less Than Adequate Remuneration; (14) Grants Under the Federal Forestry Industry Transformation Program; (15) The Federal Atlantic Innovation Program; (16) Government of New Brunswick Funds for J.D. Irving; (17) The Federal Pulp and Paper Green Transformation Program; (18) Loan from the Government of New Brunswick; (19) Efficiency New Brunswick Grant; (20) Government of Québec Support for the Forest Industry Program; (21) The Powell River City Revitalization Tax Exemption Program; (22) New Brunswick Climate Action Fund Grants; (23) British Columbia Power Smart Program; (24) The Federal Transformative Technologies Pilot Scale Demonstrative Program; (25) The British Columbia Ministry of Forests, Mines and Land Program; (26) BC Bioenergy Network Grants; (27) New Brunswick Energy Rebate Fund; (28) Ontario Northern Industrial Electricity Rate Program.

Commerce did not initiate a countervailing duty investigation on the following subsidy allegation: (1) Purchase of Mill for Less Than Adequate Remuneration. *Supercalendered Paper from Canada: Initiation of Countervailing Duty Investigation*, Initiation Checklist, March 18, 2015.

Specifically excluded from the scope are imports of paper printed with final content of printed text or graphics.

Subject merchandise primarily enters under Harmonized Tariff Schedule of the United States (HTS) subheading 4802.61.3035, but may also enter under subheadings 4802.61.3010, 4802.62.3000, 4802.62.6020, and 4802.69.3000. Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.

¹ *Supercalendering and soft nip calendering processing, in conjunction with the mineral filler contained in the base paper, are performed to enhance the surface characteristics of the paper by imparting a smooth and glossy printing surface. Supercalendering and soft nip calendering also increase the density of the base paper.*

Tariff treatment

The subject merchandise is primarily imported under statistical reporting number 4802.61.3035⁶ of the Harmonized Tariff Schedule of the United States (“HTS”); subheading 4802.61.35 has a general rate of duty of free. Prior to July 1, 2014, SC paper entered the United States under statistical reporting numbers 4802.61.3010 and 4802.61.3090, which included other uncoated mechanical paper products other than SC paper such as uncoated directory and book paper.⁷

⁶ HTS 4802.61.3035 covers nonenumerated paper and paperboard, of which more than 10 percent by weight of the total fiber content consists of fibers obtained by a mechanical or chemi-mechanical process, in rolls of a width exceeding 15 cm, weighing 40 g/m² or more, supercalendered. Supercalendered paper in rolls weighing less than 40 g/m² continues to be imported under statistical reporting number 4802.61.3010.

⁷ The statistical reporting number for SC paper, HTS 4802.61.3035, became effective in July 2014 and includes SC paper with a basis weight of 40 g/m² (“gsm”) or more. Petitioner stated that it believes that virtually all SC paper subject to this petition is being imported under 4802.61.3035 and that little, if any, SC paper is produced that would have a basis weight of less than 40 gsm, which would enter the United States under statistical reporting number 4802.61.3010.

THE PRODUCT

Description and applications

Paper Product Categories

The global paper industry produces five broad categories of printing and writing paper products, differentiated by the surface characteristics of the paper and the processes by which their wood fibers are obtained.⁸ These five categories, ranked in descending order by overall quality and price, are described below:

Coated free sheet—clay coated paper predominately composed of chemically obtained fibers (90 percent or more by weight), used primarily for permanent and higher priced publications such as premium magazines, gift books, and art reproductions.

Uncoated free sheet—similar in composition to coated free sheet but without coating and used primarily for xerographic paper, printing, drawing, and writing paper (e.g., letterhead, stationery).

Coated groundwood—clay coated paper made with substantial proportions of mechanically derived pulp, generally used for multi-colored publications that remain in use from several days to a month—primarily magazines, merchandising catalogues, and better quality newspaper inserts.⁹

Uncoated groundwood—similar in composition to coated groundwood but without the coating, used primarily for directory stock, lesser quality drawing and writing paper, black and white publications, and relatively short-lived color publications, such as newspaper inserts.

Newsprint—a low quality uncoated groundwood paper designed exclusively for newspapers and similar publications commonly disposed of within a day.

⁸The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Preliminary)*, USITC Publication 4108, November 2009, p. I-9.

⁹ Coated groundwood paper contains more than 10 percent mechanical pulp by weight. Paper products that contain predominately mechanical pulp are generally called “groundwood” or “mechanical” papers in the in paper industry.

In 2014, the North American market for coated groundwood accounted for *** short tons whereas the SC paper market accounted for *** short tons. Thus, the North American coated groundwood market is approximately *** percent larger than the SC paper market. Port Hawkesbury’s postconference brief, exh. 1, attachment F (citing statistics from the Pulp and Paper Products Counsel).

Uncoated groundwood paper is comprised of four categories of paper—SC paper (more fully described *infra*), directory paper, high-bright paper, and high-bulk paperback book paper. Directory paper is a lower weight paper frequently used in the production of telephone directories. High-bright paper is paper with high levels of brightness and opacity used in the production of such things as catalogs, advertising inserts, and direct mail items. High-bulk paperback book paper is paper that has lower levels of brightness and is a thick paper relative to its weight; as its name implies, it is used primarily in the production of paperback books. Directory paper, high-bright paper, and high-bulk paperback book paper lack the gloss of SC paper.¹⁰

SC Paper

SC paper is an uncoated printing paper made from mechanical pulp, chemical pulp, fillers, and additives.¹¹ The finish (surface) of the SC paper is produced by the movement of the paper web through a supercalender, a vertical stack of alternating steel rolls and cotton rolls. The rolls apply heat and pressure to the paper, imparting a gloss to the surface and increasing its smoothness and density. The extent of the supercalendering determines the extent of the gloss. Gloss and smoothness can also be imparted to the paper web through a less rigorous calendaring process known as soft (nip) calendaring, which involves fewer steel rolls and cotton rolls than that of a supercalender. Supercalenders can be on-line (part of the paper machine) or off-line (a stand-alone unit separate from the paper machine). Soft nip calenders are typically on-line.¹² SC paper is sold in rolls with widths ranging from 15 to 150 inches. It is generally not sold in sheets nor turned into sheets by end users or distributors before printing.¹³

Physical Characteristics of SC Paper

The primary physical characteristics of all paper products, including SC paper, include: (1) brightness, (2) basis weight, (3) finish, (4) opacity, (5) smoothness, and (6) caliper.¹⁴

Brightness

Brightness is a measure of the paper's ability to reflect light. The higher the brightness, the greater the contrast is between the paper and the colors printed upon it. In the paper

¹⁰ *Global Pulp & Paper Fact & Price Book 2006*, 161-62. Bedford, Massachusetts: RISI, Inc., 2006.

¹¹ SC paper is produced primarily with mechanical pulp with chemical pulp added to strengthen the end product. Conference transcript, p. 77 (Drechsel) (“mainly mechanical pulp {is used in the production of} SC paper. You use some of the chemical pulp . . . as a reinforcing pulp. If you think of how you see concrete, you have rebar and concrete in the cement. Think of the chemical pulp as the rebar, and the cement would be the mechanical pulp.”).

¹² Petition, pp. I-3-I-6.

¹³ Petition, pp. I-4, I-10; Conference transcript, p. 22 (Drechsel).

¹⁴ The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Final)*, USITC Publication 4192, November 2010, pp. I-15-I-17.

industry, brightness can be measured using several established methods, the most common being the (1) GE Brightness Scale, which is more common in North America, and (2) ISO Brightness Scale, which is more common in the Europe. The two scales differ slightly in how they measure brightness and as a result ISO brightness is approximately one to two units lower than GE brightness. In the GE Brightness Scale, brightness ranges from 1, a totally black grade, to 100, the brightest measured grade. Typical GE brightness levels for SC paper range from 63 to 75.

Basis Weight

Basis weight, a traditional unit of measurement in the U.S. paper industry, is the weight in pounds of a ream of paper (500 sheets of paper) of a given size (the basis).¹⁵ The size of the basis can differ for various paper products. The typical basis size for SC paper is 25 inches by 38 inches. Basis weights for SC paper range from about 28 lbs. (41.4 g/m²) to about 50 lbs. (74.0 g/m²).

Finish

The finish on a paper product refers to the characteristics of the surface of the paper. The most common finishes are gloss, dull, and matte. Paper with a gloss finish has a very hard and smooth surface, which results in a printed image that is lustrous and shiny in appearance. Paper with a dull finish has a smooth surface but lacks luster or gloss. Paper with a matte finish also has a smooth surface but lacks gloss.

Opacity

Opacity is a measure of the amount of light which is transmitted through the paper. The higher the opacity the less likely a printed image on one side of the paper will show through to the other side. The opacity measurement is expressed as a percentage of the light that cannot pass through the sheet of paper. For example, a measurement of 98 percent opacity means that 98 percent of the light cannot pass through the paper. Therefore, when measuring opacity, the higher the percentage of opacity then the less transparent the paper.

Smoothness

Smoothness is the even and consistent continuity of the surface of the paper. Smoothness can be measured by a number of methods. The Bekk method measures smoothness in units of time (seconds) for a given volume of air to pass across the surface of the paper. Using this method, the longer the time measured then the smoother the paper. For example, a surface that measures 500 Bekk seconds is smoother than a surface that measures 200 Bekk seconds. Another method, the Parker-Print Surface (“PPS”) method is designed

¹⁵ In the metric system, the weight of paper is measured in grams per square meter (g/m²).

specifically for measuring the surface roughness of printing papers and also uses forced air passing over the surface of the paper to quantify smoothness. Using this method, the lower the PPS value the smoother the paper. Generally, paper products with a gloss finish has the smoothest surface.

Caliper

Caliper is the thickness of the paper, measured in thousandths of an inch and typically expressed as points (e.g., 10 points equals 0.010 inch, 8 points equals 0.008 inch, etc.).

Grades of SC Paper

SC paper is produced in a continuum of grades—SCA++, SCA+, SCA, SCB, and SNC. SCA++, SCA+, SCA, and SCB are produced by the supercalendering process. SNC is produced by the soft nip calendaring process. The grades correspond to the brightness and smoothness levels of SC paper, with SCA++¹⁶ being the brightest and smoothest and SNC being the least bright and smooth.¹⁷ Table I-1 shows the grades of SC paper produced by U.S. and Canadian producers.

Table I-1

SC paper: Grades of SC paper produced by U.S. and Canadian producers

	SCA++	SCA+	SCA	SCB	SNC
U.S. Producers:					
Madison Paper Industries			X	X	
Verso Corporation		X	X	X	
Resolute USA	***	***	***	***	***
Canadian Producers:					
Port Hawkesbury Paper LP	X	X	X	X	
Irving Paper Limited	X	X	X	X	
Catalyst Paper Corporation			X	X	
Resolute Forest Products Inc.		X	X	X	X

Source: For Canadian producers, information gathered from company websites; for U.S. producers, e-mails from counsel, March 26, 2015.

¹⁶ Port Hawkesbury stated that its unique SCA++ SC paper, which it has branded as “Artisan,” is of such a high quality that it has created new demand in the market for SC paper from customers who previously would have only considered coated groundwood for their end uses. It estimated that ***. Port Hawkesbury’s postconference brief, exh. 1, attachments D and E.

Petitioner stated that ***. Petitioner’s postconference brief, p. 38.

¹⁷ Petition, pp. I-4, I-6; Conference transcript, p. 100 (Ostrowski).

Table I-2 shows the brightness and gloss levels for SC paper made by U.S. and Canadian producers.

Table I-2

SC paper: Range of brightness and gloss levels for grades of SC paper made by U.S. and Canadian producers

Grades of SC paper	Brightness	Gloss
SCA++	74-76	47-55
SCA+	69-71	44-57
SCA	67-75	33-52
SCB	63-68	30-35
SNC	63	29

Source: Information gathered from company websites.

End Uses of SC Paper

SC paper is sold to end users such as retailers, publishers, catalogers, and printers and to paper merchants/brokers. It is used to make a variety of printed materials which require high quality color printing and photographic images, such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials, corporate brochures, and coupons.¹⁸

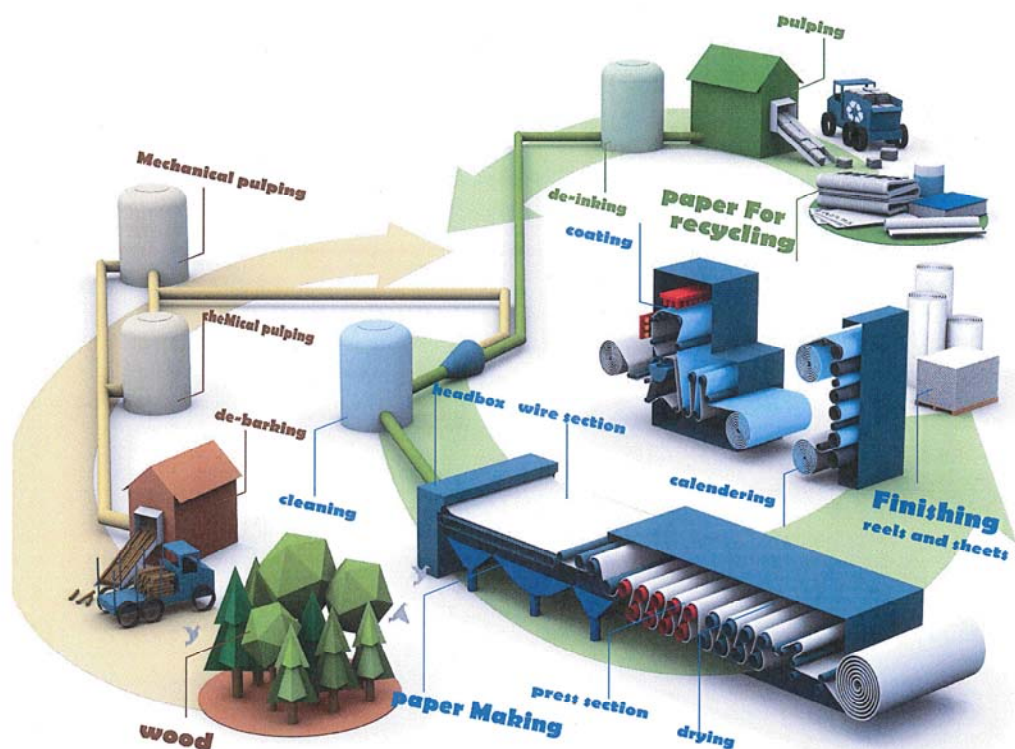
Manufacturing processes¹⁹

As illustrated in figure I-1, the production of SC paper from harvested log to final end use product includes the following manufacturing processes: (1) the production of pulp, (2) the production of the substrate paper, and (3) the supercalendering and finishing processes.

¹⁸ Petition, pp. I-3, I-11.

¹⁹The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Final)*, USITC Publication 4192, November 2010, pp. I-19-I-22; Petition, pp. I-3-I-10; Conference transcript, pp. 22-25, 50, 77 (Drechsel); Saltman, David, Laura M. Thompson, and Kathleen Bennett. *Pulp & Paper Primer Second Edition*. Atlanta, GA: TAPPI PRESS, 1998, pp. 14-16; UPM, Making Paper, pp. 8-11, found at <http://www.upmpaper.com/en/papers/downloads/brochures/Pages/default.aspx> (accessed March 12, 2015); Smook, Gary. *2nd Edition Handbook of Pulp & Paper Terminology*. Bellingham, Washington: Angus Wilde Publications Inc., 2001, p. 157; and Conference transcript, p. 34 (Johnston).

Figure I-1
SC paper: Papermaking process



Source: <http://www.paperonline.org/uploads/paper%20making.pdf> (accessed February 23, 2015).

The Production of Pulp

SC paper is made from mechanical pulp, chemical pulp,²⁰ fillers, and additives.²¹ The mechanical pulp portion is larger than the chemical pulp portion; the greater strength of the chemical pulp acts to reinforce the lower strength mechanical pulp. Mechanical pulping breaks the solid wood apart into wood fibers by one of three mechanical processes—groundwood, pressure groundwood, and thermomechanical. All three processes begin with the removal of the bark from the logs in a debarking machine. In the groundwood process, logs are ground against a rotating grindstone with an abrasive surface while a shower of water cleans and cools the grindstone and washes the fibers off of it; in the pressure groundwood process, the logs are pretreated with steam and then ground against a rotating grindstone accompanied by elevated air pressure and water temperature. In the thermomechanical process, the debarked logs are chipped into small, uniformly sized chips in a chipper. The wood chips are placed into refiners where, under heat and pressure, they are broken apart into fibers between two rotating disks.

²⁰ Chemical pulp produced using a sulphate chemical process is commonly referred to as “Kraft pulp” in the paper industry.

²¹ SC paper can also contain recycled fiber, which is recycled paper returned to the paper mill where it is repulped and combined with virgin pulp.

