UNITED STATES
INTERNATIONAL TRADE COMMISSION

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| IN THE MATTER OF: | ) | |
| | ) | Nos. 701-TA-451 and |
| CERTAIN LIGHTWEIGHT | ) | 731-TA-1126-1128 |
| THERMAL PAPER FROM CHINA, | ) | (Preliminary) |
| GERMANY AND KOREA | ) | |

**REVISED AND CORRECTED COPY**

Pages: 1 through 257

Place: Washington, D.C.

Date: October 10, 2007

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**HERITAGE REPORTING CORPORATION**
*Official Reporters*
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
(202) 628-4888

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Hearing Room B
500 E Street, N.W.
Washington, D.C.

Wednesday,
October 10, 2007

The preliminary conference commenced, pursuant to notice, at 9:30 a.m., before the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, Presiding.

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1 P R O C E E D I N G S

2 (9:30 a.m.)

3 MR. CARPENTER: Good morning, and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 countervailing duty and antidumping, Investigation No.
7 701-TA-451 and 731-TA-1126 to 1128, concerning imports
8 of certain lightweight thermal paper from China,
9 Germany and Korea.

10 My name is Robert Carpenter. I'm the
11 Commission's Director of Investigations, and I will
12 preside at this conference. Among those present from
13 the Commission staff are from my far right, Diane
14 Mazur, the supervisory investigator; Chris Cassise,
15 the investigator. On my left, Marc Bernstein, the
16 attorney/advisor; Nancy Bryan, the economist; Mary
17 Klir, the auditor; and Fred Forstall, the industry
18 analyst.

19 I understand the parties are aware of the
20 time allocations. I would remind speakers not to
21 refer in your remarks to business proprietary
22 information and to speak directly into the microphone.
23 We also ask you state your name and affiliation for
24 the recording before beginning your presentation.

25 Are there any questions?

1 (No response.)

2 MR. CARPENTER: If not, welcome, Mr. Dorn.

3 Please proceed with your opening statement.

4 MR. DORN: Thank you. Good morning. This

5 case is about the damage that unfairly traded imports

6 have inflicted on the domestic industry producing

7 lightweight thermal paper. The petition alleges

8 dumping margins of 65 to 75 percent for Germany, 66

9 percent for Korea and 104 percent for China.

10 The petition also alleges over 20 Chinese

11 government subsidy programs that are benefitting the

12 Chinese industry. The defining characteristic of

13 thermal paper is its creation of an image when exposed

14 to heat. The article study to investigation is

15 thermal paper having a basis weight of no more than 70

16 grams per square meter, which we will refer to as

17 lightweight thermal paper or LWTP.

18 The domestic like product is coextensive

19 with the scope of the investigations. Substantially

20 all LWTP is used in point of sale applications such as

21 ATM receipts. It generally has a weight of around 55

22 grams per square meter or less. Heavy thermal paper

23 generally has a weight of 80 grams or more.

24 Due to its thickness and high value added

25 features, heavy thermal paper is not interchangeable

1 with or commercial substitutable with LWTP in most
2 applications. Among other things, it is not used in
3 the same printers in which LWTP is used. Several
4 conditions of competition are particularly worth
5 noting.
6 First, LWTP is a commodity-type product.
7 Competing suppliers offer products with essentially
8 the same specifications to serve the same printers.
9 Purchasing decisions are made largely on the basis of
10 price. Second, U.S. consumption of LWTP has increased
11 substantially during the period of investigation.
12 Thermal printers have increasingly replaced older
13 technology thermal transfer ribbons and carbon paper
14 to document transactions at the point of sale.
15 Third, China, Germany and Korea account for
16 virtually all U.S. imports of LWTP. Fourth, the value
17 of the dollar has depreciated in relation to the
18 currencies in the subject countries. Given these last
19 three conditions of competition U.S. producers of
20 jumbo rolls should have received higher prices in 2006
21 and the first half of 2007.
22 Instead, they lost market share to subject
23 imports and suffered declining prices in the face of
24 increasing raw material costs and increasing energy
25 costs. A quick summary of the statutory factors

1 demonstrates that this industry is materially injured
2 by reason of unfairly traded imports.
3 First, the volume of the subject imports is
4 highly significant in relation to U.S. consumption and
5 U.S. production. Imports increased about 60 percent
6 from 2004 to 2006 and at least another 10 percent in
7 the first half of 2007. They also increased relative
8 to U.S. consumption and U.S. production. Second,
9 subject imports have adversely affected U.S. prices
10 for the domestic like product.
11 Appleton has documented numerous instances
12 where it has had to lower its prices in response to
13 lower prices of jumbo rolls from Germany and Korea and
14 other instances where it has lost sales to lower
15 priced imports. Imports of slit rolls from China have
16 undersold not only U.S. prices for domestic slit
17 rolls, but also U.S. prices for domestic jumbo rolls.
18 U.S. importers have used the lower prices to
19 increase their share of the growing U.S. market. In
20 addition, Appleton has had to refrain from raising its
21 prices to cover its increasing cost of production in
22 order to avoid losing even more sales to subject
23 imports.
24 The prices of subject imports have declined
25 at the very time that raw material costs and energy

1 costs have increased for U.S. producers. Third, the
2 subject imports have had an adverse impact on the
3 domestic industry. Domestic output and sales of jumbo
4 rolls have not kept pace with the increase in U.S.
5 consumption.
6 Domestic market share has fallen, and all of
7 that lost market share has gone to subject imports
8 since there are no nonsubject imports. Finally,
9 subject imports are adversely affecting Appleton's
10 revenues, prices and profits. The threat case is
11 equally strong. Subject imports are rapidly
12 increasing, both absolutely and relative to U.S.
13 consumption and U.S. production.
14 Capacity in the subject countries far
15 exceeds U.S. capacity. The Chinese producers are
16 subsidized by their government, including export
17 subsidies. Increasing imports of slit rolls from
18 China will decrease demand for U.S. jumbo rolls.
19 Starting from an already large share of the
20 U.S. market, subject imports are certain to continue
21 to depress prices and to adversely affect U.S. output
22 and U.S. profits at the very time that Appleton's $100
23 million expansion project comes onstream in 2008. In
24 sum, the Commission should reach an affirmative
25 preliminary determination of material injury or threat

1 of material injury with respect to all three subject
2 countries.
3 We appreciate the attention the staff has
4 given to this case and look forward to working with
5 you to complete the record. Thank you.
6 MR. CARPENTER: Thank you, Mr. Dorn.
7 Mr. Silverman?
8 MR. SILVERMAN: Thank you, Mr. Chairman.
9 I've practiced before the Commission for many years,
10 many different products, many different cases, but
11 I've got to tell you, this is one of the oddest. This
12 is one of the oddest, and frankly, to my mind it
13 smells. It smells for a number of reasons. I hope
14 the Commission will take the time to look into it.
15 1) Appleton complains about imports of a
16 downstream product that it doesn't make but then
17 insists that the U.S. manufacturers of the downstream
18 product should be excluded from the domestic industry.
19 Now, except for Ag products where there is a
20 specific statutory provision I know of no other
21 situations where the Commission has analyzed a case in
22 which the product scope included both upstream and
23 downstream products and then ruled that the domestic
24 industry consisted only of the producers of the
25 upstream product. That's the clever legal strategy of

1 Appleton.

2 2) Everybody in this room knows that this

3 product scope was gerrymandered to exclude profitable

4 sales of certain thermal paper even though it was

5 produced by the same workers on the same equipment

6 that they're making lightweight thermal paper.