Chemical pulping breaks the solid wood apart into wood fibers by a chemical process. The wood logs are debarked and chipped and the chips are cooked under pressure with water and chemicals in a digester cooking vessel to separate the cellulose fibers from the lignin, the glue that holds the fibers together, and other impurities.²²

The resulting wood pulp from both the mechanical and chemical processes is bleached to attain a level of whiteness and brightness required for the grade of paper being produced. The paper can be made from both pulp made from hardwood trees (hardwood pulp) and pulp made from softwood trees (softwood pulp). The short hardwood fibers help provide a good printing surface, while the longer softwood fibers provide strength to the sheet. Different materials are added to the pulp, including fillers such as kaolin clay and calcium carbonate for brightness, opacity, and smoothness, additives (dyes for shade control and optical brighteners for whiteness), and sizing agents for moisture control. The exact proportions of these materials are determined by the specifications for the particular type of paper that is being produced. The fillers and additives used in the production of SC paper enable the calendaring process to produce the glossy finish that characterizes this grade of paper. A large volume of water is also added.

The Production of the Substrate Paper

At this stage of the manufacturing process, the pulp mixture is 99.5 percent water and it is ready to be run continuously through a paper machine. A paper machine has three major parts—the base sheet forming section (the wet end), the press section, and the dryer section. The mixture is pumped out onto a continuously moving wire web that is usually oriented horizontally and which loops around rollers at both ends. As the wire web moves along, water drains through it, the fibers begin to bond, and a sheet (web) of paper begins to form on the wire. The web at this point has 80 percent water content. The web of paper leaves the moving wire and enters the press section, where a set of steel rollers squeezes more water out of the web, reducing its water content to about 65 percent. The web then proceeds into the dryer section and passes over and under successive steam-heated drying cylinders. This drying process removes most of the remaining water from the web of paper.

The Supercalendering and Finishing Processes

The web then undergoes a calendaring process on a supercalender or a series of supercalenders.²³ A supercalender is a vertical stack of alternating steel rolls and cotton rolls, generally 10 to 12 rolls. The web snakes around each roll, with the point of contact between

²² The advantages of mechanical pulp are a higher yield (more than 90 percent of the wood is converted into pulp) and high opacity; the disadvantages are low strength and yellowing of the paper after a time. The advantages of chemical pulp are good strength, resistance to yellowing of the paper, and easier bleaching; the disadvantages are a lower yield (only 60 percent of the wood is converted into pulp) and more waste product to be treated.

²³ Calendaring is a general term to describe the process of pressing the paper web by passing it through a series of rolls to further finish and improve its surface. The type of calendaring is determined by the kind of paper to be produced.

each of the rolls (the nip) applying heat, pressure, and friction to the web, adding gloss and smoothness and reducing stiffness. The extent of the supercalendering determines the extent of the gloss. Supercalenders can be situated at the end of the paper machine or away from the paper machine as a separate unit. Soft nip calendered paper undergoes less calendaring than supercalendered paper. This calendaring process usually occurs on-line and involves only two to four hard and soft rolls through which the web is wound. After supercalendering or soft nip calendaring, the web of paper is wound onto large reels (jumbo rolls or parent rolls), which are transported to the finishing department where a slitter/rewinder unwinds and slits them into smaller width rolls ranging from 15 to 150 inches and rewinds them onto narrower reels. The reels are wrapped and labeled for delivery to customers. Until the reels actually leave the paper mill for the customer, they are kept in climate-controlled areas and monitored carefully via inventory control software.

DOMESTIC LIKE PRODUCT ISSUES

The petitioner contended that the Commission should find one domestic like product coextensive with the scope of the investigation as identified by Commerce.²⁴ For purposes of the Commission's preliminary determination, respondent Irving stated that it does not contest the definition of domestic like product as stated by petitioner.²⁵ However, respondent Irving then proceeded at the staff conference and in its postconference brief to present three alternative definitions of the domestic like product.²⁶ These alternative definitions include: (1) SCA and SCB grade SC paper should be considered separate domestic like products, (2) the definition of the domestic like product should be expanded to include coated groundwood paper, and (3) the definition of the domestic like product should be expanded to include Hi-Brite paper and newsprint.²⁷ These alternative definitions of the domestic like product are discussed in more detail below.

²⁴ Petitioner's postconference brief, p. 5.

²⁵ Respondent Irving's postconference brief, p. 2. No other respondent offered an alternative definition of the domestic like product.

²⁶ Respondent Irving's postconference brief, pp. 2-11; Conference transcript, p. 144 (Connelly).

²⁷ Respondent Irving's postconference brief, p. 2.

SCA Grade SC Paper vs. SCB Grade SC Paper²⁸

Respondent Irving argued that the Commission should find two separate definitions of the domestic like product. Irving advocated that one definition of the domestic like product consist of grade SCA SC paper and the second definition consist of grade SCB grade SC paper²⁹ corresponding with the clear dividing line separating these two types of SC paper.³⁰ Grades SCA and SCB of SC paper are both currently covered by the scope of this investigation as defined by Commerce.

Commission's Six-factor Domestic Like Product Analysis

The Commission's decision regarding the appropriate domestic products that are "like" the subject imported products is based on a number of factors including: (1) physical characteristics and uses; (2) common manufacturing facilities, production processes, and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and (6) price. The following sections provide information regarding

²⁸ Respondents Irving and Port Hawkesbury argued that there existed attenuated competition between U.S. shipments of U.S. producers and U.S. shipments of imports from Canada based on the grade of SC paper. Respondent Irving argued that attenuated competition existed because producers in Canada produce and sell substantial volume of SCB grade SC paper in the United States whereas U.S. producers tend to produce and sell SCA grade SC paper. Thus, the producers in Canada primarily sell into the "low-range" SC paper market whereas U.S. producers sell into the "mid-range" SC paper market. Respondent Irving's postconference brief, pp. 12-14.

Respondents Irving and Port Hawkesbury also argued that unlike producers of SC paper in Canada, U.S. producers do not produce significant volumes of SCA++ or SCA+ grade SC paper and thus competition is also attenuated at the "high-range" of the SC paper market. Respondent Irving's postconference brief, p. 14; Respondent Port Hawkesbury's postconference brief, p. 3.

Petitioner argued that there is no attenuated competition due to the various grades of SC paper. Citing questionnaire responses and testimony at the staff conference, petitioner stated that market participants deem all the grades of SC paper to be interchangeable and that there is no dispute that U.S. imports from Canada "serve the entire range of end uses in the U.S. market." In short, all the grades of SC paper compete with one another in the U.S. market. Moreover, petitioner stated that contrary to respondent's assertion, U.S. producers do produce the SCB and SCA+ grades of SC paper. Petitioner's postconference brief, pp. 37-38.

²⁹ Respondent Irving argued that the U.S. industry produces no SNC grade SC paper and very little, if any SCB grade SC paper. Therefore, the Commission should find that there is no domestic industry for these grades of SC paper, and thus, no injury caused by U.S. imports from Canada. Respondent Irving's postconference brief, pp. 11-12.

³⁰ Respondent Irving defined grade "SCA" SC paper as including: (1) SCA++, (2) SCA+, and (3) SCA grades and grade "SCB" SC paper as including: (1) SCB and (2) SCN. Respondent Irving's postconference brief, p. 2.

these factors provided by the parties and the existing record in this preliminary phase investigation.³¹

Physical Characteristics and Uses

Respondent Irving argued that SCA grade SC paper has different physical characteristics than SCB grade SC paper and, as a result, is used by customers for different end uses. Specifically, Respondent Irving stated that SCA grade SC paper is brighter, smoother,³² and glossier³³ than SCB grade SC paper and is used to print magazines, catalogs, and other high-end publications, which require the higher durability of the higher grade SC paper whereas SCB grade SC paper is used to print low-end advertising flyers, inserts, tabloid newspapers, and coupons, all products for which a shorter shelf-life is expected.³⁴ The differences in the physical specifications of the grades are highlighted in the tabulation below:

Physical specification	Grade of SC paper	
	SCA	SCB
Brightness (<i>ISO</i>)	68 to 75	60 to 66
Smoothness (<i>PPS</i>)	<1.4	1.5 to 2.2
Gloss level (<i>GU</i>)	42 to 55	26 to 38

Source: Respondent Irving’s postconference brief, p. 3.

Petitioner argued that all grades of SC paper share the same physical characteristics and are sold to the same end users. The various grades of SC paper form a continuum of products with no clear dividing lines observed in the market.³⁵

Common Manufacturing Facilities, Production Processes, and Production Employees

Respondent Irving argued that SCA and SCB grade SC paper are produced on different paper machines.³⁶ It also stated that SCB grade SC paper undergoes a less rigorous supercalendering process requiring the paper be run through only two to four cylinders as

³¹ In this preliminary phase investigation, the Commission did not request market participants in its questionnaire responses to submit trade and financial data subdivided by grade of SC paper.

³² Smoothness is measured by its Parker Print Surface value (“PPS”), a unit of measure in the industry whereby the lower the value the smoother the paper. Respondent Irving’s postconference brief, p. 3.

³³ Gloss is measured in gloss units (“GU”), a unit of measure in the industry whereby the higher the GU units the glossier the paper. Respondent Irving’s postconference brief, p. 3.

³⁴ Respondent Irving’s postconference brief, p. 3.

³⁵ Petitioner’s postconference brief, pp. 5-6.

³⁶ Respondent Irving stated that although inefficient and costly, SCA and SCB grades of SC paper could be manufactured on the same paper production line. Respondent Irving’s postconference brief, p. 4.

opposed to the ten to twelve cylinders required for SCA grade SC papers. Production costs are also ***.³⁷

Petitioner stated that paper production lines used to produce SC paper are not used to produce paper products other than SC paper. With regard to the production processes of the various grades of SC paper, petitioner reported that ***.³⁸

Interchangeability

Respondent Irving argued that although there is some interchangeability between SCA and SCB grades of SC paper, the interchangeability is limited by the differences in the physical characteristics and primary end uses of the two distinct grades. It reported that its experience in the marketplace shows that customers of SCA grade SC paper are more likely to switch to or from coated groundwood paper products than from SCB grade SC paper. Also, customers of SCB grade SC paper are more likely to switch to or from Hi-Brite or newsprint than to SCA grade SC paper.³⁹

Petitioner argued that all grades of SC paper compete with one another and all are interchangeable. In fact, petitioner stated that “those lines between the supercalender grades are very blurry,” and it is not uncommon for the same end user to purchase both SCA and SCB grades at the same time.⁴⁰

Customer and Producer Perceptions

Respondent Irving claimed that customers and producers perceive SCA and SCB grades of SC paper as distinct commodities with different end uses. Respondent Irving pointed to marketing materials that emphasize the differences in the two grades of SC paper.⁴¹

Petitioner argued that customers and producers perceive these grades to be part of a continuum of SC paper products that all compete and are interchangeable. Petitioner testified that customers, such as major retailers, switch between SC paper grades frequently, including switching from high-end SCA grade SC paper to low-end SCB SC paper and vice versa.⁴²

³⁷ Respondent Irving reported that its production costs are ***. Respondent Irving’s postconference brief, p. 5.

³⁸ Petitioner’s postconference brief, p. 10. At the staff conference, Port Hawkesbury claimed to be capable of producing all grades of SC paper on a single production line. However, it stated that this was unique in the industry. Conference transcript, pp. 101-102 (Ostrowski) (“What’s unique about our operations is that we can manufacturer all four grades on one machine and do it cost efficiently. There are many solid reasons as to why we can do that, and I’m ready to explain that in further detail if requested. I am not aware of any other machine that can make that claim.”).

³⁹ Respondent Irving’s postconference brief, p. 4.

⁴⁰ Conference transcript, p. 86 (Drechsel); Petitioner’s postconference brief, p. 10.

⁴¹ Respondent Irving’s postconference brief, p. 5 and exhs. 2 and 5 (Irving documents depicting market segments in the graphic papers industry).

⁴² Conference transcript, pp. 59-60 (Johnston); Petitioner’s postconference brief, p. 9.

Channels of Distribution

Respondent Irving stated that the channels of distribution for both SCA and SCB grade SC paper are generally the same. It argued, however, that the channels of distribution for coated groundwood and other graphic paper products are also identical.⁴³

Petitioner also stated that there is no difference in the channels of distribution between the grades of SC paper.⁴⁴

Price

Respondent Irving argued that prices for SCA grade SC paper have historically been higher than prices for SCB grade SC paper. It cited to pricing data submitted in U.S. importer questionnaires, which did ask for different grade prices, showing that during the period of investigation, prices for SCA grade SC paper averaged \$*** per short ton whereas SCB grade SC paper averaged \$*** per short ton.⁴⁵

Petitioner observed that any meaningful price differential between the grades of SC paper are disappearing as competition intensifies and end users are more willing to use lower end grades to produce their end product.⁴⁶

⁴³ Respondent Irving's postconference brief, p. 4.

⁴⁴ Petitioner's postconference brief, p. 10.

⁴⁵ Respondent Irving's postconference brief, p. 5.

⁴⁶ Petitioner's postconference brief, p. 10.

Coated Groundwood Paper⁴⁷ vs. SCA Grade SC Paper

Respondent Irving argued that the Commission should expand the definition of the domestic like product to include coated groundwood paper⁴⁸ because of its similar physical characteristics, end uses, channels of distribution, manufacturing processes, and prices with

⁴⁷ In 1991, the Commission conducted antidumping investigations on coated groundwood paper, the scope of which contained “all coated groundwood paper regardless of basis weight, GE brightness, and the form in which the paper is sold (rolls, sheets, or other forms.)” *Coated Groundwood Paper From Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom, Inv. Nos. 731-TA-486-494 (Preliminary)*, USITC Publication No. 2359 (February 1991).

In the preliminary phase of these investigations, the Commission issued a negative determination with regard to U.S. imports from Austria, Italy, the Netherlands, or Sweden. In the final phase investigations, the Commission issued a negative determination with regard to U.S. imports from the remaining countries under investigation. *Coated Groundwood Paper From Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 and 494 (Final)*, USITC Publication No. 2467 (December 1991).

In the preliminary phase of those investigations, respondents argued that the definition of the domestic like product should be expanded to include, *inter alia*, supercalendered paper. The Commission rejected that argument finding:

With regard to supercalendered paper, since it is an uncoated product, the production process is necessarily different. Moreover, given the differences in the production processes, the ability to shift production is even more limited than with free sheet and would require even more financial investment and alteration of equipment. There are no "swing-machines capable of producing coated groundwood paper and supercalendered paper.

The lack of a coating results in a product that is duller than coated groundwood paper and more closely resembles newsprint. Its color clarity is also inferior to coated groundwood paper. Further, the end uses for supercalendered paper are limited to short-lived, throwaway publications such as children's workbooks and newspaper inserts. The differences between supercalendered paper and coated groundwood paper are also reflected in significant price differences (up to \$100 per ton).

Coated Groundwood Paper From Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom, Inv. Nos. 731-TA-486-494 (Preliminary), USITC Publication No. 2359 (February 1991), pp. 7-8. The Commission did not revisit the issue in its final phase investigations.

⁴⁸ Irving defined “coated groundwood paper” as coated groundwood #5. Coated papers are generally categorized into 5 grades based on brightness and basis weight (#1 through #5). All coated groundwood is generally sold in rolls at grade #5 whereas grade #1 through #4 are primarily sold in freesheet form.

SCA grade SC paper.⁴⁹ Coated groundwood paper products are not currently within the scope of this investigation.

Commission’s Six-factor Domestic Like Product Analysis

The Commission’s decision regarding the appropriate domestic products that are “like” the subject imported products is based on a number of factors including: (1) physical characteristics and uses; (2) common manufacturing facilities, production processes, and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and (6) price. The following sections provide information regarding these factors provided by the parties and the existing record in this preliminary phase investigation.⁵⁰

Physical Characteristics and Uses

Respondent Irving argued that coated groundwood and SCA grade SC paper have very similar physical characteristics and as a result are used by customers for the same end uses. First, respondent Irving observed that both coated groundwood and SCA grade SC paper are made predominately from mechanical pulp. It also stated that the two types of papers have similar physical specifications as highlighted in the tabulation below:

Physical specification	Paper type	
	Coated groundwood	SCA grade SC paper
Basis weight (<i>lbs.</i>)	26 to 45	28 to 45
Brightness (<i>ISO</i>)	70 to 73	68 to 75
Gloss level (<i>GU</i>)	38 to 54	42 to 55
Opacity (<i>percent</i>)	84 to 90	86 to 94

Source: Respondent Irving’s postconference brief, p. 6.

Respondent Irving observed that both coated groundwood and SCA grade SC paper are marketed and used to print magazines, catalogs, and other high-end publications, which require the higher durability and advanced imaging capabilities.⁵¹

⁴⁹ Respondent Irving argued that even if the Commission does not find two separate definitions of the domestic like product, delineated by grade, then it should still expand the definition of the domestic like product to include coated groundwood paper. Respondent Irving’s postconference brief, p. 6.

⁵⁰ In this preliminary phase investigation, the Commission did not request market participants in its questionnaire responses to submit trade and financial data on coated groundwood paper products. Moreover, expansion of the definition of the domestic like product to include coated groundwood products may require the Commission to issue its U.S. producer questionnaire to additional firms that may produce coated groundwood paper in the United States, but do not produce supercalendered paper. Such firms may include: (1) Catalyst Paper Corp.; (2) Evergreen Packaging, Inc.; (3) FutureMark Alsip; and (4) UPM.

⁵¹ Respondent Irving’s postconference brief, p. 3.

Petitioner argued that the primary physical difference between coated groundwood and SC paper is the existence of a coated layer on coated groundwood that enhances its print quality, ink holdout, and shelf life of the paper superior to that of any grade of SC paper. Additionally, petitioner observed that SC paper is produced using a much different mixture of fillers which permits the supercalendering processes to give it its glossy finish.⁵²

Common Manufacturing Facilities, Production Processes, and Production Employees

Respondent Irving argued that with the exception of the final coating process, coated groundwood and SCA grade SC paper can be produced on the same paper machines with some adjustment.⁵³

Petitioner argued that coated groundwood paper is more costly to produce and cannot be produced on the same production lines as SC paper by virtue of the necessity of an additional production process, namely the coating process. Petitioner observed that production lines that produce lighter basis weight coated groundwood papers could in theory produce SC paper, but not without idling the entire coating process of the production line, which is an action it claimed to be economically unviable for any paper mill.⁵⁴

Interchangeability

Respondent Irving argued that because of the similar physical characteristics of coated groundwood paper and SCA grade SC paper, they are interchangeable for many end uses in the market. It cited the questionnaire responses of market participants that reported that they believed these two types of paper products to be interchangeable.⁵⁵

Petitioner argued that SC paper is generally not interchangeable with other types of paper products. However, it observed that there is some limited interchangeability with low basis weight coated groundwood papers for some end uses such as magazine publication.⁵⁶

Customer and Producer Perceptions

Respondent Irving claimed that customers and producers perceive coated groundwood paper and SCA grade SC paper to be interchangeable because of the similarity between their physical characteristics and end uses.⁵⁷

Petitioner argued that customers and producers generally perceive SC paper to be a distinct paper product. It observed, however, that some customers may view low basis weight

⁵² Petitioner's postconference brief, p. 11.

⁵³ Respondent Irving cited Verso's Sartell, Minnesota paper mill as an example of a paper production line producing both coated groundwood and SC paper. Respondent Irving's postconference brief, p. 8; ***. U.S. producer questionnaire of ***. Respondent Resolute's postconference brief, p. 13 (***).

⁵⁴ Petitioner's postconference brief, p. 8.

⁵⁵ Respondent Irving's postconference brief, p. 6 (citing questionnaire responses of ***).

⁵⁶ Petition, p. I-11.

⁵⁷ Respondent Irving's postconference brief, p. 8.

coated groundwood paper as a substitute for SC paper in limited applications if the price differential is small.⁵⁸

Channels of Distribution

Respondent Irving stated that the channels of distribution for both coated groundwood and SCA grade SC paper are identical.⁵⁹

Petitioner observed some overlap in the channels of distribution and stated that SC paper is generally sold directly to end users such as retailers, catalogue companies, publishers, and printers whereas coated groundwood is generally shipped directly to publishers and printers.⁶⁰

Price

Respondent Irving argued that prices for coated groundwood and SCA grade SC paper are competitive and strongly correlated.⁶¹

Citing price data compiled by RISI, petitioner stated that prices have historically been lower for SC paper products than for coated groundwood paper.⁶²

Hi-Brite Paper and Newsprint vs. SCB Grade SC Paper

Respondent Irving argued that the Commission should expand the definition of the domestic like product to include Hi-Brite and newsprint paper products (“Hi-Brite/newsprint”)⁶³ because of their similar physical characteristics, end uses, channels of distribution, manufacturing processes, and prices with SCB grade SC paper.⁶⁴ Hi-Brite and newsprint paper products are not currently within the scope of this investigation.

⁵⁸ Petition, p. I-12.

⁵⁹ Respondent Irving’s postconference brief, p. 8.

⁶⁰ Petitioner’s postconference brief, p. 7.

⁶¹ Respondent Irving’s postconference brief, pp. 8-9.

⁶² Petition, exh. I-5. Pricing data from RISI showed the price in December 2014 for coated groundwood #5 (34lb) to be \$***/ton and for SCA grade SC paper (35lb) to be \$***/ton; Petitioner’s postconference brief, p. 9.

⁶³ Hi-Brite paper is a specialty newsprint paper product that consists of a groundwood paper of higher brightness, basis weight and better quality surface finish than that of standard newsprint and is capable of reproducing higher quality images. Therefore, it is often used for advertising inserts. Hi-Brite is often referred to as “specialized or specialty newsprint.”

⁶⁴ Respondent Irving argued that even if the Commission does not find two separate definitions of the domestic like product, delineated by grade, then it should still expand the definition of the domestic like product to include Hi-Brite/newsprint. Respondent Irving’s postconference brief, p. 6, 9.

Commission’s Six-factor Domestic Like Product Analysis

The Commission’s decision regarding the appropriate domestic products that are “like” the subject imported products is based on a number of factors including: (1) physical characteristics and uses; (2) common manufacturing facilities, production processes, and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and (6) price. The following sections provide information regarding these factors provided by the parties and the existing record in this preliminary phase investigation.⁶⁵

Physical Characteristics and Uses

Respondent Irving argued that Hi-Brite/newsprint and SCB grade SC paper have very similar physical characteristics and as a result are used by customers for the same end uses. First, respondent Irving observed that both product types are uncoated and made predominately from mechanical pulp. It also stated that the two types of papers have similar physical specifications as highlighted in the tabulation below:

Physical specification	Paper type	
	Hi-Brite/newsprint	SCB grade SC paper
Basis weight (<i>lbs.</i>)	27.7 to 33	28 to 35
Brightness (<i>ISO</i>)	58 to 70	60 to 66
Opacity (<i>percent</i>)	>90	88 to 93

Source: Respondent Irving’s postconference brief, p. 9.

Respondent Irving observed that both Hi-Brite/newsprint and SCB grade SC paper are marketed and used to produce low-end retail flyers, newspaper inserts, tabloid newspapers, and other products requiring minimal image printing capabilities and shelf life.⁶⁶

Petitioner argued that although SC paper is an uncoated paper product it differs from other uncoated products by virtue of the glossy finish imbued by the supercalendering process. Other uncoated paper products, such as Hi-Brite/newsprint, have a more porous surface and a matte finish which make it less suitable for printing multi-colored graphics, and in particular photographic material.⁶⁷

⁶⁵ In this preliminary phase investigation, the Commission did not request market participants in its questionnaire responses to submit trade and financial data on Hi-Bright and newsprint paper products. Moreover, expansion of the definition of the domestic like product to include Hi-Brite and newsprint products may require the Commission to issue its U.S. producer questionnaire to additional firms that may produce hi-brite and newsprint in the United States, but do not produce supercalendered paper. Such firms may include: (1) North Pacific Paper Corporation (NORPAC); (2) SP Fiber Technologies NW, LLC; and (3) White Birch Paper Co.

⁶⁶ Respondent Irving’s postconference brief, p. 9.

⁶⁷ Petitioner’s postconference brief, p. 6; Petition, p. I-10.

Common Manufacturing Facilities, Production Processes, and Production Employees

Respondent Irving argued that with the exception of the final supercalendering process, Hi-Brite/newsprint and SCB grade SC paper are produced using generally the same manufacturing process.⁶⁸

Petitioner stated that paper production lines used to produce SC paper are not used to produce paper products other than SC paper. The production process for Hi-Brite/newsprint differs greatly from that of SC paper in the following ways. First, the product categories have differing raw materials. The pulp mixture (mechanical vs. kraft pulp) and types of fillers may differ depending on the type of product being produced. Second, Hi-Brite/newsprint does not go through a supercalendering process, thus skipping an entire step in the production process of SC paper.⁶⁹ Petitioner observed that paper machines designed to produce Hi-Brite/newsprint do not include the supercalendering equipment necessary to produce SC paper.⁷⁰

Interchangeability

Respondent Irving argued that because of the similar physical characteristics of Hi-Brite/newsprint and SCB grade SC paper, they are interchangeable for many end uses in the market. It cited the questionnaire responses of market participants that reported that they believed these two types of paper products to be interchangeable.⁷¹ Further, respondent Irving submitted exhibits at the staff conference showing weekly advertising circulars from Shoppers Drug Mart and Staples printed on Hi-Brite/newsprint.⁷² Finally, it submitted ***.⁷³

Petitioner argued that Hi-Brite/newsprint is not interchangeable with SC paper primarily because of the larger surface porosity of Hi-Brite/newsprint as compared to SC paper that makes it less suitable for printing graphic material in high resolution color.⁷⁴

Customer and Producer Perceptions

Respondent Irving claimed that customers and producers perceive Hi-Brite/newsprint and SCB grade SC paper to be interchangeable because of the similarity between their physical characteristics and end uses.⁷⁵

Petitioner argued that because of the differences in the physical characteristics of the two products, customers and producers perceive Hi-Brite/newsprint and SC paper to be two distinct product categories.⁷⁶

⁶⁸ Respondent Irving's postconference brief, p. 11.

⁶⁹ Petitioner's postconference brief, p. 6; Petition, p. I-10.

⁷⁰ Petitioner's postconference brief, p. 12.

⁷¹ Respondent Irving's postconference brief, p. 10 (citing questionnaire responses of ***).

⁷² Conference transcript, exh. A.

⁷³ Respondent Irving's postconference brief, p. 10 and exh. 3.

⁷⁴ Petitioner's postconference brief, p. 7; Petitioner, p. I-11.

⁷⁵ Respondent Irving's postconference brief, p. 11.

Channels of Distribution

Respondent Irving stated that the channels of distribution for both Hi-Brite/newsprint and SCB grade SC paper are identical.⁷⁷ Petitioner did not report any differences in the channels of distribution for Hi-Brite/newsprint and SC paper.⁷⁸

Price

Petitioner and respondent Irving stated that prices for Hi-Brite/newsprint are generally lower than prices for SCB grade SC paper.⁷⁹ However, respondent Irving argued that the prices for the two product types are competitive and strongly correlated.⁸⁰ Pricing data compiled by RISI stated that in 2013, the last full year for which data were available, U.S. newsprint prices ranged, depending on delivery location and type of newsprint, from \$*** per ton to \$*** per ton whereas SCA grade SC paper was \$*** per ton.⁸¹

(...continued)

⁷⁶ Petitioner's postconference brief, p. 8.

⁷⁷ Respondent Irving's postconference brief, p. 10.

⁷⁸ Petitioner's postconference brief, pp. 7, 11-12; Petition, pp. I-11-I-12.

⁷⁹ Petitioner's postconference brief, p. 12; Respondent Irving's postconference brief, p. 11.

⁸⁰ Respondent Irving's postconference brief, p. 11.

⁸¹ Respondent Irving's postconference brief, exh. 12, pp. 15 and 40 (RISI data).

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET¹

U.S. MARKET CHARACTERISTICS

SC paper is sold primarily as paper for newspaper inserts, fliers, catalogs, magazines, and direct mail, as well as other advertising and publication materials.² Each purchase of SC paper is a customized order in terms of quantity, roll size, and distribution point.³ Purchasers, especially retailers, will vary the type of SC paper, roll size, and printing process that they will use based on its specific objective.⁴ SC paper is shipped in roll form to printers located throughout the United States.⁵

As discussed in *Part I*, SC paper is produced in four continuum grades (SCA+, SCA, SCB, and SCN) that indicate the brightness and smoothness levels of the SC paper, with SCA+ being the brightest and smoothest and SCN being the least bright and smooth.⁶ According to respondent Irving, SCA grade paper is used primarily for magazines, catalogs, and other high-end publications, while SCB and SCN grades are used primarily for low-end advertising flyers, inserts, tabloids, and coupons.⁷ However, petitioner argues that all grades of SC paper share the same physical characteristics and are sold to the same end users.⁸

According to all parties, the U.S. market for SC paper is experiencing a structural decline due to the shift of commercial advertising from print to digital media and the sharp decline in print periodicals such as newspapers and magazines.⁹ However, questionnaire respondents reported that SC paper is being used as a substitute for lightweight coated paper in some applications, which historically has been more expensive than SC paper. Apparent U.S. consumption of SC paper fluctuated during 2012-2014. Overall, apparent U.S. consumption in 2014 was 8.3 percent higher than in 2012.

¹ The Commission received 15 U.S. importer questionnaire responses. However, after further investigation, eight of these responses were deemed to be purchasers and not importers of the subject product. The narrative responses from these eight purchasers have been included in this section of the report.

² Petition, volume 1, p. 14.

³ Conference transcript, pp. 79-80 (Johnston).

⁴ Conference transcript, p. 83 (Clancy).

⁵ Conference transcript, p. 22 and p. 32 (Drechsel).

⁶ Petition, volume 1, p. 4.

⁷ Respondent Irving's postconference brief, p. 3.

⁸ There is no independent standards organization that sets the standards of SC paper grades. According to petitioner, the lines between the SC paper grades are not well defined. Conference transcript, pp. 85-86 (Drechsel).

⁹ Petitioner's postconference brief, p. 15; Respondent Port Hawkesbury's postconference brief, p. 3.

CHANNELS OF DISTRIBUTION

SC paper is sold to merchants/brokers and to end users (retailers, catalogers, publishers, or printers).¹⁰ U.S. producers and importers sold mainly to end users, as shown in table II-1. While brokers and end users purchase SC paper, the product is always shipped to the purchasers' printer of choice.^{11 12}

Table II-1

SC paper: U.S. producers' and importers' U.S. commercial shipments, by sources and channels of distribution, 2012-14

* * * * *

GEOGRAPHIC DISTRIBUTION

U.S. producers and importers reported selling SC paper to all regions in the contiguous United States (table II-2). SC paper is shipped directly to a printer. According to Madison, printers are located throughout the United States, but are more concentrated in the Midwest, Northeast, and Southeast regions of the country.¹³ For U.S. producers, *** percent of sales were within 100 miles of their production facility, *** percent were between 101 and 1,000 miles, and *** percent were over 1,000 miles. Importers sold *** percent within 100 miles of their U.S. point of shipment, *** percent between 101 and 1,000 miles, and *** percent over 1,000 miles.¹⁴

¹⁰ Petition, volume 1, p. 11.

¹¹ Conference transcript, p. 61 and p. 85 (Johnston), and p. 160 (Ostrowski).

¹² When printers purchase SC paper, they are buying product for a specific end user. SC paper is not held in inventories. Conference transcript, p. 82 (Johnston).

¹³ Conference transcript, p. 84 (Johnston).

¹⁴ According to Irving, because of the cost of freight and its total supply cost, it is very difficult for it to compete on the West Coast, due to the prohibitive cost of moving product by either truck or rail. However, in its questionnaire response, it indicated that it shipped SC paper ***. Conference transcript, p. 120 (Mosher).

Table II-2

SC paper: Geographic market areas in the United States served by U.S. producers and importers

Region	U.S. producers	Importers
Northeast	3	4
Midwest	3	4
Southeast	3	4
Central Southwest	3	4
Mountain	3	4
Pacific Coast	3	4
Other ¹	0	1
All regions (except Other)	3	4
Reporting firms	3	4

¹ All other U.S. markets, including AK, HI, PR, and VI, among others.

Source: Compiled from data submitted in response to Commission questionnaires.

SUPPLY AND DEMAND CONSIDERATIONS

U.S. supply

Domestic production

Based on available information, U.S. producers of SC paper have the ability to respond to changes in demand with small-to-moderate changes in the quantity of shipments of U.S.-produced SC paper to the U.S. market. The main contributing factors to this degree of responsiveness of supply are some availability of unused capacity, limited existence of alternative markets, and low levels of available inventory.

Industry capacity

Domestic capacity utilization increased from *** percent in 2012 to *** percent in 2014 (figure II-1).¹⁵ U.S. producers' capacity decreased by *** percent during 2012-14 while production decreased by *** percent. This moderately high level of capacity utilization suggests that U.S. producers may have some ability to increase production of product in response to an increase in prices.

Figure II-1

SC paper: U.S. producers' capacity, production, and capacity utilization, 2012-14

* * * * *

¹⁵ According to Madison and Verso, SC paper mills are designed to run 24-7 maintaining high capacity utilization rates. Conference transcript, p. 20 (Drechsel).

Alternative markets

U.S. producers' exports accounted for *** percent or less of their total shipments during 2012-14. The small percentage of export shipments indicates that U.S. producers may have limited ability to shift shipments between the U.S. market and other markets in response to price changes.

Inventory levels

U.S. producers' inventories increased from *** percent of total shipments in 2012 to *** percent in 2013, then returned to 2012 levels in 2014. These inventory levels suggest that U.S. producers may have limited ability to respond to changes in demand with changes in the quantity shipped from inventories.

Production alternatives

Two of three responding U.S. producers stated that they could not switch production from SC paper to other products. U.S. producer *** reported that it can switch production between SC paper and ***. ***.

Supply constraints

One of three U.S. producers reported that their firm was unable to supply SC paper since 2012. *** stated that it faces supply constraints "only occasionally in the busy fall period (Sept-Nov) when customers request additional tonnage beyond forecast."