7 3) Appleton may claim lost sales and

8 underutilized capacity, but at the same time it's

9 putting customers on allocation, you'll hear testimony

10 to that, it refuses new customers, you'll hear

11 testimony to that, and most important, at the same

12 time its claiming lost sales and underutilization it

13 seeks to import this product from Europe.

14 You heard me right. At the same time,

15 they're complaining to the Commission about increasing

16 imports, the old template of all those statutory

17 words, at the same time they're complaining about that

18 they're going to Europe asking to import because they

19 can't meet their customers' needs. That's for 2006

20 and 2007.

21 4) The Petitioner may tell the Commission

22 that it is materially injured, but at the same time

23 they're announcing a $100 million investment in new

24 capacity. You don't do that overnight. You do that

25 with serious analysis of rate of return, you have to

1 get financing. It's a fairly complicated long-term
2 investment process.
3 Now, if they're operating below capacity,
4 why are they adding capacity? If they are materially
5 injured or threatened material injury, how do they
6 embark on a $100 million investment? Now, if Appleton
7 tries to cover its tracks by claiming that the
8 investment depends on, you guessed it, an affirmative
9 determination by the Commission, I'm sure you've heard
10 that one before, ask yourself what U.S. company would
11 ever make a major investment contingent upon an ITC
12 vote?
13 Can you imagine telling that to an
14 investment banker, or lender, or shareholders? It's
15 just not credible. Let's face it. If they thought it
16 was really predicated on the ITC vote then they could
17 supply the Commission with their business plan, their
18 financial analysis and other sophisticated projections
19 that they must have had before they decided to embark
20 on a $100 million investment.
21 5) The data on the record, the data on the
22 record disprove any causal link. Appleton's own data
23 disproves any causal link. I note, for example, and
24 very important here because this is a little unusual
25 in cases, Koehler, which is the major import source,

1 has raised its prices during the period of
2 investigation including the interim period.
3 So those are five reasons why I think the
4 Commission can see why this case is funny. The
5 Department of Commerce also thought so, and as you
6 know, they have not initiated.
7 Now, I know this is only a preliminary
8 investigation, Mr. Chairman, and I know that
9 petitioners get favored treatment under the law, but
10 every once in a while a petition is so suspect, so
11 inconsistent, so misleading and so wrong that the
12 Commission should look closely at the evidence in the
13 record.
14 If the Commission does this it should reject
15 the Petitioners' clever legal strategy and issue a
16 negative determination. Thank you.
17 MR. CARPENTER: Thank you, Mr. Silverman.
18 Mr. Dorn, at this time if you would bring
19 your panel forward, please?
20 MR. SCHONFELD: Good morning. My name is
21 Walter Schonfeld, and I'm the President of the
22 Technical Papers Division at Appleton. Appleton
23 Papers is headquartered in Appleton, Wisconsin, and we
24 have been making paper products there and at other
25 locations for over 100 years.

1 We became a 100 percent employee owned
2 company in 2001 and we've maintained a strong
3 commitment to our more than 3,000 employees to
4 continue to produce paper in the United States. We're
5 a world leader in coated paper products, and we derive
6 from 25 to 30 percent of our revenues from
7 international sales.
8 Our specialty has always been coated paper.
9 In 1953, Appleton began working with the National Cash
10 Register Company, NCR as you probably know them, to
11 develop carbonless paper. That is the type of coated
12 paper you would see in multicopy forms where what you
13 write on the top form is imprinted on the copies below
14 without the use of carbon paper.
15 In the late 1960s Appleton and NCR developed
16 and introduced thermal paper including the lightweight
17 thermal paper that is the subject of these
18 investigations. We also produce security papers,
19 which are papers with basic security features that
20 make them resistant to forgery and counterfeiting.
21 Along with our Appleton plant at which we
22 coat our carbonless and thermal paper we have a pulp
23 and paper mill in Roaring Spring, Pennsylvania, and
24 another paper mill in West Carrollton, Ohio. These
25 facilities are all part of Appleton's Technical Papers

1 Division, which accounted for more than four-fifths of
2 the sales of the company last year.
3 The company also has some other units that
4 are not part of our paper making operations. Let me
5 take a second and explain what paper making is and
6 what thermal paper is and how it's made. We have
7 brought samples and will pass these out during the
8 presentation, but up on the screen you'll note some
9 visual images of what thermal paper is. I apologize
10 for the ergonomics here of course.
11 We've all seen this kind of paper before.
12 Whenever you get a cash register receipt or for the
13 heavier weight thermal papers whenever you buy a
14 theater ticket, lottery ticket, airline ticket or
15 other variety of applications where it's printed on a
16 heaver paper. It may look like regular paper, but
17 it's actually not.
18 A cross-section of thermal paper is
19 displayed here on Slide 3. The paper is coated with
20 chemicals that react to form images when exposed to
21 heat. If you were to place this piece of paper in the
22 oven and turn it up to 300 degrees the coated side
23 would turn totally black.
24 As shown on the next slide, thermal printers
25 have a roll of tiny heating elements lying side by

1 side across the width of where the paper passes
2 through. The computer chip in the printer instructs
3 each element to quickly heat up and cool down as the
4 paper passes through creating a colored microdot on
5 the paper.
6 The arrangement of microdots on the paper
7 creates the words or any other image that one wants.
8 That's how you get your cash register receipt. I
9 understand that a few years ago the Commission
10 conducted an investigation of thermal transfer
11 ribbons.
12 For that technology the printer elements
13 instead of directly heating the paper heated the
14 thermal transfer ribbon and the ink was transferred
15 onto the paper as it passed underneath the ribbon.
16 Thermal paper does not use ribbons and is a totally
17 different technology. A retail store only needs to
18 make a quick change of a roll of paper without having
19 to deal with the additional consumable of the ribbon.
20 As a result, thermal paper is steadily
21 replacing thermal transfer ribbons as we do not see
22 anyone going back to ribbon once they start using
23 thermal paper. Making thermal paper is definitely
24 more complicated than making thermal transfer ribbon.
25 As I understand it, making a jumbo roll of thermal