Subject imports from Canada¹⁶

Based on available information, producers of SC paper from Canada have the ability to respond to changes in demand with small changes in the quantity of shipments of SC paper to the U.S. market. The main contributing factors to this degree of responsiveness of supply are limited unused capacity and some existence of alternate markets.

Industry capacity

Canadian producers' capacity to produce SC paper increased irregularly during the period of investigation. Canadian producers' capacity utilization decreased from *** percent in 2012 to *** percent in 2014 (figure II-2). This high level of capacity utilization suggests that U.S. producers may have little ability to increase production of SC paper in response to an increase in prices.

¹⁶ The Commission received four questionnaire responses from Canadian producers. These firms' exports to the United States accounted for *** U.S. imports of SC paper from Canada during 2012-14.

Figure II-2

SC paper: Canadian producers' capacity, production, and capacity utilization, 2012-14

* * * * *

Alternative markets

Canadian producers have some ability to divert shipments of SC paper to or from alternative markets in response to changes in price of SC paper. Canadian producers primarily export SC paper while selling a small share of their production in their home market.¹⁷ Shipments of SC paper to the United States increased from *** percent in 2012 to *** percent in 2014. Shipments of SC paper to all other markets fluctuated during the POI, decreasing from *** percent in 2012 to *** percent in 2014.

Inventory levels

Canadian producers have a very limited ability to use inventories as a means of increasing shipments of SC paper. The majority of their production is produced-to-order.¹⁸ The ratio of inventories as a share of total shipments increased from *** percent in 2012 to *** percent in 2014.

Production alternatives

Two of the four Canadian producers reported that no other products could be produced using the same machinery and equipment used in the production of SC paper. However, *** reported that they can produce other products, including “select 65 paper.”

Supply constraints

Three of seven importers reported that their firm was unable to supply SC paper since 2012. *** reported that it faced supply constraints occasionally during the fall period (September-November), when customers request additional tonnage beyond their forecast. *** reported that it only has two paper machines with no additional capacity. *** reported that it accepted more orders than it could deliver on time by normal transportation during March and June of 2013. It stated that this was primarily due to ***.

¹⁷ According to Irving, Canadian producers of SC paper have “always” focused on the U.S. market not only because of the size of the U.S. market, but also because many large Canadian retailers (e.g. Hudson Bay, and Target) produce and print their retail flyer inserts in the U.S. for shipment up to Canada for distribution. Conference transcript, p. 119 and p. 146 (Mosher).

¹⁸ Conference transcript, p. 160 (Mosher).

Nonsubject imports

The largest sources of nonsubject imports during 2012-14 were Finland, Norway, Sweden, Belgium, and Germany. Imports from nonsubject countries accounted for *** percent (by volume) of U.S. consumption in 2014.

U.S. demand

Based on available information, the overall demand for SC paper is likely to experience large changes in response to changes in price. The main contributing factors are the availability of substitute products and the moderate-to-high cost share of SC paper in most of its end-use products.

End uses

U.S. demand for SC paper depends on the demand for U.S.-produced downstream products. Reported end uses include retail inserts, retail circulars and coupons, magazines, and catalogs.

Cost share

SC paper accounts for a moderate share of the cost of the end-use products in which it is used. Two U.S. producers, 1 importer and 6 purchasers reported that the cost share of SC paper in magazines, retail circulars, catalogs, and newspaper inserts ranged between 1 percent and 100 percent, with the majority of responding firms reporting ranges of 25 to 57 percent.

Business cycles

All 3 U.S. producers, all 7 importers, and 7 of 8 responding purchasers indicated that the market was subject to business cycles. The vast majority of firms indicated that demand for SC paper is higher in the second half of the year due to increased advertising promotions leading up to the holiday season. Firms noted that because a large share of SC paper is used for retail advertising and catalog business, SC paper follows the retail business cycle.

Two responding U.S. producers, 4 responding importers, and 2 responding purchasers indicated that the market was subject to distinct conditions of competition. *** reported that SC paper competes primarily on price. The majority of firms reported that with the increased use of e-retailing, SC paper must compete with lower cost digital media. *** also stated that papermaking is a capital intensive business with paper machines designed to run flat out 365 days per year. Several firms reported that there has been a significant consolidation of retailers as well as the disappearance of some regional retailers, who had historically relied heavily on the SC paper in their advertising, which has contributed to the decline in demand for SC paper.

All three U.S. producers, the majority of importers (6 of 7), and 3 of 8 purchasers indicated that there have been changes to the business cycle and conditions of competition since 2012. All three U.S. producers and the majority of importers noted the re-start of the Port Hawkesbury mill in the fourth quarter of 2012 had increased market supply.¹⁹ Purchaser *** reported that SCA+ paper has been used increasingly as a substitute for light-weight coated groundwood (“LWC”) paper. Importer *** stated that it has introduced a lightweight SCA+ product to compete directly with LWC paper.

Demand trends

Most firms reported a decrease in U.S. demand for SC paper since January 1, 2012 (table II-3). The majority of firms attributed the declining demand to the replacement of paper with various forms of digital media and the shrinking circulation of newspapers, which are a primary distribution means for retail inserts.²⁰ One importer, ***, reported an increase in demand due to increased substitution of SCA+ paper for LWC paper. A plurality of purchasers (4 of 8) reported a decrease in demand, two indicated fluctuating demand, and two reported an increase in demand for SC paper since 2012. All four purchasers that reported a decrease in demand attributed the decline to an increase in the use of electronic media. Purchaser *** reported that a secular decline in SC paper demand reduces consumption between five and ten percent per annum. The two purchasers that reported an increase in demand attributed the growth to the substitution of SC paper for LWC paper. All responding firms reported a decrease in demand outside the United States, citing similar trends of increased use of digital media.

Table II-3

SC paper: Firms’ responses regarding U.S. demand and demand outside the United States

Item	Increase	No change	Decrease	Fluctuate
Demand in the United States				
U.S. producers	0	0	3	0
Importers	1	0	5	0
Demand outside the United States				
U.S. producers	0	0	3	0
Importers	0	0	7	0

Source: Compiled from data submitted in response to Commission questionnaires.

¹⁹ However, respondent Irving stated that SC paper production capacity in Canada has been reduced by 50 percent since 2007, with seven Canadian SC paper mills closing down since that time. Conference transcript, p. 126 (Mosher).

²⁰ According to Madison, two large retailers, Kohl’s and Target Corp., recently announced a large shift away from advertising insert programs to more e-marketing resources. Kohl’s announced that it will be cutting its advertising insert program by 40 percent this year. Target Corp. recently laid off its entire group that managed the free-standing insert program. Conference transcript, p. 65 (Johnston).

Substitute products

Substitutes for SC paper include LWC paper, Hi-Brite newsprint, and uncoated mechanical paper. All U.S. producers and importers and most purchasers identified LWC as a substitute for SC paper. Most of these firms reported that price changes for LWC paper affect pricing for SC paper. Firms reported that when prices of LWC paper decrease and the price gap between LWC paper and SCA+ grade paper becomes small, prices of SCA+ grade paper are reduced to avoid substitution.²¹ U.S. producers *** named specialized newsprint and Hi-Brite newsprint as substitutes, but reported that changes in the prices of these substitutes had not affected the price of SC paper. However, importers *** reported that Hi-Brite newsprint affects the price of SC paper, particularly the lower SCB grade.

Port Hawkesbury reported that there is an ongoing industry-wide transition from coated groundwood paper to SCA+ and SCA++ paper. It reported that it has a growing list of customers that have converted from coated groundwood paper to SC paper.²² Port Hawkesbury stated that in the first half of 2013, a major publisher (***) made a wholesale switch from coated groundwood to SCA+ paper. As a leader in that market segment, *** “opened the floodgates for using SCA+ and SCA++.”²³

Seven purchasers identified LWC paper as a substitute for SC paper; five of these seven purchasers reported that changes in the price of LWC paper affect the price of SC paper. Purchaser *** stated that price changes for LWC paper affect the price of SC paper so that SC paper maintains a competitive price gap to coated paper. It noted that substituting SC paper for LWC paper would “increase an end user’s costs and is not considered a cost neutral option.” *** reported that higher prices for coated paper increase the use of SCA grade paper. *** stated that prices of LWC paper and SC paper move in tandem.

Historical prices for SC paper and LWC paper are presented in figure II-3. According to ***, the price of LWC No. 5 (34 lb.) paper was *** percent higher than the price of SC paper (SCA grade) in both 2012 and 2013. The price of LWC No. 5 (40 lb.) paper was *** percent higher than SC paper in 2012 and *** percent higher in 2013. Between 2012-13, prices for SC paper (SCA grade, 35 lb.) grade fell *** percent, prices for LWC paper (34 lb.) decreased *** percent, and prices for LWC paper (40 lb.) fell *** percent.

Figure II-3

Historical U.S. prices for SC paper, LWC No. 5 (34 lb.) paper, and LWC No. 5 (40 lb.) paper, by years, 2000-2013

* * * * *

²¹ Using a Granger causality test, Port Hawkesbury contends that prices of LWC paper affect the prices of SC paper but changes in SC paper prices do not cause changes in LWC paper. It argues that the price impact is unidirectional. Respondent Port Hawkesbury’s postconference brief, pp. 15-16.

²² Conference transcript, p. 107 (Ostrowski).

²³ Conference transcript, p. 107 (Ostrowski).

SUBSTITUTABILITY ISSUES

The degree of substitution between domestic and imported SC paper depends upon such factors as relative prices, quality (e.g., grade standards, reliability of supply, defect rates, etc.), and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there is moderate-to-high degree of substitutability between domestically produced SC paper and subject product imported from subject sources.

Lead times

SC paper is produced-to-order. U.S. producers and importers both reported that 100.0 percent of their commercial shipments were produced-to-order. U.S. producers reported that lead times ranged from 28 to 60 days. U.S. importers reported that lead times ranged from 28 to 45 days.

Purchase factors

According to the petitioner, price is the most important factor in a purchaser's purchasing decision. Irving reported that purchasers purchase the highest grade of SC paper at the lowest possible price. It stated that as the price of paper changes, purchasers will generally adjust what grades they use in order to maintain their marketing budget.²⁴ Importers Irving and Port Hawkesbury stated that the ease with which SC paper runs through the presses and prints is an important purchasing factor for purchasers.²⁵ Irving also stated that in addition to quality, flexibility of supply is an important purchasing factor.²⁶

Two purchasers identified purchasing factors in their responses to lost sales and lost revenue allegations. *** reported that purchasing factors "are based on a variety of factors, including geographical logistics, quality, customer service, manufacturing capacity and limitations, and price. In the time period from 2012 to 2014, *** had six to eight suppliers from the U.S., Canada, and Europe." *** stated that quality, price, geography, grade type, basis weight, available substitute products and customer preference drive its purchasing decisions.

Comparison of U.S.-produced and imported SC paper

In order to determine whether U.S.-produced SC paper can generally be used in the same applications as imports from Canada, U.S. producers and importers were asked whether

²⁴ Conference transcript, p. 162 (Mosher).

²⁵ Conference transcript, pp. 165-166 (Ostrowski) and p. 166 (Mosher). According to Irving, certain printers use a rating scale for paper mills. Depending on what a paper mill's rating is, there can be higher charges for waste ink consumption. Conference transcript, p. 166 (Mosher).

²⁶ Conference transcript, p. 164 (Mosher).

the products can “always,” “frequently,” “sometimes,” or “never” be used interchangeably. As shown in table II-4, a majority of all questionnaire respondents found that U.S. and Canadian SC paper was either “always” or “frequently” interchangeable.

Table II-4

SC paper: Interchangeability between SC paper produced in the United States and in other countries, by country pairs

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting			
	A	F	S	N	A	F	S	N
U.S. vs. subject countries: U.S. vs. Canada	***	***	***	***	0	4	2	0
Nonsubject countries comparisons: U.S. vs. nonsubject	***	***	***	***	1	4	1	0
Canada vs. nonsubject	***	***	***	***	1	4	1	0

Note.—A=Always, F=Frequently, S=Sometimes, N=Never.

Source: Compiled from data submitted in response to Commission questionnaires.

Importer *** stated that it does not believe that there is any significant production of SCB grade paper in the United States. It believes that the small volume of SCB paper sold by U.S. producers was made on SCA machines and thus the product was actually downgraded SCA.²⁷ Importer *** stated that U.S. and Canadian products were only “sometimes” interchangeable for several reasons: it stated that brightness levels as well as heavier basis weights are made in Canada that are not manufactured by U.S. producers; it contends that the Canadian SC paper offset quality is generally more acceptable to printers because of clay fillers utilized in the process versus the precipitated calcium carbonate filler used in the paper made by U.S. producers; and finally that U.S. producers do not actively sell the variety and volume of SCB grade products that the Canadian manufacturers offer.

The majority of purchasers (5 of 8) reported that U.S. and Canadian SC paper was “always” interchangeable. Two purchasers found that U.S. and Canadian SC paper was “frequently” interchangeable and one purchaser indicated that they were “sometimes” interchangeable. *** stated that some mills make only certain quality and basis weights that would not be interchangeable.

In addition, producers and importers were asked to assess how often differences other than price were significant in sales of SC paper from the United States, subject, or nonsubject countries. As seen in table II-5, most questionnaire respondents described differences other than price as “sometimes” significant. Two importers, *** reported that transportation costs and longer transit times are important factors for imported SC paper.

²⁷ Importer questionnaire response, section III-18.

Table II-5

SC paper: Significance of differences other than price between SC paper produced in the United States and in other countries, by country pairs

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting			
	A	F	S	N	A	F	S	N
U.S. vs. subject countries: U.S. vs. Canada	***	***	***	***	0	2	4	0
Nonsubject countries comparisons: U.S. vs. nonsubject	***	***	***	***	0	2	4	0
Canada vs. nonsubject	***	***	***	***	0	2	4	0

Note.--A = Always, F = Frequently, S = Sometimes, N = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the subsidies was presented in *Part I* of this report and information on the volume and pricing of imports of the subject merchandise is presented in *Part IV* and *Part V*. Information on the other factors specified is presented in this section and/or *Part VI* and (except as noted) is based on the questionnaire responses of three U.S. producers of SC paper, Madison, Resolute, and Verso, which accounted for 100.0 percent of total U.S. production of SC paper during the period of investigation.

U.S. PRODUCERS

The Commission sent U.S. producer questionnaires to two firms, Madison and Verso, which were identified in the petition as U.S. producers of SC paper. The Commission received responses from three firms reporting domestic production activities during the period of investigation.¹ Table III-1 lists U.S. producers of SC paper, their production location(s), positions on the petition, total production, and shares of total production during the period of investigation.

Table III-1

SC paper: U.S. producers of SC paper, their positions on the petition, production locations, production, and shares of reported production, 2012-14

Firm	Position on petition	Production location(s)	Share of production (percent)
Madison ¹	Petitioner	Madison, ME	***
Resolute USA ²	***	Catawba, SC	***
Verso	Petitioner	Duluth, MN Sartell, MN	***
Total			100.0

¹Madison is currently owned by a joint venture between Northern SC Paper Corp. (in which The New York Times Co. owns an *** percent equity stake) and UPM-Kymmene, Inc. of Naperville, IL, which is a wholly owned subsidiary of UPM-Kymmene Oyj of Helsinki, Finland, a large producer of paper products including SC paper in Europe.

²Resolute USA is a wholly owned subsidiary of Resolute FP Canada, Inc. of Montreal, Quebec, Canada.

³***.

Source: Compiled from data submitted in response to Commission questionnaires.

¹The petition did not identify Resolute USA as a U.S. producer of SC paper. Nonetheless, Resolute USA did submit a U.S. producer questionnaire response.

Madison Paper Industries, Inc.

Madison is a joint venture between of UPM-Kymmene, Inc. (“UPM”) and the New York Times Co. It produces mechanical pulp and SC paper at one paper mill located in Madison, Maine. UPM is a wholly owned U.S. subsidiary of UPM-Kymmene Oyj, a large forest products producer with paper mills located in Finland, Germany, the United Kingdom, France, Austria, China, and the United States and headquartered in Helsinki, Finland.² Madison reported that in recent years, it has attempted to improve the efficiency of its production process and to trim costs at its sole paper production line. For example, in 2013, it converted its energy source from oil to natural gas saving the company \$*** in 2014. Madison also reported installing diamond grinding surfaces thereby improving its mechanical pulping process and saving the company \$*** in 2014, as the diamond surfaces require significantly less electricity to operate than the prior stone grinding surfaces.³

Resolute FP US, Inc.

Resolute is an integrated forest products company headquartered in Montreal, Quebec, Canada whose operations include pulp production, paper production, and wood products production (lumber for residential construction) in the United States, Canada, and South Korea. Its paper mills produce approximately 5.0 million tons of paper, which includes commercial printing papers and newsprint. Its wholly owned U.S. subsidiary, Resolute USA, owns a paper and pulp mill in Catawba, South Carolina, which produces pulp, specialty coated papers, and SC paper.⁴ Resolute USA reported that at the Catawba mill ***.⁵

Verso Corp.

Verso is an integrated U.S. producer of printing papers, specialty papers, and pulp headquartered in Memphis, Tennessee. It operates eight paper mills located in Kentucky, Maine, Maryland, Michigan, Minnesota and Wisconsin, which account for a total annual

² In addition to the Madison paper mill, in the United States, UPM operates a paper mill in Grand Rapids, Minnesota that produces lightweight coated paper. <http://www.upmpaper.com/en/about-us/mills/united-states/Pages/default.aspx> accessed on March 25, 2015.

³ Petitioner’s postconference brief, pp. 34-35 and “Answers to Questions from Commission Staff,” p. 14. Madison also reported other technological improvements during the period of investigation such as ***. U.S. producer questionnaire response of Madison, question II-2.

⁴ Resolute USA also operates mills that produce newsprint in Augusta, Georgia; Calhoun, Tennessee; Grenada, Mississippi; and Usk, Washington. It also operates mills that produce pulp in Coosa Pines, Alabama; Fairmont, West Virginia; Menominee, Michigan. http://www.resolutefp.com/Operations/Pulp_and_Paper/ accessed March 25, 2015.

⁵ Resolute USA reported that in 2014, *** percent of its total production at its Catawba mill was SC paper and *** percent consisted of coated paper products.

It also reported that ***. U.S. producer questionnaire response of Resolute USA, II-2.

production capacity of approximately 3.6 million tons of paper. Verso produced coated groundwood paper and SC paper at its Sartell, Minnesota paper mill.⁶ However, a fire in May 2012, caused major damage to the mill rendering it inoperable. In August 2012, Verso announced that it would not reopen the Sartell mill citing “the length of time that it would take to rebuild the mill structures and systems that were destroyed in the Memorial Day fire and explosion, and the marketplace challenges that would present.” The closure of the Sartell paper mill reduced Verso's annual coated groundwood capacity by 180,000 tons or approximately 20 percent, and eliminated its approximately 35,000 tons of annual SC paper capacity.⁷

On January 6, 2014, Verso announced that it planned to acquire the assets of NewPage Holdings, Inc. (“NewPage”), which had filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in September 2011. On January 7, 2015, Verso announced the completion of its acquisition of NewPage in a transaction valued at approximately \$1.4 billion. Among the assets Verso purchased from NewPage was the Duluth, Minnesota paper mill, which produces SC paper and pulp.⁸ Among NewPage’s prior assets not part of the Verso acquisition included NewPage’s Port Hawkesbury paper mill located in Port Hawkesbury, Nova Scotia, Canada.⁹ During the bankruptcy reorganization, NewPage’s Port Hawkesbury mill was sold to Pacific West Commercial Corp. (“Pacific West”), an affiliate of Stern Partners, a Vancouver,

⁶ Verso produced coated free sheet, coated groundwood, other uncoated papers, specialty papers, and pulp at its other paper mills.

⁷ Press release of Verso Corp., “*Verso Paper Corp. Announces Permanent Shutdown of Sartell Mill*,” <http://investor.versoco.com/releasedetail.cfm?ReleaseID=697800>, accessed March 25, 2015.

***. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” p. 9.

Verso stated that the anticipation of the re-opening of the Port Hawkesbury paper mill played a part in its decision to permanently shutter the Sartell mill. It also stated that the cost to repair and re-open the Sartell mill after the fire ***. Petitioner’s postconference brief, p. 32.

Port Hawkesbury argued that the re-opening of its mill could not have been a primary reason for Verso to decide to shutter its Sartell mill. It added that in August 2012, the timeframe in which Verso decided to permanently shutter its Sartell mill, even Port Hawkesbury officials did not know whether the mill would be re-opened because of the uncertainty of the final sales transaction of the mill. Port Hawkesbury’s postconference brief, exh. 1, attachment A.

⁸ The U.S. producer questionnaire response of Verso reports data for the production of SC paper in both the Duluth and Sartell paper mills throughout the period of investigation.

⁹ Petitioner stated that when NewPage operated the Port Hawkesbury mill raw material (wood), energy (electricity), and transportation costs were so high that they prevented NewPage from operating it profitably. It reported that in 2010, the last full year that NewPage operated the Port Hawkesbury mill, ***. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” pp. 2 and 5.

Port Hawkesbury argued that the mill has undergone a significant restructuring since NewPage operated it which have greatly reduced costs and increased profitability. It reported that the mill once ran an unprofitable newsprint production line which has since been shuttered. It also reported that it now produces its SCA++ at the facility, which is a new high-margin product that NewPage did not produce at the mill. Port Hawkesbury’s postconference brief, exh. 1, attachment B.

Canada based private equity firm.¹⁰ In October 2012, Pacific West restarted production of SC paper at the mill as Port Hawkesbury Paper LP.

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Table III-2 presents U.S. producers' production, capacity, and capacity utilization. Total U.S. capacity of SC paper decreased by *** percent from 2012 to 2014.¹¹ Total U.S. production of SC paper decreased from 2012 to 2014 by *** percent.¹² Annual capacity utilization rates for SC paper production ranged from *** percent in 2012 to *** in 2013.

Table III-2

SC paper: U.S. producers' production, capacity, and capacity utilization, 2012-2014

* * * * *

Both petitioner and respondents agreed that the production of SC paper is a capital intensive activity and that high, virtually 100 percent, capacity utilization rates are necessary for the economic viability of individual paper mills.¹³

Petitioner and respondents also agreed that the potential in the industry for shifting production among various paper products on the same manufacturing equipment is very low.¹⁴ Paper production lines are primarily dedicated to the production of a particular paper product

¹⁰ Stern Partners also has ownership interests in other paper manufacturers including Alberta Newsprint Co. and West Linn Paper Co. <http://www.sternpartners.com/investments/index.html> accessed on March 25, 2015. West Linn Paper Co. conducts marketing and sales operations for the SC paper produced at Port Hawkesbury. <http://www.wlinpco.com/papers/supercalendered.aspx> accessed March 30, 2015.

¹¹ The close of Verso's Sartell, Minnesota mill ***. Petitioner's postconference brief, p. 32.

¹² Although outside the period of investigation of this preliminary phase investigation, Madison reported that it curtailed production and laid off production workers without pay for 17 days from January 24, 2015 to February 10, 2015 due to the negative effects of U.S. imports from Canada. Petitioner's postconference brief, pp. 32-33; Conference transcript, p. 96 (Drechsel) ("We have never shut down the paper machine for the 17-day period because of the price of electricity in the 30 years").

¹³ Petitioner testified that a new greenfield paper and pulp manufacturing facility would presently cost approximately \$500 to \$700 million. Petitioner's postconference brief, p. 14; Conference transcript, p. 20 (Drechsel). All parties testified that paper mills are designed to run "24/7" with very little scheduled downtime for maintenance. Petitioner's postconference brief, pp. 14-15; Port Hawkesbury's postconference brief, p. 8.

¹⁴ ***. U.S. producer questionnaire of ***. Respondent Resolute's postconference brief, p. 13 (***).

type and switching production between products is a process that requires substantial amounts of time and resources.¹⁵

U.S. PRODUCERS' U.S. SHIPMENTS AND EXPORTS

As presented in table III-3, the volume of U.S. shipments of SC paper decreased by *** percent from 2012 to 2014. The value of U.S. shipments decreased by *** percent from 2012 to 2014. The volume of export shipments of SC paper decreased by *** percent from 2012 to 2014. The value of export shipments decreased by *** percent from 2012 to 2014. U.S. producers reported that their principal export markets were *** during the period of investigation.

Table III-3

SC paper: U.S. producers' U.S. shipments, exports shipments, and total shipments, 2012-2014

* * * * *

U.S. PRODUCERS' INVENTORIES

Table III-4 presents U.S. producers' end-of-period inventories of SC paper and the ratio of these inventories to U.S. producers' production, U.S. shipments, and total shipments over the period of investigation.

Table III-4

SC paper: U.S. producers' inventories, 2012-2014

* * * * *

U.S. PRODUCERS' IMPORTS AND PURCHASES

*** U.S. producers, ***, reported U.S. imports or purchases of imports from Canada.¹⁶ Table III-5 presents *** volume of U.S. imports of SC paper from Canada, its U.S. production, and the ratio of its U.S. imports to U.S. production.¹⁷

¹⁵ Petitioner's postconference brief, p.8; Port Hawkesbury's postconference brief, p. 23; Conference transcript, pp. 55-56 (Drechsel) (describing the high costs of switching production between products in the "tens of millions.").

¹⁶ Petitioner stated that it takes no position as to whether *** should be excluded from the U.S. industry as a related party, but reserve the right to take a position in any final phase investigation. Petitioner argued that because *** reported ***. Petitioner's postconference brief, p. 12.

(continued...)

Table III-5

SC paper: * U.S. production, subject imports, ratio to U.S. production, 2012-2014**

* * * * *

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Data provided by U.S. producers on the number of production and related workers (“PRWs”) engaged in the production of SC paper, the total hours worked by such workers, wages paid to such PRWs, productivity, and unit labor costs during the period of investigation are presented in table III-6.

Table III-6

SC paper: Average number of production and related workers, hours worked, wages paid to such employees, hourly wages, productivity, and unit labor costs, 2012-2014

* * * * *

(...continued)

Although not framed specifically as an argument pursuant to the related parties’ provision of the statute, Port Hawkesbury argued that Resolute USA’s financial data should be excluded from the U.S. industry because of what it describes as “data anomalies” in its reported financial data. Port Hawkesbury’s postconference brief, pp. 18-19.

Petitioner also claimed that Verso should not be deemed a related party and excluded from the U.S. industry on the basis that the Port Hawkesbury mill was owned and operated by NewPage with which it completed its purchase and merger in January 2015. Verso stated that NewPage closed the Port Hawkesbury mill in September 2011; and therefore, neither NewPage nor Verso, as its successor-in-interest were U.S. importers of SC paper from the Port Hawkesbury mill during the period of investigation. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” p. 5.

¹⁷ Appendix C, table C-2 presents the summary data concerning the U.S. market excluding ***.

PART IV: U.S. IMPORTS, APPARENT U.S. CONSUMPTION, AND MARKET SHARES

U.S. IMPORTERS

The Commission sent U.S. importer questionnaires to 52 firms identified in the petition as possible U.S. importers of SC paper.¹ The Commission received questionnaire responses from 27 firms. Among those responses, seven U.S. importer questionnaires contained relevant U.S. import data, which accounted for *** percent of U.S. imports of SC paper from Canada and approximately *** percent of U.S. imports from nonsubject countries.²

Table IV-1 lists all responding U.S. importers of SC paper, their U.S. locations, and their quantities of imports, by source, during the period of investigation.

Table IV-1
SC paper: U.S. importers by source, 2012-14

Firm	Headquarters	Share of imports by source (percent)		
		Canada	All other sources	All sources
Catalyst USA ¹	Seattle, WA	***	***	***
Irving ²	Saint John, New Brunswick, Canada	***	***	***
Port Hawkesbury ³	Port Hawkesbury, Nova Scotia, Canada	***	***	***
Resolute USA ⁴	Catawba, SC	***	***	***
Stora Enso ⁵	Stamford, CT	***	***	***
Unisource ⁶	Norcross, GA	***	***	***
UPM ⁷	Naperville, IL	***	***	***
Total		***	***	***

¹ Catalyst USA is a wholly owned subsidiary of Catalyst Paper Corp. of Richmond, British Columbia, Canada. Catalyst is the sole importer of record for its parent corporation's U.S. imports of SC paper from Canada.

¹ The following firms reported that they did not import SC paper during the period of investigation: ***.

The following firms submitted substantive responses to the Commission's U.S. importer questionnaire, however, after further investigation were deemed to be purchasers and not importers of the subject product: ***. Therefore, in order to prevent the double counting of U.S. imports, the submitted import data by these firms were not utilized in the compilation of U.S. imports.

²All four of the Canadian producers of SC paper, which accounted for 100 percent of production of SC paper in Canada reported that they act as the sole importer of record for their firms U.S. imports of SC paper from Canada.

Estimated data coverage of U.S. imports from nonsubject countries is compiled by comparing total imports from outside North America as reported by RISI, *** tons of SC paper, to total reported U.S. imports from nonsubject sources compiled from U.S. importer questionnaires, *** tons for 2013, the last data for which RISI reported. Respondent Irving's postconference brief, exh. 12, p. 46 (RISI data).

² Irving is a wholly owned subsidiary of Grand Forest Holdings, Inc. of Saint John, New Brunswick, Canada. Irving is the sole importer of record for its U.S. imports of SC paper from Canada.

³ Port Hawkesbury is owned by Pacific West Commercial Corp. ("Pacific West"), an affiliate of Stern Partners, a Vancouver, Canada based private equity firm. Pacific West purchased the Port Hawkesbury paper mill from NewPage during the bankruptcy reorganization of NewPage. In October 2012, Pacific West restarted production of SC paper at the mill as Port Hawkesbury Paper LP. Port Hawkesbury is the sole importer of record for its U.S. imports of SC paper from Canada.

⁴ Resolute USA is a wholly owned subsidiary of Resolute FP Canada, Inc. of Montreal, Quebec, Canada. Resolute UA is the sole importer of record for its parent corporation's U.S. imports of SC paper from Canada.

⁵ Stora Enso North American Sales, Inc. is a wholly owned subsidiary of Stora Enso Oyj of Helsinki, Finland, which is a producer of SC paper in Belgium, Germany, and Sweden. It reported ***.

⁶ Unisource Worldwide, Inc. is ***.

⁷ UPM is a wholly owned subsidiary of UPM-Kymmene Oyj of Helsinki, Finland, a large producer of paper products including SC paper in Europe. UPM reported ***.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. IMPORTS

Table IV-2 presents data for U.S. imports of SC paper from Canada and nonsubject countries. The U.S. import data are compiled using responses to the Commission's U.S. importer questionnaire.³ As shown, the volume of U.S. imports of SC paper from Canada increased by *** percent from 2012 to 2014.⁴ The value of U.S. imports of SC paper from Canada increased by *** percent from 2012 to 2014. The volume of U.S. imports from nonsubject countries of SC paper decreased by *** percent from 2012 to 2014. The largest sources of U.S. imports of SC paper from nonsubject countries in 2014 were: (1) Finland, (2) Norway, (3) Sweden, (4) Belgium, and (5) Germany.⁵

Table IV-2
SC paper: U.S. imports, by source, 2012-2014

* * * * *

³ For much of the period of investigation, official import statistics compiled using HTS statistical reporting numbers 4802.61.3010 and 4802.61.3090 overstated U.S. imports of SC paper because the data included other uncoated mechanical papers such as directory and book paper. Effective July 2014, HTS 4802.61.3035 included only SC paper.

⁴ Port Hawkesbury restarted production of SC paper in October 2012. Thus, U.S. import data reported for 2012 reflect only U.S. imports made by Port Hawkesbury in the fourth quarter of that year. Respondent Port Hawkesbury's postconference brief, p. 2; U.S. importer questionnaire response of Port Hawkesbury, II-7.

⁵ Based on 2014 volume data of U.S. imports of uncoated mechanical paper provided by Commerce.

NEGLIGENCE

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.⁶ Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country of merchandise corresponding to a domestic like product where such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition or the initiation of the investigation. However, if there are imports of such merchandise from a number of countries subject to investigations initiated on the same day that individually account for less than 3 percent of the total volume of the subject merchandise, and if the imports from those countries collectively account for more than 7 percent of the volume of all such merchandise imported into the United States during the applicable 12-month period, then imports from such countries are deemed not to be negligible.⁷

The volume of U.S. imports from Canada from January 1, 2014 to December 31, 2014, which is the most recent 12-month period for which data are available, accounted for *** percent of total U.S. imports.

APPARENT U.S. CONSUMPTION AND U.S. MARKET SHARES

Data on apparent U.S. consumption of SC paper are presented in table IV-3. From 2012 to 2014, the quantity of apparent U.S. consumption of SC paper increased by *** percent and the value of apparent U.S. consumption increased by *** percent.⁸ In 2014, total U.S. capacity to produce SC paper accounted for *** percent of total apparent U.S. consumption.

⁶Sections 703(a)(1), 705(b)(1), 733(a)(1), and 735(b)(1) of the Act (19 U.S.C. §§ 1671b(a)(1), 1671d(b)(1), 1673b(a)(1), and 1673d(b)(1)).

⁷ Section 771 (24) of the Act (19 U.S.C § 1677(24)).

⁸ All parties attested to a secular decline in consumption of SC paper during the period of investigation. This secular decline is primarily caused by two cultural shifts in the market: (1) the continued migration of commercial advertising from print to digital online media; and (2) the rapid decline in subscription rates for print periodicals such as newspapers and magazines. Petitioner's postconference brief, p. 15; Respondent Port Hawkesbury's postconference brief, p. 3; Conference transcript, p. 64 (Johnston)(" The industry, I think, would tend to be happy if the demand decline were only 5 percent. But it continues to be even greater than that from year to year. There have been blips here and there, but the overall trend since 2007, which was at the peak in the market, has been down significantly since then.").