1 transfer ribbon basically consists of inking rolls of
2 plastic that the producers buy from someone else.
3 Here, we need to turn trees into thermal
4 paper. There are three basic stages to the production
5 of lightweight thermal paper. First is the production
6 of the base paper, second is the coating of the base
7 paper and third is the converting and packaging for
8 the end user. Production of the base paper begins
9 with harvesting of trees and turning them into pulp at
10 paper mills like the ones at our Roaring Spring
11 facility pictured in the image on the screen.
12 Our West Carrollton mill from which the
13 Appleton plant gets a good portion of its base paper
14 does not produce its own pulp but buys it and mixes it
15 with waste paper and various chemicals to create
16 paper. This mixture, which is shown on the screen, is
17 sent through the paper making lines at the desired
18 thickness producing a very wet paper that must be
19 dried and rolled through a massive series of ovens and
20 rollers.
21 Throughout the process the characteristics
22 of the paper are monitored so that at the end the
23 paper with the desired thickness or basis weight is
24 rolled up by the winders. The finished rolls of base
25 paper are then shipped to our Appleton plant along

1 with rolls of base paper that we purchase from other
2 sources. The base paper in rolls looks like what you
3 see up on the screen.
4 Today, the coating stage takes place at our
5 Appleton plant where the rolls of paper are unwound
6 and fed through the coating machines. An example of
7 one of those coating machines is up on the screen.
8 The coatings are typically blended in-house from solid
9 and liquid raw materials. The paper is coated from
10 vats of the coating chemicals, and the desired
11 thickness of the coating is set by calibrating a
12 device right after it is coated.
13 The liquid coating is then dried on the
14 paper, and the paper passes through a series of drying
15 ovens to also provide firmness to the paper. Then,
16 the paper may be rolled again or calendared to achieve
17 a uniform thickness. Steam is applied to the paper
18 which helps prevent curling, and it is then rewound as
19 jumbo rolls of thermal paper.
20 An example of that process is up on the
21 screen. These rolls may be slit to the jumbo roll
22 width desired by our customer who is a converter. The
23 final process at the converter is less complicated.
24 There, the jumbo rolls are unwound on a slitter which
25 cuts the rolls to the desired width and length.

1 The paper is rolled onto plastic spools and
2 boxed. A portion, we estimate about 35 percent, is
3 printed either by the converter or by an outside party
4 before being rolled up into the converted roll. That
5 is the entirety of the converting process.
6 No chemistry is involved, and the technology
7 and technical expertise are negligible in relation to
8 the making of base paper in the application of the
9 thermal coating. As Karen Hatfield will discuss in
10 more detail there are different types of thermal paper
11 which are distinct in terms of their physical
12 characteristics, distribution channels, customers and
13 consequent end uses.
14 Although our sales of high value thermal
15 paper, like those for the entertainment and label
16 businesses, are more profitable we need to stay in the
17 point of sale business. It is the largest single
18 segment for thermal paper, and we achieve economies of
19 scale by continuing to serve it.
20 It is also a stepping stone into the high
21 value added market, and we need to defend our other
22 markets. That is why we have lowered our prices in
23 response to lower prices by our foreign competitors
24 instead of just losing even more sales than we already
25 have.

1 Appleton is not just defending its market
2 for lightweight thermal paper, we are actively
3 investing and making sure we stay competitive for the
4 product. Last January we announced a $100 million
5 project to install a state of the art coater at our
6 West Carrollton mill.
7 This coater will shift a significant portion
8 of our thermal paper production capability to our West
9 Carrollton mill, and we plan to have this mill
10 concentrate on lightweight thermal paper.
11 Construction has begun, and it is scheduled for
12 completion in August of 2008.
13 But the competitive situation has changed
14 since we evaluated this investment in late 2006.
15 Increased dumping and subsidies have depressed prices
16 to a significant degree. The price levels that
17 indicated we could achieve a reasonable return on this
18 investment have eroded further in 2007 due to unfair
19 low prices of jumbo rolls from Germany and Korea and
20 slit rolls from China.
21 The price erosion has occurred
22 notwithstanding increased costs of raw material and
23 energy and changes in foreign exchange rates. I see
24 no explanation other than dumping and government
25 subsidies from our foreign competitors offering the

1 ability to give them the chance to lower prices
2 continuously in the United States when production
3 costs are increasing and the value of the dollar is
4 declining.
5 There are also significant ocean freight
6 costs to get the product here, but that doesn't seem
7 to matter either. The worldwide price for our main
8 product input, pulp, which is essentially the same
9 worldwide, has continued to increase as this slide
10 shows. If you take a look at the slide you'll see
11 that pulp prices are up about seven percent year to
12 date and they're up over 30 percent in the last three
13 years. Pretty significant rise in costs.
14 Energy prices have also continued to
15 increase. Our mills and all paper mills consume
16 considerable quantities of electricity for drying
17 ovens and other equipment and our costs have gone up
18 as the slide on the screen shows. At the same time
19 that all this has been going on the value of the Euro
20 has continued to appreciate against the dollar which
21 means that our European competitors should not be able
22 to lower their price, including Germany.
23 If you reference the slide above you'll see
24 that the Euro has actually appreciated against the
25 dollar by 12 percent in the last 12 months. The

1 Korean Won has also appreciated which should mean that
2 our Korean competitors are less competitive. Even the
3 Chinese Won has increased in value to the dollar, and
4 yet imports from these countries continue to arrive at
5 continuing lower prices despite higher cost of inputs
6 and the devaluation of the dollar.
7 The only answer I can come up with is that
8 they have increased their level of dumping and
9 subsidization. The Commission can help to reverse
10 that trend by voting affirmatively on injury from all
11 three countries. On behalf of Appleton's nearly 3,200
12 owner employees we respectfully request that the
13 Commission allow these investigations to continue.
14 MS. HATFIELD: Good morning. My name is
15 Karen Hatfield, I'm the Segment Director for
16 Transaction Documents in the Technical Papers Division
17 of Appleton. Within Appleton's segment for thermal
18 paper I am responsible for the lightweight thermal
19 paper that is the subject of these investigations. As
20 Mr. Schonfeld explained, Appleton is strictly a
21 producer of what we refer to as jumbo rolls of thermal
22 paper.
23 All jumbo rolls are made to be converted
24 into slit rolls of a suitable width and length for use
25 in printers. We do not do the conversion ourselves.

1 That is, we do not slit and package jumbo rolls down
2 to the size needed for use in cash registers and other
3 printing devices, about this size, as opposed to the
4 jumbo rolls that you saw earlier on the screen.
5 The key feature of thermal paper is that it
6 reacts to form images when exposed to heat. Aside
7 from the slitting and packaging and occasionally
8 printing done by the converter there are no physical
9 differences between jumbo rolls and converted rolls.
10 The conversion process produces no chemical change in
11 the paper itself.
12 As Mr. Schonfeld explained, the production
13 of jumbo rolls is a multistep process of base paper
14 making and coating. The application of the thermal
15 coating is the critical step that results in thermal
16 paper. That is the step that incorporates the
17 technology and technical expertise that distinguishes
18 thermal paper from all other papers.
19 In contrast, the process for conversion
20 generally consists of unwinding the jumbo rolls,
21 slitting and rewinding the converted rolls and
22 packaging. Thus, the process of slitting and
23 packaging thermal paper is not nearly as complex as
24 the production of the jumbo rolls.
25 In fact, we estimate that the conversion

1 process without printing comprises approximately 10
2 percent of the total cost of production of the
3 finished product excluding the converter's profit and
4 prepaid freight to the end user. With printing the
5 conversion process comprises about 15 percent of the
6 total cost of production.
7 We estimate that about 35 percent of the
8 converted rolls contain printing. I understand that
9 one issue the Commission must address is whether any
10 products other than lightweight thermal paper are like
11 the imports subject to investigation. As defined in
12 the scope of the investigation, lightweight thermal
13 paper has a basis weight of 70 grams per square meter
14 or less.
15 This is a key distinguishing physical
16 characteristic of lightweight thermal paper which both
17 defines and limits the uses for lightweight thermal
18 paper. It is not like heavier types of thermal paper,
19 which we refer to as high value added thermal paper.
20 Lightweight thermal paper is a thinner product which
21 is weaker and less durable than heavier papers.
22 These product characteristics are suitable
23 for the primary use of lightweight thermal paper and
24 point of sale products such as retail store receipts.
25 In the samples that you'll see and what you see

1 projected on the screen as well we show some examples
2 of lightweight thermal paper products including gas
3 station receipts and restaurant receipts.
4 These products are designed for use in point
5 of sale terminal devices, which you can see above as
6 well. Heavy and thermal papers would not function
7 properly or at all in some cases with point of sale
8 printers.
9 Heavier thermal paper is most frequently
10 used for label products as you can see on the screen
11 here as well such as shipping labels, and deli labels,
12 and also ticket products, entertainment tickets and
13 the like, lottery tickets, boarding passes and baggage
14 tags, as well as medical charts. Some of these
15 examples you've just seen on the screen here and are
16 included in the samples that we've provided to you.
17 These other types of products normally
18 require greater strength, environmental resistance and
19 durability than lightweight thermal paper. We
20 consider these heavier, high value added products to
21 be in a separate product category than lightweight
22 thermal paper which is essentially a commodity type
23 product.
24 Lightweight thermal paper coatings typically
25 retain images for less time than the coatings of

1 heavier thermal papers. Most point of sale receipts
2 do not require high quality images for bar code
3 reading and other purposes and are not retained for
4 long periods of time.
5 In contrast, even ticket products, like
6 baggage tags and lottery tickets, which have a
7 relatively short lifespan, must have high quality
8 images with specialty light protection that will
9 resist them to fading, weather and more variable heat
10 conditions so that your winning lottery ticket doesn't
11 fade before you have a chance to redeem it.
12 These special characteristics typically
13 cannot be obtained with lightweight thermal paper. In
14 addition, lightweight thermal paper does not have
15 adhesive backings. Thermal paper that is used for
16 labels ultimately have an adhesive backing added to
17 them as shown in the samples on the screen.
18 Given its different physical characteristics
19 lightweight thermal paper is generally not
20 interchangeable with other types of thermal papers.
21 Point of sale terminal receipt printing stations are
22 designed for the thinner basis weights of lightweight
23 thermal paper and will not function properly with
24 heavier basis weight thermal paper.
25 Therefore, they are carefully monitored for

1 caliper or thickness due to the sensitivity of the
2 printers and their cutting mechanisms. Because they
3 do not have adhesive backings converted rolls of
4 lightweight thermal paper are not interchangeable with
5 converted rolls of thermal paper that ultimately have
6 an adhesive backing and are suitable for labels and
7 similar products.
8 Given their distinctive uses the converters,
9 distributors and resellers of lightweight thermal
10 paper point of sale products generally do not overlap
11 with the converters, distributors and resellers of
12 heavy thermal papers. In addition, customers and
13 producers perceive lightweight thermal paper and other
14 types of thermal paper to be different products.
15 The end users are very different.
16 Lightweight thermal paper is sold primarily to retail
17 businesses. Other types of thermal paper are sold for
18 the most part to businesses in the distribution,
19 transportation, entertainment and gaming industries.
20 Producers recognize that these are different customers
21 seeking different product attributes such as scuff or
22 UV resistance for labels.
23 For example, in a shipping label similar to
24 what you see there the bar code scanability is
25 extremely important because that's how they track the

1 package as it's in transit. If boxes are rubbing
2 against each other in transit and without that scuff
3 resistance it would distort the bar code and made it
4 very difficult for them to ultimately track that, so
5 that's why the scuff resistance and other features are
6 so important.
7 Although lightweight thermal paper shares
8 certain manufacturing facilities, production processes
9 and production employees with other types of thermal
10 paper, Appleton has some coating equipment that is
11 dedicated to lightweight thermal paper that cannot be
12 used to make heavier weight thermal paper.
13 The paper making and coating processes are
14 typically different for lightweight thermal paper and
15 other types of thermal papers because of the
16 difference in basis weight and types of coatings.
17 Finally, lightweight thermal paper is less expensive
18 per square foot than other types of thermal paper.
19 This is because its lower basis weight requires less
20 paper per square foot.
21 It also uses less complex chemistries needed
22 to provide the value added attributes of heavier paper
23 such as higher quality image, greatest strength,
24 environmental resistance and higher durability. In
25 addition, although most heavy thermal papers have a