Port Hawkesbury argued that even with the secular decline in consumption experienced by the SC paper market, the additional production capacity introduced into the market by the reopening of its mill did not disrupt the market as petitioner has contended. It cited to the shock to supply caused by the closure of Verso's Sartell mill (***) as well as a demand shock caused by more and more of its customers switching from coated groundwood paper to SC paper. Respondent Port Hawkesbury's postconference brief, p. 9.

(continued...)

Data on U.S. market shares for SC paper are also presented in table IV-3. From 2012 to 2014, U.S. producers' U.S. market share based on volume decreased by *** percentage points and by *** percentage points based on value. U.S. imports from Canada increased their U.S. market share by *** percentage points from 2012 to 2014 based on volume and *** percentage points based on value. U.S. imports from nonsubject countries decreased their U.S. market share by *** percentage points from 2012 to 2014 based on volume and *** percentage points based on value.

Table IV-3

SC paper: U.S. shipments of domestic product, U.S. shipments of imports, and apparent U.S. consumption, and U.S. market shares, 2012-2014

* * * * *

(...continued)

Port Hawkesbury estimated that ***. Respondent Port Hawkesbury's postconference brief, exh. 1, attachments D and E. For example, Port Hawkesbury reported that ***. Respondent Port Hawkesbury's postconference brief, exh. 1, attachments I.

PART V: PRICING DATA

FACTORS AFFECTING PRICES

Raw material costs

SC paper is produced from mechanical pulp, kraft pulp, mineral fillers and other additives. U.S. producers' raw materials costs as a share of cost of goods sold ("COGS") increased from *** percent in 2012 to *** percent in 2014. *** reported that the price of raw material inputs have increased since January 1, 2012 and *** reported that the cost of raw materials has fluctuated. Madison produces pressurized ground wood pulp at Madison, which it uses internally to produce SC paper; however, it purchases kraft pulp on the open market.¹ *** reported that the cost of kraft pulp increased approximately 8.4 percent from \$711 per ton in 2012 to \$771 per ton in 2014. It reported that the cost of wood has remained relatively flat while the cost of filler has increased modestly. *** stated that chemical pulp accounts for approximately *** percent of raw material costs; therefore, the impact on its selling prices for SC paper has been great. *** reported that due to the price competition for SC paper, it has had to absorb the rising costs of raw materials.

Producing SC paper is a very energy intensive process.² Verso reported that the share of COGS accounted for by energy costs was *** percent in 2014. Madison reported that the share of COGS accounted for by energy costs was *** percent in 2014.³

Transportation costs to the U.S. market

Transportation costs for SC paper shipped from Canada to the United States averaged 3.2 percent during 2012-2014. These estimates were derived from official import data and represent the transportation and other charges on imports.⁴

U.S. inland transportation costs

All responding U.S. producers and importers reported that they typically arrange transportation to their customers. Both domestic and imported SC paper is shipped directly from the SC paper mill to the purchasers' printer of choice.⁵ ⁶ SC paper is shipped via rail and

¹ Conference transcript, p. 19 and p. 22 (Drechsel).

² Conference, p. 27 (Drechsel)

³ Petitioner's postconference brief, exhibit 1, p. 5.

⁴ The estimated transportation costs were obtained by comparing the customs and c.i.f. values for all years combined (2012-14) for HTS subheadings 4802.61.3010, 4802.61.3090, and 4802.61.3035.

⁵ Conference transcript, p. 22 and p. 32 (Drechsel).

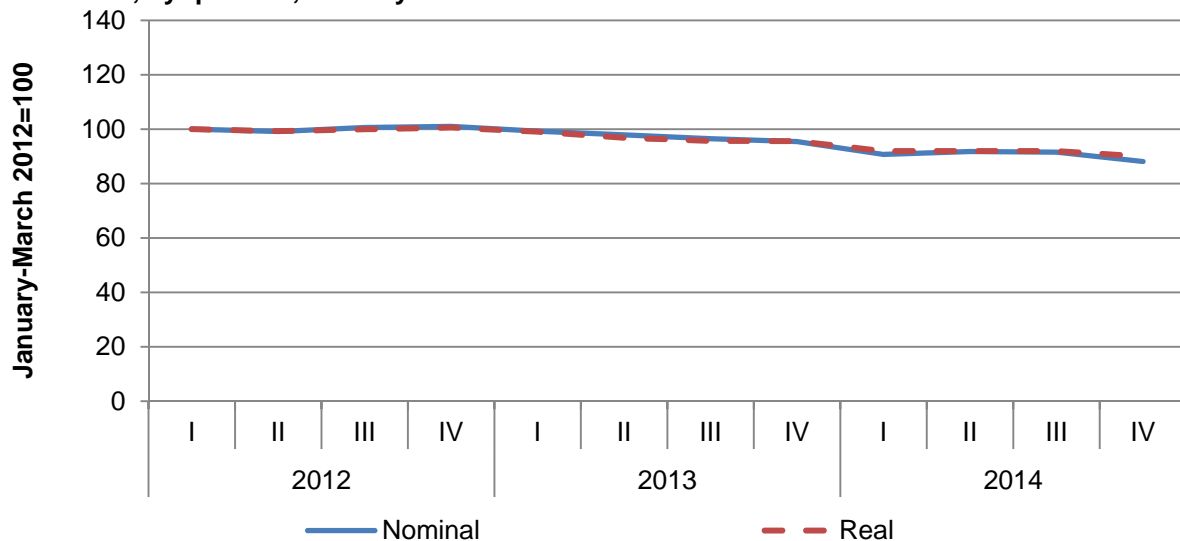
truck.⁷ U.S. producers reported that their U.S. inland transportation costs ranged from 10 to 11 percent while importers reported costs of 11 to 15 percent.

Exchange rates

Importer *** stated that the surge in the value of the U.S. dollar versus both the Canadian dollar and the Euro has considerably affected the conditions of competition. In general, a cheap Canadian dollar, relative to the U.S. dollar, results in U.S. producers becoming the high cost producers and therefore, the price leaders. *** argues that this competitive advantage for Canadian producers is not “derived from the producers’ pricing behavior, but from the entirely exogenous fact of shifts in exchange rates.”⁸ Petitioner contends that U.S. purchasers are more likely to purchase SC paper from Canada “with such a favorable exchange rate, and price competition will intensify.”⁹

Nominal and real values of the Canadian dollar are presented on a quarterly basis in figure V-1. During this period, the real value of the dollar versus the Canadian dollar fell by 10.0 percent.

Figure V-1
Exchange rates: Indices of the nominal and real exchange rates between the Canadian dollar and the U.S. dollar, by quarters, January 2012-December 2014



Source: International Financial Statistics, retrieved March 30, 2015.

(...continued)

⁶ Canadian producers ship SC paper from their mill in Canada to their purchasers’ printer in the United States.

⁷ Conference transcript, p. 84 (Johnston). Importers Port Hawkesbury and Irving reported that they shipped approximately 70 and 80 percent of their product, respectively, by rail with the balance shipped by truck. Conference transcript, p. 158 (Ostrowski) and p. 159 (Mosher).

⁸ *** importer questionnaire response, section III-15.

⁹ Petitioner’s postconference brief, pp. 44-45.

PRICING PRACTICES

Pricing methods

U.S. producers and importers reported using transaction-by-transaction negotiations, contracts, set price lists, and other methods such as volume sales agreements and letter of agreement.¹⁰ As presented in table V-1, U.S. producers and importers sell primarily through transaction-by-transaction negotiations and via contracts.¹¹

Table V-1

SC paper: U.S. producers and importers reported price setting methods, by number of responding firms¹

Method	U.S. producers	Importers
Transaction-by-transaction	3	5
Contract	2	5
Set price list	0	1
Other	2	1

¹ The sum of responses down may not add up to the total number of responding firms as each firm was instructed to check all applicable price setting methods employed.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers and importers reported selling most of their SC paper under annual contracts and short-term contracts.¹² As shown in table V-2, U.S. producers and importers reported their 2014 U.S. commercial shipments of SC paper by type of sale.

¹⁰ U.S. producer *** reported that in addition to transaction-by-transaction negotiations, it sells on one-way binding price and through volume sales agreements. U.S. producer *** also reported selling on a letter of agreement.

¹¹ Importer Port Hawkesbury reported that it uses two methods to determine price. First, it calculates the differential based on transaction prices for LWC paper and market knowledge at the time of negotiation to determine whether or not the price is reasonable. Secondly, it receives feedback from the customer on whether or not another producer of SC paper has offered product at a better price. Conference transcript, p. 103 (Ostrowski).

¹² According to petitioner, producers of SC paper pursue contract business as a priority because contract sales are more stable and allow producers to plan efficiently. However, from the restart of the Port Hawkesbury mill, petitioner contends that spot sales have increased and spot market prices have deteriorated over the POI. The petitioner anticipates that spot sales will increase in 2015 as producers lose accounts and look to the spot market to fill their order books. Petitioner's postconference brief, Exhibit 1, pp 3-4.

Table V-2**SC paper: U.S. producers' and importers' shares of U.S. commercial shipments by type of sale, 2014**

Type of sale	U.S. producers	Importers
Long-term contracts	19.9	10.4
Annual contracts	51.5	30.3
Short-term contracts	21.2	47.9
Spot sales	7.5	11.3
Total	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

Two of three U.S. producers and three of four responding importers reported using short-term contracts. Both U.S. producers reported that the duration of their short-term contracts averaged *** days. Both U.S. producers indicated that price could not be renegotiated during the contract period and that the contracts fixed both price and quantity. One of the two responding U.S. producers reported that the contracts included a meet-or-release clause. Two importers reported that the duration of their short-term contracts averaged 180 days and one importer reported an average of 90 days. Of the three responding importers that reported using short-term contracts, two importers indicated that prices could be renegotiated during the contract period; one importer reported that contracts fixed quantity; and one importer indicated that contracts fixed both price and quantity. One of three responding importers reported that the contracts included a meet-or-release clause.

All three U.S. producers and three of four responding importers reported using annual (365 day) contracts. All three U.S. producers indicated that price could be renegotiated during the contract period; *** indicated that contracts fixed quantity and *** indicated that contracts fixed both price and quantity. Of the three responding U.S. producer, only *** reported that the contracts included a meet-or-release clause. All three importers indicated that price could be renegotiated during the contract period; one importer indicated that contracts fixed quantity and one importer indicated that contracts fixed both price and quantity. Of the three responding importers, two indicated that the contracts did not include a meet-or-release clause.

U.S. producers *** reported using long-term contracts with an average duration of two years. Both U.S. producers indicated that price could be renegotiated during the contract period with one firm indicating that contracts fixed quantity and the other firm indicating that contracts fixed both price and quantity. Both U.S. producers reported that the contracts did not include a meet-or-release clause.

Sales terms and discounts

U.S. producers and importers typically quote prices on a delivered basis. *** U.S. producers and all four responding importers reported offering quantity discounts and annual total volume discounts. U.S. producer *** offers a discount for mill proximity and self-trim. U.S. importer *** reported offering limited volume discounts to a handful of accounts and importer

*** reported offering an early payment discount to some customers. Two U.S. producers and all four responding importers reported sales terms of net 30 days. U.S. producer *** reported sale terms of net 21 days for SCA+ grade paper and net 30 days for SCA and SCB grades. Importer *** reported net sales terms of net 21 days for plus grades.

PRICE DATA

The Commission requested U.S. producers and importers to provide quarterly data for the total quantity and delivered value of the following SC paper products shipped to unrelated U.S. customers during January 2012-December 2014.

Product 1-- Grade SCA+ supercalendered paper, weighing 36 lb. (53 gsm), in rolls.

Product 2-- Grade SCA+ supercalendered paper, weighing 38 lb. (56 gsm), in rolls.

Product 3-- Grade SCA supercalendered paper, weighing 30 lb. (44 gsm), in rolls.

Product 4-- Grade SCA supercalendered paper, weighing 33 lb. (49 gsm), in rolls.

Product 5-- Grade SCA supercalendered paper, weighing 35 lb. (52 gsm), in rolls.

Product 6-- Grade SCB supercalendered paper, weighing 30 lb. (44 gsm), in rolls.

Product 7-- Grade SCB supercalendered paper, weighing 33 lb. (49 gsm), in rolls.

All three U.S. producers and four importers provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.¹³ Pricing data reported by these firms accounted for approximately 58.8 percent of U.S. producers' shipments of product and 61.5 percent of U.S. shipments of subject imports from Canada during the period of investigation.

The majority of U.S. producers' price data was for sales of *** accounting for *** percent of domestic sales volumes in 2014. Importers reported price data primarily for sales of

¹³ Three firms, *** provided additional pricing data for products outside the price definitions; these data were not included in the pricing analysis. Furthermore, these additional pricing data accounted for a relatively small share of U.S. commercial shipments. Importer *** provided pricing data for SCA+ grade paper, weighing 34 lbs. and SCB grade paper, weighing 28 lbs.; these data accounted for *** percent and *** percent, respectively, of its commercial shipments of imported SC paper during the POI. Importer *** provided pricing data for two SCA++ grade products, weighing 36 lbs. and 38lbs; these pricing data accounted for *** percent and *** percent, respectively, of its commercial shipments of imported SC paper during the POI. *** provided pricing data for SCA+ grade paper, weighing 35 lbs., in rolls; these data accounted for *** percent of its U.S. commercial shipments of domestic product and *** percent of product imported from Canada during the POI. The data were not included in the pricing data analysis.

*** accounting for *** percent of importers' price data sales, by volume in 2014. Price data for products 1-7 are presented in tables V-3 to V-9 and figures V-2 to V-8.¹⁴

Table V-3

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 1¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-4

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 2¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-5

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 3¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-6

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 4¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-7

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 5¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-8

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 6¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

Table V-9

SC paper: Weighted-average delivered prices and quantities of domestic and imported product 7¹ and margins of underselling/(overselling), by quarters, January 2012-December 2014

* * * * *

¹⁴ Per-unit pricing data are calculated from total quantity and total value data provided by U.S. producers and importers. The precision of these figures may be affected by rounding, limited quantities, and producer or importer estimates.

Figure V-2

SC paper: Weighted-average prices and quantities of domestic and imported product 1, by quarters, January 2012-December 2014

* * * * *

Figure V-3

SC paper: Weighted-average prices and quantities of domestic and imported product 2, by quarters, January 2012-December 2014

* * * * *

Figure V-4

SC paper: Weighted-average prices and quantities of domestic and imported product 3, by quarters, January 2012-December 2014

* * * * *

Figure V-5

SC paper: Weighted-average prices and quantities of domestic and imported product 4, by quarters, January 2012-December 2014

* * * * *

Figure V-6

SC paper: Weighted-average prices and quantities of domestic and imported product 5, by quarters, January 2012-December 2014

* * * * *

Figure V-7

SC paper: Weighted-average prices and quantities of domestic and imported product 6, by quarters, January 2012-December 2014

* * * * *

Figure V-8

SC paper: Weighted-average prices and quantities of domestic and imported product 7, by quarters, January 2012-December 2014

* * * * *

Price trends

Prices for SC paper decreased during 2012-14. Table V-10 summarizes the price trends, by country and by product. As shown in the table, domestic price decreases ranged from *** to *** percent during 2012-14 while import price decreases ranged from *** to *** percent.^{15 16}

Table V-10

SC paper: Summary of weighted-average delivered prices for products 1-7 from the United States and Canada

Item	Number of quarters	Low price (per short ton)	High price (per short ton)	Change in price (percent)
Product 1: United States	12	***	***	***
Canada	12	***	***	***
Product 2: United States	12	***	***	***
Canada	12	***	***	***
Product 3: United States	12	***	***	***
Canada	12	***	***	***
Product 4: United States	12	***	***	***
Canada	12	***	***	***
Product 5: United States	12	***	***	***
Canada	12	***	***	***
Product 6: United States	12	***	***	***
Canada	12	***	***	***
Product 7: United States	12	***	***	***
Canada	12	***	***	***

¹ Percentage change from the first quarter in which data were available to the last quarter in which price data were available.

Source: Compiled from data submitted in response to Commission questionnaires.

¹⁵ According to Madison, U.S. producers began to experience price pressure in late 2012 when Port Hawkesbury announced that its mill was coming online and would begin shipping paper in 2013. Price pressure from Port Hawkesbury continued into 2014 and 2015. Conference transcript, pp. 75-76 (Johnston).

¹⁶ Petitioner stated that ***." Petitioner's postconference brief, pp. 21-22.

Price comparisons

As shown in table V-11, prices for SC paper imported from Canada were below those for U.S.-produced product in 23 of 84 instances (** short tons); margins of underselling ranged from ** percent to ** percent. In the remaining 61 instances, prices for SC paper from Canada were between ** percent and ** percent above prices for the domestic product.¹⁷

Table V-11

SC paper: Instances of underselling/overselling and the range and average of margins, by country, January 2012-December 2014

* * * * *

LOST SALES AND LOST REVENUE

The Commission requested U.S. producers of SC paper to report any instances of lost sales or revenue they experienced due to competition from imports of SC paper from Canada during January 2012 to December 2014. Of the responding U.S. producers, ** reported that they had to either reduce prices or roll back announced price increases. The 12 lost sales allegations totaled \$** and involved ** short tons of SC paper, and the 217 lost revenue allegations totaled \$** and involved ** short tons of SC paper. Staff contacted all 21 purchasers and a summary of the information obtained is presented in tables V-12 and V-13.