1 topcoat over the thermal coating substantially all
2 lightweight thermal paper is not top coated.
3 In conclusion, with respect to the like
4 product issue lightweight thermal paper is a distinct
5 product category that is not like other thermal papers
6 in terms of physical characteristics, use, customer
7 and producer perceptions and price. The U.S. market
8 for lightweight thermal paper has been strong and
9 growing since 2004 as we will discuss in detail in our
10 postconference brief.
11 Appleton, however, has not benefitted from
12 the expansion of the lightweight thermal paper market.
13 The reason is that imports have been increasing
14 dramatically taking market share and driving down
15 prices. The foreign thermal paper producers have
16 concentrated on the lightweight thermal paper market.
17 As a result, although we continue to have
18 some operating profits in the overall thermal paper
19 reporting segment of our business we are not
20 profitable in lightweight thermal paper. This is made
21 clear in our confidential questionnaire response. The
22 increasing imports have all been from Germany, Korea
23 and China.
24 As you know, thermal paper is imported under
25 basket categories of the U.S. Harmonized Tariff

1 Schedule. The official import statistics are of no
2 help in determining import levels for thermal paper.
3 There is no trade association or other source that
4 normally collects information on thermal paper
5 shipments at the level of detail that we need.
6 Necessity drove Appleton to develop an
7 internal system for tracking our competition, which we
8 call our grass roots system. Although the details are
9 confidential, grass roots is both a top down and
10 bottom up approach combining data from a number of
11 sources to calculate shipments from each thermal paper
12 producer in the world, and there are not that many, to
13 the markets that Appleton serves.
14 We believe the results to be very accurate,
15 particularly for the imported products. Using grass
16 roots, Appleton is able to estimate imports of
17 lightweight thermal paper by country. Our import
18 estimates are in Exhibit 8 of the petition. As
19 indicated on that exhibit virtually all U.S. imports
20 of jumbo rolls come from Germany and Korea, and
21 virtually all U.S. imports of slit rolls come from
22 China.
23 We have seen a consistent presence of
24 imports of jumbo rolls from Korea in the market. We
25 have seen imports of jumbo rolls from Germany increase

1 steadily since 2004. The trickle of imports of
2 converted rolls from China that we saw in 2005 turned
3 into a steady stream in 2006 and has become a deluge
4 this year.
5 On an aggregate basis imports from Germany,
6 Korea and China have increased about 60 percent from
7 2004 to 2006 and continue to increase in 2007. In
8 addition, as shown in Exhibit 9 of our petition their
9 share of the U.S. market has also grown significantly
10 since 2004.
11 The imports from these countries are not of
12 all types of thermal paper. Instead, they have
13 targeted the lightweight thermal paper that is mostly
14 used in point of sale applications. The imports from
15 Germany and Korea are all jumbo rolls. The imports
16 from China are virtually all converted rolls. By
17 focusing on price sensitive lightweight thermal paper
18 rather than heavy, value added thermal paper the
19 exporters and importers have been able to use their
20 unfairly low prices to penetrate the U.S. market.
21 Unlike heavy, high value added thermal
22 paper, lightweight thermal paper is essentially a
23 commodity product. Although the formulas for the
24 coatings are relatively complex and require
25 considerable expertise to make and the paper making

1 and coating processes also require substantial know
2 how and capital expenditures, the end product of all
3 suppliers of lightweight thermal paper must be used in
4 the same thermal printers and must have essentially
5 the same specifications.
6 A thermal printer manufacturer may certify a
7 thermal paper producer's product for its printer, but
8 once a company's thermal paper has been certified or
9 it's been used successfully it will compete with other
10 companies' thermal paper largely on the basis of
11 price. The most commonly used lightweight thermal
12 paper product in the United States is a 55 gram per
13 square meter thermal paper.
14 This weight of paper delivers a caliper of
15 thickness and stiffness that works well in a wide
16 variety of receipt printers. Let's compare the
17 specifications for our bread and butter lightweight
18 thermal paper, which we call Alpha 400 2.3, which is
19 shown on the left side of the screen there, with
20 Mitsubishi's bread and butter lightweight thermal
21 paper, which it calls F5041, which is on the right
22 side of the screen.
23 I realize it's difficult to see and you have
24 copies of that as well, but the specifications are
25 here. They both have the same basis weight, about 55

1 grams per square meter with some tolerances, they have
2 the same thickness or caliper, again, with some
3 tolerances, and the other specifications are fairly
4 close to the extent that most purchasers do not care
5 about the differences.
6 Both our Alpha 400 2.3 and Mitsubishi's
7 F5041 or for that matter Koehler's KT55F20, Hansol's
8 HSK55, Kanzaki's P300 or Guan House Product will work
9 just fine in the thermal printers designed to take 55
10 gram per square meter thermal paper. There is no
11 reason on the basis of the specifications to choose
12 one over another.
13 Therefore, it does not take a large price
14 difference to prompt a converter to choose one
15 manufacturer over another. In short, domestically
16 produced lightweight thermal paper and imported
17 lightweight thermal paper from Germany, Korea and
18 China are highly interchangeable and are sold largely
19 on the basis of price.
20 Imports from these countries are not gaining
21 market share based on better quality or more desirable
22 features. They are gaining market share for one
23 reason only: they are lower priced than our products.
24 As we discussed in the petition, imports of jumbo
25 rolls from Germany and Korea are underselling our

1 products by a meaningful amount.
2 Imports of converted slit rolls from China
3 are underselling domestic prices for jumbo rolls. The
4 impact of the lower priced imports is immediate. The
5 industry does not have a tradition of using long-term
6 or even short-term contracts between purchasers and
7 suppliers. Instead, we typically agree with a
8 converter to sell jumbo rolls at a certain price, and
9 on that basis it will agree to buy from us at that
10 price without necessarily specifying quantities.
11 But when a converter like Koehler or
12 Hansol's offer the lower price the converter will come
13 back to us and tell us about the competing price. We
14 then have to decide how much lower we have to go to
15 induce the converter to continue to buy from us. Our
16 converter customers are losing sales to these massive
17 increase in imports from China at prices else than the
18 cost of jumbo rolls that our converters buy from us.
19 When our customers are threatened with a
20 loss of sales to Chinese imports they basically have
21 two choices. They either pressure us to reduce our
22 prices to help make them competitive or they purchase
23 and resell the slit rolls from China instead of doing
24 the conversion themselves. Whether our customers lose
25 sales to slit rolls or choose to buy and resell slit

1 rolls, they buy fewer jumbo rolls from us,
2 substantially reducing our level of domestic
3 shipments.
4 As you will see from our questionnaire
5 response, Appleton has been able to document many
6 instances where we have lost sales to unfairly priced
7 imports. We have also been able to document many
8 instances where we had to lower our prices to avoid
9 losing a sale. These examples of lost sales and lost
10 revenues are merely the tip of the iceberg. As you
11 can see from the petition, the dumped and subsidized
12 imports have a very large share of the US market, and
13 they are rapidly increasing.
14 The addition of such large quantities of
15 imports to the market necessarily causes prices to be
16 much lower than they otherwise would be. In other
17 words, absent the dumping and subsidies, Appleton
18 would be achieving higher prices and reasonable
19 profits. The adverse impact of the unfairly priced
20 imports has accelerated in 2007, at the very time we
21 are executing the $100 million investment that Mr.
22 Schonfeld described.
23 Imports of low-priced Chinese converted
24 rolls have surged in late 2006 and 2007, and have
25 placed increasing price pressure on the converters.

1 Appleton is facing increasing price pressure from our
2 customers in order to maintain our sales. In
3 addition, as Mr. Schonfeld explained, we have been
4 experiencing generally increasing raw material and
5 energy costs in the last several years.
6 We have been unable to pass along these
7 increasing costs in the prices of finished products.
8 Instead, we have been forced by unfair competition to
9 reduce our unit prices for lightweight thermal paper.
10 At the same time as we have seen increasing raw
11 material costs, the US dollar has also depreciated
12 against the currencies of Germany, Korea, and to a
13 lesser extent, even China.
14 Despite the currency declines that Mr.
15 Schonfeld has discussed, our foreign competitors have
16 continued to drop price in US dollar terms. These
17 market dynamics would not be possible without the
18 unfair subsidies and dumping practices that we have
19 explained in our petition. The effect of this unfair
20 import competition has been apparent, both in our
21 prices and in our bottom line.
22 As Mr. Schonfeld has discussed, Appleton has
23 undertaken a major investment in the growing thermal
24 paper business to take advantage of the opportunities
25 in the market. To succeed, the investment requires a

1 fair and unsubsidized marketplace. We can compete
2 with anyone in the world if the playing field is
3 level. It is not. We need the imposition of duties
4 to stop the price erosion that we have been
5 experiencing.
6 Appleton therefore respectfully requests
7 that the Commission make an affirmative preliminary
8 injury determination. Thank you.
9 MR. SITTER: Good morning. My name is Mike
10 Sitter. I'm a coater operator on the No. 14 coater at
11 Appleton. I'm also the Vice President of the United
12 Steelworkers Local 2-246, which represents the 682
13 union members of our Appleton plant. United
14 Steelworkers has over 1,400 members who work for the
15 Technical Papers Division of Appleton. USW Local 708
16 has 115 members who work at the Ware, Massachusetts
17 facility of Kanzaki Specialty Papers, which makes
18 lightweight thermal paper.
19 The USW has nearly 275,000 workers in the
20 paper and forestry industries. The USW and its
21 workers strongly support these petitions that Appleton
22 has filed against imports of lightweight thermal paper
23 from China, Germany and Korea. Appleton has a long
24 history in our communities and has employed
25 generations of workers. There is a tendency when

1 coming to work at Appleton to stay for a long time.
2 For example, the average length of
3 employment at the Appleton plant is 21 years, and this
4 is important. The process of producing thermal paper
5 that you saw in Mr. Schonfeld's presentation takes
6 skill and experience, because it's complicated. The
7 different coatings require different combinations of
8 chemicals, and we have to make sure that they are
9 mixed properly.
10 The machine rollers and coating heads must
11 be set properly for each type of paper, and the
12 process must be consistently monitored for quality
13 while the paper is being rolled. It takes years of
14 experience to work your way up to being a coating
15 operator. Appleton recognizes that it needs skilled
16 workers, and it treats us accordingly. Appleton and
17 its local unions continue to have good relations, and
18 there have been no work stoppages at any Appleton
19 facility over the last 30 years, but Appleton cannot
20 continue to protect its workers in the face of
21 changing conditions.
22 Over the years, there has been declining
23 demand for the other main product made at Appleton,
24 which is carbonless paper, due to technology changes
25 that have been well documented by all carbonless

1 manufacturers. Production of this product continues
2 to decline. The membership at our union local has
3 fallen from around 900 people in the late 90s to less
4 than 700 today, due to the gradual decline of our
5 carbonless paper business.
6 Demand for thermal paper, on the other hand,
7 continues to grow. More and more applications use it
8 as it replaces other means to print cash register
9 receipts, labels, tickets, and other applications. We
10 should see rising employment and rising union
11 membership for workers making thermal paper, and for a
12 while we were, but that has changed recently.
13 While production of the heavier, high value-
14 added thermal paper that is not the subject of this
15 case continues to grow, we are producing less and less
16 lightweight thermal paper. This makes us concerned
17 for our future. We do not want to see employment for
18 thermal paper production decline the way we have seen
19 employment for carbonless paper production decline.
20 As Mr. Schonfeld discussed, Appleton is building a new
21 thermal paper coating line at its mill in West
22 Carrollton.
23 When it is finished next August, Appleton's
24 capability to supply the US market will be
25 significantly increased. Unfortunately for us workers

1 at the Appleton plant, the completion of that facility
2 will mean that work will be shifted to West Carrollton
3 and there will be less need for workers in the
4 Appleton plant. Employment at Appleton is expected to
5 decline. I don't think it needs to be that way.
6 If imports of jumbo rolls from Germany and
7 Korea, and imports of converted rolls from China, had
8 not taken away Appleton's market share with unfair
9 prices, the new capacity in West Carrollton could add
10 to our production at the Appleton plant, and not
11 replace it. But the union cannot make that case
12 unless the sales are there to justify it.
13 I have been working at Appleton for seven
14 years. My dad began working 40 years ago and he is
15 still there. My brother worked for Appleton for 16
16 years. Our story is not at all unusual at Appleton.
17 My family and a lot of other families are counting on
18 the company being able to sell all the lightweight
19 thermal paper it can, without having to compete
20 against dumped and subsidized imports.
21 On behalf of my fellow United Steelworker
22 members, who are also employee owners of our company,
23 I ask you to help us. Thank you.
24 MR. DORN: Let me just ask Mr. Sitter one
25 question.