Purchasers responding to the lost sales allegations also were asked whether they shifted their purchases of SC paper from U.S. producers to suppliers of SC paper from Canada since 2012. In addition, they were asked whether U.S. producers reduced their prices in order to compete with suppliers of SC paper from Canada. Four purchasers (** reported that they did not shift purchases of SC paper from U.S. producers to subject importers since 2012. One purchaser, **, stated that it was unable to definitively answer the question. It stated that “there are a variety of factors that cause us to move customers from one mill to another, such as quality, price, geography, grade type, basis weight, available substitute products and

¹⁷ Petitioner argues that the competition between grades may be affecting the accuracy of the pricing product comparisons, and therefore, the pricing data likely understate the degree of underselling. Petitioner stated that “the intense competition for SCA paper **.” Petitioner’s postconference brief, p. 25.

Petitioner also contends that the underselling is understated due to issues respecting reporting by importers. **. Petitioner also noted that importer [Port Hawkesbury initially stated that it had included SCA++ sales with its sales of products 1-2, but then later Port Hawkesbury reported that these sales in fact only included SCA+ sales. Petitioner’s postconference brief, p. 25, fn. 101. Staff did not include Resolute’s domestic and imported sales of product 1 in the pricing analysis because the product did not match the price definition. Port Hawkesbury provided separate data for its sale of SCA++; these sales of SCA++ were not included in the pricing analysis.

customer preference. Likewise, there are multiple supply/demand factors that affect pricing. Accordingly, we do not believe we can give an absolute "yes" or "no" response to these questions." One of seven responding purchasers (***) reported that it had shifted purchases of SC paper from U.S. producers to subject imports since 2012; however, *** did not provide an explanation for the shift. Three of eight purchasers reported that the U.S. producers did not reduce their prices in order to compete with the prices of subject imports since 2012. *** stated that based on its experience, U.S. producers did not reduce their prices of SC paper to compete with Canadian imports. It stated that "pricing is negotiated annually as a strike price for the following fiscal year. Pricing varies, leaving Canadian purchases sometimes higher in price than *** U.S. purchases." The remaining 5 purchasers reported that they "don't know" if U.S. producers reduced their prices to compete with Canadian imports.

Table V-12

SC paper: U.S. producers' lost sales allegations

* * * * *

Table V-13

SC paper: U.S. producers' lost revenue allegations

* * * * *

PART VI: FINANCIAL EXPERIENCE OF U.S. PRODUCERS

BACKGROUND

Three U.S. producers, Madison, Resolute USA, and Verso, reported their financial results on SC paper.¹ Petitioners Madison and Verso accounted for the majority of reported SC paper sales volume (***, respectively), while Resolute USA accounted for the remaining ***.²

As noted in Part III of this report, extended curtailment of Madison's SC paper production occurred during late January through early February 2015. Since this occurred after the period examined, the impact of the curtailment is not reflected in the financial results reported to the Commission. As described at the staff conference, the curtailment of SC paper production at the Madison mill was a function of compressed profit margins and higher winter energy costs, specifically electricity.³

With respect to underlying company-specific SC paper operations, Madison and Resolute USA appear to have remained essentially unchanged during 2012-14. In contrast, Verso's SC paper operations reflect the permanent closure of its Sartell, MN paper mill in 2012 and the acquisition of NewPage's Duluth, MN paper mill, as part of Verso's formal acquisition of NewPage in early 2015.^{4 5} NewPage itself entered and exited Chapter 11 bankruptcy in 2011 and late 2012, respectively.⁶

¹ All three companies reported their financial results for calendar-year periods and on the basis of generally accepted accounting principles (GAAP).

² The relevant U.S. paper operations of Madison and Verso ***. Madison and Verso U.S. producer questionnaire responses to question III-5. ***. Resolute USA U.S. producer questionnaire response to question III-5.

³ Conference transcript, p. 20, p. 29 (Drechsel). As a general matter and as described by petitioners' postconference brief, ***. Petitioners' postconference brief, p. 6.

To illustrate that the 2015 curtailment was not a typical response to higher winter energy costs, Madison noted that ***. Petitioners' postconference brief, p. 7.

⁴ ***. Petitioners' postconference brief, pp. 9-10.

⁵ Verso and NewPage entered into a merger agreement on January 3, 2014 which was finalized on January 7, 2015. Verso 2014 10-K, p. 3. When considering the company-specific financial information presented in this section of the report it should be noted that, while overall amounts are presented for Verso as a single entity, the underlying NewPage component (i.e., the Duluth, MN paper mill) was directly operated by NewPage, as opposed to Verso, during 2012-14.

⁶ In terms of the reported SC paper financial results, the NewPage bankruptcy reportedly ***. Petitioners' postconference brief, p. 10.

OPERATIONS ON SC PAPER

Income and loss data for U.S. producers are presented in table VI-1. A variance analysis of the overall financial results is presented in table VI-2.⁷ Table VI-3 presents selected company-specific data as referenced in this section of the report.

Table VI-1
SC paper: Results of operations of U.S. producers, 2012-14

* * * * *

Table VI-2
SC paper: Variance analysis on the operations of U.S. producers, 2012-14

* * * * *

Table VI-3
SC paper: Results of operations of U.S. producers, by firm, 2012-14

* * * * *

Sales volume and value

SC paper revenue was classified as commercial sales and consists primarily of U.S. commercial shipments. Notwithstanding somewhat different company-specific trends, export sales volume represented *** share of total SC paper revenue.⁸

As noted at the staff conference, sales are generally made to order with little finished goods inventory reportedly maintained by the U.S. producers.⁹ The general requirement that SC

⁷ The Commission's variance analysis is calculated in three parts: sales variance, cost of sales variance, and selling, general and administrative (SG&A) expense variance. Each part consists of a price variance (in the case of the sales variance) or a cost or expense variance (in the case of the cost of sales variance and SG&A expense variance), and a volume variance. The sales or cost/expense variance is calculated as the change in unit price or per-unit cost/expense times the new volume, while the volume variance is calculated as the change in volume times the old unit price or per-unit cost/expense. Summarized at the bottom of the table, the price variance is from sales; the cost/expense variance is the sum of those items from the cost of sales and SG&A variances, respectively, and the volume variance is the sum of the volume components of the net sales, cost of sales, and SG&A expense variances.

In general, the utility of the variance analysis is enhanced when product mix remains the same throughout the period. ***. Petitioners' postconference brief, p. 6.

⁸ ***. Petitioners' postconference brief, p. 10, p. 14. ***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

paper mills operate at high capacity utilization rates appears to be facilitated, at least in part, by customer forecasts which are used to plan production.¹⁰

The revenue section of the table VI-2 variance analysis indicates that period-to-period declines in total SC paper revenue were primarily the result of consecutive negative price variances, while smaller sales volume variances were alternately positive between 2012-13 and then negative between 2013-14. As shown in table VI-3, *** reported declining average sales values throughout the period.¹¹ In contrast, the directional trend of company-specific sales volume was ***: the overall negative sales volume variance between 2012-13 was ***.¹²

Cost of goods sold

Other Factory Costs

As a share of total cost of goods sold (COGS), the other factory costs category is the single largest component (ranging from ***). Common elements of SC paper other factory costs include energy, machine clothing, and maintenance.¹³ As noted previously, industry witnesses at the Commission's staff conference emphasized the high fixed cost nature of SC paper production which in turn requires high capacity utilization.¹⁴

Although underlying production is similar, the SC paper operations of ***.¹⁵ As described by Resolute USA, ***.¹⁶

As shown in table VI-3, the directional trend of company-specific average other factory costs during 2012-14 was ***.¹⁷ ***. In addition to the positive impact of *** in 2014, a

(...continued)

⁹ Conference transcript (Johnston), pp. 79-80.

¹⁰ With regard to Verso's overall operations, the company's 2014 10-K states that "{m}any of our customers provide us with forecasts of their paper needs, which allows us to plan our production runs in advance, optimizing production over our integrated mill system thereby reducing costs and increasing overall efficiency." Verso 2014 10-K, p. 42.

¹¹ ***.

¹² ***. Petitioners' postconference brief, p. 14.

***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

¹³ ***. Petitioners' postconference brief, p. 11, p. 15. ***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

In addition to including energy in other factory costs, U.S. producers indicated that they produce some of their own energy requirements directly and indirectly. Conference transcript, pp. 21 (Drechsel). March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor. ***. Ibid.

¹⁴ Conference transcript, p. 20 (Drechsel). As described by Verso with respect to its overall operations, "{w}e run our paper machines on a nearly continuous basis for maximum efficiency. Any downtime at any of our paper mills, including as a result of or in connection with planned maintenance and capital expenditure projects, results in unabsorbed fixed costs that could negatively affect our results of operations for the period in which we experience the downtime." Verso 2014 10-K, p. 14.

¹⁵ March 30, 2015 e-mail with attachment from counsel for Resolute USA to USITC auditor.

¹⁶ ***. Ibid.

¹⁷ As indicated in footnote 6, ***.

Madison industry witness at the Commission's staff conference noted cost reduction efforts which also help to explain the pattern of the company's average other factory costs.¹⁸ Specifically, Madison attributed a large share of ***.¹⁹

Table VI-3 shows that Resolute USA's average other factory costs *** throughout the period. With regard to important items which impacted other factory costs, the company noted that between 2012-13 ***.²⁰ ***.²¹
***.²²

Raw material

Raw material costs represent the second largest component of SC paper COGS (ranging from ***). While underlying material input usage is company-specific, raw materials are generally the same for the U.S. producers and reflect primary inputs such as wood (pulpwood for groundwood pulp), chemical pulp, and filler. The proprietary nature of specific input usage, such as fillers, was noted at the staff conference.²³

The SC paper operations of Madison and Verso are integrated in terms of mechanical pulp, while chemical pulp, which is used in smaller proportions for SC production, ***.²⁴ In contrast and as another distinguishing characteristic of its SC paper operations, Resolute USA produces its own kraft pulp, as well as its own mechanical pulp.²⁵

While overall average raw material costs increased between 2012-13 and then declined somewhat between 2013-14, the absence of substantial changes (positive or negative) in

¹⁸ As described “. . . Madison Paper has done everything in its power to trim costs. In 2013, for example, we converted fuel use in our boilers from oil to natural gas. We have also invested in new pulp grinding technology. Our pressurized ground wood pulp mill is one of a kind. We employ only diamond grinding surfaces to manufacture ground wood pulp, whereas other manufactures of ground wood pulp utilize ceramic grinding surfaces to produce their pulp. The diamond surfaces have significantly reduced the amount of electricity required to produce the quality of pulp needed for the SC manufacturing process. Other investments to improve the quality of the product offered, such as paper defect sensors, and to further reduce the power required to manufacture the paper, high efficiency motors and agitators, have been made.” Conference transcript, pp. 25-26 (Drechsel), p. 35 (Johnston).

¹⁹ Petitioners' postconference brief, p. 15.

²⁰ March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

²¹ March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

²² USITC preliminary-phase notes. ***. March 30, 2015 e-mail with attachment from counsel for Resolute USA to USITC auditor.

²³ Conference transcript, p. 57 (Drechsel).

²⁴ While Verso's 2014 10-K reports that the company produces and resells chemical pulp, ***. Verso 2014 10-K, p. 6. Verso U.S. producer questionnaire response to question III-7.

²⁵ ***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor. In addition to kraft pulp, as noted above, Resolute USA's Catawba paper mill also produces thermomechanical pulp. *New Fiberline, PM conversion repositions Bowater mill with expanded product mix*, PaperAge, April/May 2004, pp. 16-20. March 30, 2015 e-mail with attachment from counsel for Resolute USA to USITC auditor.

average raw material costs generally corresponds to the descriptions provided by U.S. producers.²⁶ As shown in table VI-3, U.S. producers reported average raw material costs which were in a similar range. ***.

Gross profit or loss

On an overall basis, the U.S. industry's SC paper COGS-to-sales ratio increased throughout the period. The obverse of this pattern was a steady contraction in gross profit which declined on both an absolute basis and as a percentage of sales during 2012-14. As shown in table VI-3, the gross profit ratios of Madison and Verso were ***,²⁷ ***.

Table VI-3 shows that ***,²⁸

SG&A expenses and operating income or loss

Overall SG&A expenses declined during 2012-14 and SG&A expense ratios (the ratio of total SG&A expenses to revenue) remained within a relatively narrow range (from ***) (see table VI-1). Table VI-3 shows that, of the two petitioners, ***,²⁹ *** sales and marketing of SC paper is not significantly different as compared to each other or Canadian producers. *** as compared to many of its U.S. and Canadian SC paper competitors.³⁰

While the pattern of company-specific gross profit ratio is the primary driver explaining overall SC paper financial results, changes in relative SG&A expenses also had an impact; e.g., in the absence of a decline in ***,³¹

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

Table VI-4 presents firm-specific capital expenditures and research and development ("R&D") expenses related to operations on SC paper.³²

²⁶ ***. Petitioners' postconference brief, p. 11, pp. 14-15. ***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor. ***. March 30, 2015 e-mail with attachment from counsel for Resolute USA to USITC auditor.

²⁷ ***.

²⁸ ***.

²⁹ For example, ***. Petitioners' postconference brief, p. 16.

³⁰ ***. March 24, 2015 letter with attachment from counsel for Resolute USA to USITC auditor.

³¹ ***. Petitioners' postconference brief, p. 16.

³² U.S. producers reported total assets related to SC paper operations as follows: ***. Verso U.S. producer questionnaire response to III-12.

Table VI-4
SC paper: Capital expenditures and research and development expenses of U.S. producers, 2012-14

* * * * *

***.³³ ***.³⁴

As shown in table VI-4, *** U.S. producer to report R&D expenses. ***.³⁵

CAPITAL AND INVESTMENT

The Commission requested U.S. producers of SC paper to describe any actual or potential negative effects of imports of SC paper from Canada on their firms’ growth, investment, ability to raise capital, development and production efforts, or the scale of capital investments. The responses of U.S. producers are presented below.

Actual negative effects

Madison	***.
Resolute USA	***.
Verso	***.

Anticipated negative effects

Madison	***.
Resolute USA	***.
Verso	***.

³³ Verso U.S. producer questionnaire response to III-13b.

³⁴ ***. Resolute USA U.S. producer questionnaire response to III-13b.

³⁵ Petitioner’s postconference brief, p. 13.

PART VII: THREAT CONSIDERATIONS AND INFORMATION ON NONSUBJECT COUNTRIES

Section 771(7)(F)(i) of the Act (19 U.S.C. § 1677(7)(F)(i)) provides that—

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of the subject merchandise, the Commission shall consider, among other relevant economic factors¹--

- (I) if a countervailable subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement), and whether imports of the subject merchandise are likely to increase,*
- (II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,*
- (III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,*
- (IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices, and are likely to increase demand for further imports,*
- (V) inventories of the subject merchandise,*

¹Section 771(7)(F)(ii) of the Act (19 U.S.C. § 1677(7)(F)(ii)) provides that “The Commission shall consider {these factors} . . . as a whole in making a determination of whether further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted under this title. The presence or absence of any factor which the Commission is required to consider . . . shall not necessarily give decisive guidance with respect to the determination. Such a determination may not be made on the basis of mere conjecture or supposition.”

- (VI) *the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products,*
- (VII) *in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both),*
- (VIII) *the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and*
- (IX) *any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).²*

Information on the nature of the alleged subsidies was presented earlier in this report; information on the volume and pricing of imports of the subject merchandise is presented in *Parts IV and V*; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in *Part VI*. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission on nonsubject countries.

THE INDUSTRY IN CANADA

The petition listed four producers of SC paper in Canada.³ The Commission received questionnaire responses from those four producers of SC paper in Canada, which accounted for

²Section 771(7)(F)(iii) of the Act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other WTO member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

³ Petition, p. I-8.

all production of SC paper in Canada during the period of investigation.⁴ These firms are identified in table VII-1 along with each firm’s capacity, production, and export shipment data.

Table VII-1
SC paper: Reporting producers of SC paper in Canada, capacity, production, share of reported production, capacity utilization, exports to the United States, and share of exports to the United States, by firm, 2012-14

Firm	Production (short tons)	Share of reported production (percent)	Exports to the United States (short tons)	Share of reported exports to the United States (percent)	Total shipments (short tons)	Share of firm's total shipments exported to the United States (percent)
Catalyst	***	***	***	***	***	***
Irving	***	***	***	***	***	***
Port Hawkesbury	***	***	***	***	***	***
Resolute	***	***	***	***	***	***
Total	***	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

Producers of SC Paper in Canada

Catalyst

Catalyst is a producer of specialty printing papers, newsprint and pulp, headquartered in Vancouver, Canada with an annual production capacity of 2.3 million short tons (2.1 million metric tons) of paper and 551,156 short tons (500,000 metric) tons of pulp. It operates five paper mills, three of which are located in the metro Vancouver area and produce newsprint, lightweight coated paper, SC paper, and pulp.⁵ In 2015, as part of the Verso merger with NewPage, U.S. antitrust authorities supervised the divestiture and sale to Catalyst of two of NewPage’s pulp and paper mills in Rumford, Maine, which produces coated paper products used in the packaging industry, and Biron, Wisconsin, which produces coated groundwood papers. The addition of these mills increased Catalyst's overall production capacity by 65 percent.⁶

Catalyst reported that *** percent of its total sales in the most recent fiscal year were sales of SC paper. It reported SC paper capacity decreased by *** percent from 2012 to 2014,

⁴ Respondents agreed that the four producers in Canada from which the Commission received questionnaire responses accounted for all production of SC paper in Canada. Respondent Port Hawkesbury’s postconference brief, p. 1 n.2.