1 The coater you work on, what type of paper
2 does it make?
3 MR. SITTER: This is Mike. Lightweight non-
4 topcoat.
5 MR. DORN: Does it make anything else?
6 MR. SITTER: No.
7 MR. JAMESON: Good morning, I'm Paul Jameson
8 with King & Spalding. The information provided this
9 morning by Mr. Schonfeld and Ms. Hatfield supports the
10 conclusion that lightweight thermal paper in both
11 jumbo rolls and converted rolls constitute a single
12 like product, coextensive with the scope of the
13 investigation.
14 First, regarding the Commission's
15 semifinished like product analysis, the factors that
16 the Commission generally considers, when both
17 semifinished and finished products are in the scope,
18 support a finding of one like product. Ms. Hatfield
19 provided information on of these factors, and instead
20 of repeating them here, let me just put them in the
21 context of past Commission determinations.
22 While there are a number of major factual
23 differences, the Commission's analysis of the
24 semifinished product issue in Thermal Transfer
25 Ribbons, or TTR, is instructive. In that case you had

1 both jumbo rolls and -- being sold to converters, and
2 they turned the jumbo rolls into smaller slit rolls.
3 The process of coating base paper, a good proportion
4 of which Appleton makes itself, is a relatively
5 capital-intensive process that also requires skilled
6 labor, as Mr. Schonfeld and Ms. Hatfield just
7 explained.
8 It is more complex and probably more
9 capital-intensive than the process of applying ink to
10 purchased plastic, but the Commission's analysis
11 should be very similar here. Like TTR jumbo rolls,
12 there is no use for jumbo rolls of lightweight thermal
13 paper, other than the conversion into smaller rolls of
14 a suitable width and length for use in printers.
15 As Ms. Hatfield also explained, given the
16 particular end use for the quality and weight of
17 thermal paper that is the subject of our petition,
18 lightweight thermal paper jumbo rolls will exclusively
19 be used to be converted into lightweight thermal paper
20 rolls that are slit. The slitting process does not
21 change the physical characteristics of the paper, and
22 the process of making base paper and coating that
23 paper is substantially more costly than the process of
24 slitting and packaging, and requires many more steps.
25 The Commission undertook a similar analysis

1 in TTR and came to the conclusion that jumbo rolls and
2 slit rolls constitute the same like product. We
3 believe that the facts support reaching the same
4 conclusion for lightweight thermal paper, and we will
5 provide further analysis in our post-conference brief.
6 Furthermore, the Commission's traditional like product
7 analysis supports the conclusion that the domestic
8 like product is coextensive with lightweight thermal
9 paper as defined in the scope of these investigations.
10 There was some discussion in the TTR
11 investigation regarding whether other types of thermal
12 transfer ribbon not covered by the scope should be
13 included in the like product. Using the type of
14 analysis that the Commission used in TTR, and in other
15 cases, there is no reason to include any other type of
16 thermal paper within the like product, as the
17 information provided by Mr. Schonfeld and Ms. Hatfield
18 this morning established.
19 Lightweight thermal paper has different
20 physical characteristics and end uses than other types
21 of thermal paper. Lightweight thermal paper is
22 defined in the scope as thermal paper having a basis
23 weight of 70 grams per square meter or less, with some
24 tolerances, but as a practical matter, there is a
25 large gap. The vast majority of lightweight thermal

1 paper that Appleton and its competitors sell has a
2 basis weight of 55 grams per square meter, with some
3 lighter paper weighing around 48 grams per square
4 meter. The next size up is 80 grams per square meter.
5 We chose to specify a basis weight of 70
6 grams per square meter, right about the middle between
7 55 and the 80 grams per square meter product. Thus,
8 there is a clear dividing line between the thermal
9 paper products that are within the scope and those
10 that are outside the scope. As Ms. Hatfield
11 discussed, there are distinct physical differences
12 between the products below that line and the products
13 above that line, and they are not interchangeable for
14 a variety of reasons.
15 With regard to the channels of distribution,
16 the converters, distributors and resellers of
17 lightweight thermal paper point of sale products
18 generally do not overlap with the converters,
19 distributors and resellers of other thermal papers,
20 although a small number of converters may cover more
21 than one thermal paper product area. Both customers
22 and producers perceive lightweight thermal paper and
23 other types of thermal paper to be different products.
24 As Ms. Hatfield explained, the end users are
25 very different. Lightweight thermal paper is sold

1 primarily to retail businesses, while other types of
2 thermal paper are sold for the most part to industries
3 using labels, and also the entertainment industry, the
4 gaming industry and the transportation industry.
5 Producers recognize that these are different customers
6 seeking different products.
7 While lightweight thermal paper shares
8 certain manufacturing facilities, production processes
9 and production employees of other thermal paper,
10 Appleton has certain equipment that is dedicated
11 solely to the lightweight thermal paper. In fact, as
12 Mr. Sitter just explained, he operates a coater that
13 only makes lightweight thermal paper. Finally, the
14 lightweight thermal paper is less expensive per square
15 foot than the other types of thermal paper because it
16 weighs less.
17 It is also less expensive per pound because
18 of the type of base paper and chemical used in
19 lightweight thermal paper, and because of the less
20 complex process of making lightweight thermal paper.
21 The Commission's traditional six-factor analysis
22 therefore supports a finding that the like product
23 should not be expanded beyond the product defined in
24 the scope.
25 Appleton also urges the Commission to

1 cumulate the imports from China, Germany and Korea.
2 The petitions were filed on the same day, and the
3 subject imports from each country compete with each
4 other and with the domestic like product. As Ms.
5 Hatfield demonstrated this morning, lightweight
6 thermal paper from different suppliers is highly
7 fungible.
8 All of the producers of jumbo roll in
9 Germany and Korea, as well as the United States, are
10 considered to be high quality producers whose products
11 are qualified to work well on thermal printers. They
12 are sold to the same converters, many of whom buy from
13 domestic German and Korean sources, and who use jumbo
14 rolls from all of these sources to produce lightweight
15 thermal paper converted rolls.
16 With regard to converted rolls from China,
17 it must be remembered that the like product is both
18 jumbo rolls and slit rolls, and the jumbo roll and
19 this converted roll market is so completely
20 intertwined that converted rolls from China compete,
21 not only with the converted rolls produced in the
22 United States, but also with the jumbo rolls from
23 Germany and Korea, as well as jumbo rolls produced in
24 the United States.
25 Because the Chinese converted rolls have

1 quickly gained acceptance in the United States, the
2 extremely low price for the Chinese lightweight
3 thermal paper forces purchasers to buy Chinese
4 lightweight thermal paper in order to stay
5 competitive. US converters have been feeling immense
6 price competition from the Chinese lightweight thermal
7 paper imports, and have been forced to lower their
8 prices or lose sales to their traditional customers.
9 Some converters have decided to buy Chinese
10 converted rolls and resell them, rather than go to the
11 expense of converting their own jumbo rolls. The
12 price pressure on the converters has induced the
13 converters to turn around and press the jumbo roll
14 suppliers to lower their prices. The German and
15 Korean suppliers have obliged with lower prices as
16 they strive to increase their market share.
17 This forces Appleton to lower its prices in
18 an effort to maintain market share. In effect, all of
19 the jumbo roll producers, both foreign and domestic,
20 and all the converted roll producers, both foreign and
21 domestic, are competing for the same end users: the
22 retail establishment that uses lightweight thermal
23 paper. The jumbo roll producers may compete
24 indirectly through sales to converters, but the
25 competition is very real.