⁵ Catalyst produces SC paper at two of its mills: (1) Powell River mill in Powell River, British Columbia; and (2) Port Alberni mill in Port Alberni, British Columbia.

⁶ <http://www.catalystpaper.com/about/history>

and is projected to *** from 2014 to 2016. Catalyst's reported SC paper production decreased by *** percent from 2012 to 2014, and is projected to *** from 2014 to 2016. In 2014, *** percent of Catalyst's total shipments of SC paper were commercial shipments in its home market, *** percent were exported to the United States, *** percent were exported to other export markets such as ***. Catalyst reported that its sole U.S. importer of SC paper during the period of investigation was ***.

Irving

J.D. Irving Limited is a privately owned company headquartered in Saint John, New Brunswick, Canada with operations in the following business segments: agriculture, construction, consumer products, energy, food, forestry and forestry products, retail and distribution, shipbuilding and industrial fabrication, and transportation and logistics. Among its forest and forestry products segment, its subsidiary, Irving Paper ("Irving"), produces solely SC paper with an annual production capacity of approximately 496,040 short tons (450,000 metric tons). It operates two SC paper production lines at its mill in Saint John, New Brunswick, Canada.

Irving reported that *** percent of its total sales in the most recent fiscal year were sales of SC paper. It reported SC paper capacity increased by *** percent from 2012 to 2014, and is projected to *** from 2014 to 2016. Irving's reported SC paper production also increased by *** percent from 2012 to 2014, and is projected to *** from 2014 to 2016. In 2014, *** percent of Irving's total shipments of SC paper were commercial shipments in its home market, *** percent were internally consumed, *** percent were exported to the United States, *** percent were exported to other export markets such as ***. Irving reported that ***.

Port Hawkesbury

Prior to September 2011, the paper mill located in Port Hawkesbury, Nova Scotia, Canada, had been owned and operated by NewPage. The mill contained two paper production lines, one producing SC paper and the other newsprint. In September 2011, NewPage's Canadian subsidiary, which operated the mill, filed for bankruptcy protection under the Canadian equivalent of Chapter 11 of the U.S. Bankruptcy Code and production operations at the mill ceased. The mill, however, remained in "hot idle," a process that maintained the production equipment and supply lines and would enable a relatively quick return to production operations.⁷ In August 2012, during the bankruptcy reorganization, the Port Hawkesbury mill was sold to Pacific West Commercial Corp. ("Pacific West"), an affiliate of Stern Partners, a Vancouver, Canada based private equity firm.⁸ In October 2012, Pacific West

⁷ Petitioner maintained that the government of Nova Scotia provided many of the resources to maintain the "hot idle," the duration of which totaled approximately one year. Petition, pp. II-2-II-3.

⁸ Stern Partners also has ownership interests in other paper manufacturers including Alberta Newsprint Co. and West Linn Paper Co. <http://www.sternpartners.com/investments/index.html> accessed on March 25, 2015. West Linn Paper Co. conducts marketing and sales operations for the SC

(continued...)

restarted production of SC paper at the mill with an annual production capacity of *** short tons as Port Hawkesbury Paper LP. Respondent Port Hawkesbury reported that it completely reorganized and streamlined the mill and thereby reduced cost and increased efficiencies. It reported the following reorganization activities: ***.⁹

Port Hawkesbury reported that *** percent of its total sales in the most recent fiscal year were sales of SC paper. It reported SC paper capacity increased by *** percent from 2012 to 2014 as production ramped up after the period of “hot idle,” and is projected to *** from 2014 to 2016. Port Hawkesbury’s reported SC paper production increased by *** percent from 2012 to 2014, again, as production ramped up after the period of “hot idle,” and is projected to *** from 2014 to 2016. From 2013 to 2014, Port Hawkesbury’s capacity and production ***. In 2014, *** percent of Port Hawkesbury’s total shipments of SC paper were commercial shipments in its home market, *** percent were exported to the United States, *** percent were exported to other export markets such as ***. Port Hawkesbury reported that ***.

Resolute

Resolute is an integrated forest products company headquartered in Montreal, Quebec, Canada whose operations include pulp production, paper production, and wood products production (lumber for residential construction) in the United States, Canada, and South Korea. Its 19 paper and pulp mills produce approximately 5.5 million short tons (5.0 million metric tons) of paper, which includes commercial printing papers and newsprint. Three of its paper mills in Canada produced SC paper during the period of investigation. These include: (1) Dolbeau paper mill in Dolbeau, Quebec;¹⁰ (2) Kenogami paper mill in Jonquiere, Quebec; and (3) Laurentide paper mill in Grand-Mere, Quebec. Resolute reported that in November 2012 it closed down production on one SC paper production line at its Laurentide paper mill. In October 2014, it reported that it ceased all production operations at the Laurentide paper mill ***¹¹ The Laurentide paper mill reported an annual production capacity of 210,541 short tons

(...continued)

paper produced at Port Hawkesbury. <http://www.wlinpco.com/papers/supercalendered.aspx> accessed March 30, 2015.

⁹ Respondent Port Hawkesbury’s postconference brief, exh. 1, attachment J.

Petitioner stated that when NewPage operated the Port Hawkesbury mill raw material (wood), energy (electricity), and transportation costs were so high that they prevented NewPage from operating it profitably. It reported that in 2010, the last full year that NewPage operated the Port Hawkesbury mill, ***. Petitioner reported that energy costs for Verso’s Duluth, Minnesota and Madison’s Madison, Maine mills accounted for 19.0 percent and 18.3 percent, respectively, of total cost of goods sold. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” pp. 2 and 5.

¹⁰ In October 2012, Resolute announced that it would resume operations at its Dolbeau paper mill after securing energy resources. The company press release stated that “this decision follows the receipt of a notice of acceptance of the tender regarding the sale of electricity to be produced at the Company’s Mistassini cogeneration facility to Hydro-Québec.” <http://resolutefp.mediaroom.com/index.php?s=28238&item=135310>

¹¹ Foreign producer questionnaire response of Resolute, question II-4e; Respondent Resolute’s postconference brief, p. 13; Press release, *Resolute Announces Permanent Closure of Laurentide Mill in Shawinigan, Quebec*, “The restart of a competitor’s mill at the end of 2012, the high cost of fiber, as well
(continued...)

of SC paper. Its wholly owned U.S. subsidiary, Resolute USA, owns and operates a paper and pulp mill in Catawba, South Carolina, which produces pulp, specialty coated papers, and SC paper.

Resolute reported that *** percent of its total sales in the most recent fiscal year were sales of SC paper. Its reported SC paper capacity decreased by *** percent from 2012 to 2014, and is projected to *** from 2014 to 2016 ***. Resolute’s reported SC paper production decreased by *** percent from 2012 to 2014, and is projected to *** from 2014 to 2016, ***. In 2014, *** percent of Resolute’s total shipments of SC paper were commercial shipments in its home market, *** percent were internally consumed, *** percent were exported to the United States, *** percent were exported to other export markets such as ***. Resolute reported that its sole U.S. importer of SC paper during the period of investigation was ***.

Data for the SC Paper Industry in Canada

Table VII-2 presents data for reported capacity, production, and shipments of SC paper for all reporting producers in Canada. Collectively, producers in Canada reported that SC paper capacity increased by *** percent from 2012 to 2014,¹² and is projected to ***.¹³ They reported SC paper production increased by *** percent from 2012 to 2014, and is projected to ***.¹⁴ In 2014, producers in Canada reported that *** percent of their total shipments of SC paper were internally consumed, *** percent were commercial sales to their home market, *** percent were exported to the United States,¹⁵ and *** percent were exported to other markets, including ***.

Table VII-2
SC paper: Canada’s reported production capacity, production, shipments, and inventories, 2012-14

* * * * *

(...continued)

as higher transportation and fuel costs, have affected the mill's competitiveness.”

<http://resolutefp.mediaroom.com/index.php?s=28238&item=135267>

¹² ***.

¹³ ***.

¹⁴ The changes in production are primarily due to the same causes mentioned for capacity.

¹⁵ Petitioner and respondents agreed that producers of SC paper in Canada have historically been highly export-oriented and have focused primarily on the U.S. market for sales for the following reasons: (1) the large size of the U.S. market for SC paper; (2) lack of viable alternative export markets; and (3) the fact that many of the major retailers in Canada and the United States use printers and publishers located in the United States to print their advertising materials. Petitioner’s postconference brief, p. 19; Conference transcript, p. 119 (Mosher).

U.S. INVENTORIES OF IMPORTED MERCHANDISE

Table VII-3 presents data on U.S. importers' reported inventories of SC paper.

Table VII-3
SC paper: U.S. importers' inventories, 2012-2014

* * * * *

U.S. IMPORTERS' OUTSTANDING ORDERS

The Commission requested U.S. importers to indicate whether they imported or arranged for the importation of SC paper after December 31, 2014. *** U.S. importers of SC paper from Canada indicated that they had imported or arranged for importation since December 31, 2014. Table VII-4 presents the U.S. importers that had imported or arranged for the importation of the subject product from Canada and the quantity of those U.S. imports.

Table VII-4
SC paper: U.S. importers' orders of subject imports from Canada subsequent to December 31, 2014

* * * * *

ANTIDUMPING OR COUNTERVAILING DUTY ORDERS IN THIRD-COUNTRY MARKETS

Petitioners stated that they are unaware of any antidumping or countervailing duty orders in third-country markets on SC paper from Canada.¹⁶

INFORMATION ON NONSUBJECT COUNTRIES

In assessing whether the domestic industry is materially injured or threatened with material injury "by reason of subject imports," the legislative history states "that the Commission must examine all relevant evidence, including any known factors, other than the dumped or subsidized imports, that may be injuring the domestic industry, and that the Commission must examine those other factors (including non-subject imports) 'to ensure that it is not attributing injury from other sources to the subject imports.'"¹⁷

¹⁶ Conference transcript, p. 76 (Kaplan).

¹⁷ *Mittal Steel Point Lisas Ltd. v. United States*, Slip Op. 2007-1552 at 17 (Fed. Cir. Sept. 18, 2008), quoting from Statement of Administrative Action on Uruguay Round Agreements Act, H.R. Rep. 103-316, Vol. I at 851-52; see also *Bratsk Aluminum Smelter v. United States*, 444 F.3d 1369 (Fed.Cir. 2006).

Global Demand

*** 18

Global SC Paper Production

The vast majority of production of SC paper occurs in North America and Europe. Shipments of supercalendered magazine paper (a close approximation for SC paper) by European producers declined steadily between 2012 and 2014, from 4.7 million short tons (4.3 million metric tons) to 4.3 million short tons (3.9 million metric tons). European shipments of supercalendered magazine paper remain primarily within Europe; in 2014, only 17 percent of these shipments went to non-European countries.¹⁹ According to the European Association of Graphic Paper Producers, European producers of supercalendered magazine paper include Holmen Paper, Laakirchen Papier, Norske Skog, Parengo, SCA Forest Products, Stora Enso, and UPM.

Exporters of SC Paper

Export data specifically for SC paper are not available from global trade databases. However, export data are available for a broader category of products which includes other types of uncoated mechanical papers. These data, presented in table VII-5, provide a rough approximation of global exports of SC paper. In 2014, the five leading country exporters accounted for 86 percent of global exports of uncoated groundwood paper in rolls.

¹⁸ Petition, exhibits I-7 and I-9 attachment A.

¹⁹ European Association of Graphic Paper Producers, Monthly Statistics of the European Graphic Papers Industry. In 2014, the only significant supplier of SC paper to the United States, other than Canada, was Finland. Official U.S. import statistics, HTS number 4802.61.3035.

Table VII-5**Uncoated groundwood paper in rolls: Leading country exporters and total global exports, 2012-14**

Country	Calendar year		
	2012	2013	2014
	Quantity (1,000 short tons)		
Canada	2,082	2,233	2,114
Sweden	1,679	1,633	1,461
Germany	1,141	1,000	937
Austria	759	739	746
Norway	516	507	499
All other countries	1,011	957	924
Total global exports	7,188	7,069	6,681

Note: Data for 2014 are not strictly comparable with data for 2012-13 because a few countries have not yet reported full year 2014 export data.

Source: Global Trade Information Service, Inc. World Trade Atlas Database export data for HS number 4802.61, which includes other types of uncoated mechanical papers.

APPENDIX A

FEDERAL REGISTER NOTICES

The Commission makes available notices relevant to its investigations and reviews on its website, www.usitc.gov. In addition, the following tabulation presents, in chronological order, *Federal Register* notices issued by the Commission and Commerce during the current proceeding.

Citation	Title	Link
80 FR 12036 March 5, 2015	<i>Supercalendered Paper From Canada; Institution of a Countervailing Duty Investigation and Scheduling of a Preliminary Phase Investigation</i>	https://federalregister.gov/a/2015-05012
80 FR 15981 March 26, 2015	<i>Supercalendered Paper From Canada: Initiation of Countervailing Duty Investigation</i>	https://federalregister.gov/a/2015-06867

APPENDIX B
CONFERENCE WITNESSES

CALENDAR OF PUBLIC PRELIMINARY CONFERENCE

Those listed below appeared as witnesses at the United States International Trade Commission's preliminary conference:

Subject: Supercalendered Paper from Canada
Inv. No.: 701-TA-530 (Preliminary)
Date and Time: March 19, 2015 - 9:30 am

Sessions were held in connection with this preliminary investigation in the Main Hearing Room (Room 101), 500 E Street, S.W., Washington, DC.

OPENING REMARKS:

Petitioners (**Gilbert B. Kaplan**, King & Spalding LLP)
Respondents (**Thomas J. Trendl**, Steptoe & Johnson LLP)

In Support of the Imposition of the Countervailing Duty Order:

King & Spalding LLP
Washington, DC
on behalf of

Coalition for Fair Paper Imports

E. Russell Drechsel, President *and* Chief Executive Officer, Madison Paper Industries
Michael Johnston, Vice President Distribution Sales, UPM-Kymmene, Inc.
Greg Hadley, Assistant General Counsel, Verso Corporation
Paul Clancy, Vice President Pricing and Commercial Finance, Verso Corporation
Michael Croteau, President, United Steelworkers Local 36
Bonnie B. Byers, Consultant, King & Spalding LLP
Terry McBride, Legal Consultant, Madison Paper Industries
Dr. Seth Kaplan, Senior Economic Advisor, Capital Trade Inc.

Gilbert B. Kaplan)
) – OF COUNSEL
Brian E. McGill)

**In Opposition to the Imposition of
Countervailing Duty Order:**

Steptoe & Johnson LLP
Washington, DC
on behalf of

and

Law Offices of Gary N. Horlick
Washington, DC
on behalf of

and

Law Offices of Peggy A. Clark
Washington, DC
on behalf of

Port Hawkesbury Paper LP (“PHPLP”)

Neil De Gelder, President, Port Hawkesbury Investments Ltd.

Shawn Lewis, Vice President, General Counsel *and* Secretary,
Port Hawkesbury Investments Ltd.

Michael Ostrowski, Vice President Supercalendered Sales, West Linn
Paper Company

Bruce Malashevich, President, Economic Consulting Services LLC

Cara Groden, Economist, Economic Consulting Services LLC

Thomas J. Trendl)
Nathan W. Cunningham)
) – OF COUNSEL
Gary N. Horlick)
Peggy A. Clarke)

Akin Gump Strauss Hauer & Feld LLP
Washington, DC
on behalf of

Irving Paper Limited

Mark Mosher, Vice President of Pulp and Paper Operations, J.D. Irving, Limited

Warren E. Connelly) – OF COUNSEL

Sidley Austin LLP
Washington, DC
on behalf of

Catalyst Paper Corporation (“Catalyst”)

Richard Weiner) – OF COUNSEL

Interested Party:

Baker & Hostetler LLP
Washington, DC
on behalf of

Resolute Forest Products Inc.

Elliot J. Feldman) – OF COUNSEL

REBUTTAL/CLOSING REMARKS:

Petitioner (**Bonnie B. Byers**, King & Spalding LLP)

Respondents (**Thomas J. Trendl**, Steptoe & Johnson LLP)

APPENDIX C
SUMMARY DATA

Table C-1

SC paper: Summary data concerning the U.S. market, 2012-14

* * * * *

Table C-2

SC paper: Summary data concerning the U.S. market excluding U.S. producer *, 2012-14**

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