1 There are sales and offers to sell in the
2 same geographical market by domestic producers and by
3 all subject import sources. Domestic producers
4 produced and shipped thermal paper throughout the
5 period examined, and imports from all three countries
6 were simultaneously present in the market. Finally,
7 the distributor channel is the predominant sales
8 channel for both US producers and imports from the
9 subject country.
10 Accordingly, the statutory criteria for
11 cumulation are satisfied, and Appleton requests that
12 the Commission cumulate imports from Germany, China
13 and Korea. Thank you.
14 MR. DORN: What I'd like to do now is expand
15 a little bit on my opening statement and go through
16 the statutory factors with respect to material injury,
17 and of course, that analysis begins with the volume of
18 imports. I know you don't like cases like this where
19 we don't have official government statistics, but
20 Appleton has done an excellent job, I believe, of
21 setting forth very, very reasonable estimates in the
22 affidavit of Ms. Hatfield, which is Exhibit 7 to our
23 petition.
24 We expanded upon that explanation in a
25 September 28 submission we made to the Department of

1 Commerce, which will be placed in the record of these
2 investigations, and we have Ms. Hatfield's testimony
3 here today, and I think when you review the data that
4 we have put on the record and compare that with at
5 least partial data you received from the importers and
6 foreign producers' questionnaires, we expect that the
7 numbers in the petition are going to turn out to be on
8 the conservative side with respect to the volume of
9 imports that are at issue.
10 A very sort of unusual situation in this
11 case is that the focus here is on the problem; that
12 is, the only imports of lightweight thermal paper in
13 the US market, as far as we can tell, are from China,
14 Germany and Korea. You are not going to have to
15 struggle with Bratsk in this case. It's pretty
16 straightforward. So when the domestic producer loses
17 a sale or lowers its price in response to imports,
18 it's got to be subject imports, not non-subject
19 imports.
20 So that, in a way, simplifies this case
21 considerably, relative to most cases that the
22 Commission looks at. So, using the estimated import
23 volumes that are set forth in the petition, if you
24 look at Exhibit 8, Volume 1 of the petition, in 2006,
25 the subject imports represented virtually all US

1 imports, we think all imports of lightweight thermal
2 paper from all countries.
3 As shown in Exhibit 9, subject imports
4 accounted for over half of US consumption and exceeded
5 US production. In the first half of 2007, imports
6 were even more significant in relation to US
7 consumption and US production. So on that first sub-
8 factor regarding volume of imports, there is no
9 question that the volume of imports is very, very
10 significant.
11 And also, the increase in the volume of
12 imports is very significant. As shown in Exhibit 8 to
13 our petition, subject imports from the three countries
14 increased by roughly 60 percent from 2004 to 2006, and
15 increased by over 10 percent from the first half of
16 2006 to the first half of 2007. And then as shown on
17 Exhibit 9 of the petition, from 2004 to 2006, subject
18 imports increased substantially relative to US
19 consumption and also relative to US production, and
20 that trend continued into the first half of 2007.
21 So, it's a pretty easy case when it comes to
22 the volume of imports and increase in the volume of
23 imports. Both are clearly significant. And all of
24 the imports are subject imports, which simplifies your
25 analysis. Second, subject imports have had an adverse

1 impact on domestic prices, and given the conditions of
2 the market, Appleton's prices for lightweight thermal
3 paper should have increased substantially from 2004 to
4 the first half of 2007.
5 All of the ingredients were there for price
6 increases. Look at it. You had a strong market with
7 demand growing substantially, raw material costs were
8 increasing, energy prices were increasing, and the
9 domestic producers enjoyed an increasingly favorable
10 exchange rate relative to their only foreign
11 competition. But it didn't happen. Prices didn't
12 substantially increase. In fact, they even declined
13 towards the end of the period of investigation, when
14 the depreciation of the dollar accelerated and the
15 increases in raw material costs and energy prices
16 accelerated.
17 So you had a classic cost-price squeeze,
18 especially towards the end of the period of
19 investigation. Now, as Ms. Hatfield explained,
20 lightweight thermal paper is a commodity-type product,
21 and it doesn't take large price differences to cause
22 customers to switch sources of supply. The market is
23 fairly efficient and prices tend to converge fairly
24 quickly around a narrow band.
25 It's a spot market, not a long-term contract

1 market, and so you wouldn't expect to see much
2 underselling in a product like this. And we don't
3 need underselling to prove adverse price effects
4 because we've got such a large volume of imports. If
5 subject imports are taking half of the market because
6 they are unfairly priced, and you impose the duties we
7 have alleged in our petition, and those imports are
8 gone, what impact is it going to have on prices in the
9 United States?
10 Economics 101. Prices would clearly be
11 higher absent the dumped and subsidized imports. No
12 question about it, with or without underselling. But
13 we do have lots of evidence of underselling in our
14 lost sales allegations and our lost revenue
15 allegations, and so we have head-to-head competition
16 examples of where the imports of jumbo rolls from
17 Germany and Korea undersold us and gave us two
18 options: one, lower the price and try to keep the
19 sale; or maintain our price and lose the sale.
20 And that's been the pernicious effect of the
21 price underselling that Appleton has seen in price-to-
22 price negotiations for particular customers, and that
23 is borne out by our exhibits to our petition which set
24 forth those lost sales and lost revenues. The
25 situation with the slit rolls from China is

1 interesting because we have lost sales to China both
2 directly and indirectly from slit rolls.
3 Let me explain that. In some instances,
4 Appleton's converter customers have chosen to buy and
5 resell slit rolls from China rather than to buy and
6 convert jumbo rolls from Appleton. So that's a direct
7 loss of a sale, even though we are competing against
8 slit rolls. Our customer, the converter, makes a
9 decision on whether to buy a jumbo roll from us and
10 process it and resell it, or to forego the conversion
11 and just buy the slit roll from China and resell it,
12 and the prices have been so low from China that they
13 have been induced to do that.
14 Of course, in other instances, the converter
15 customer comes to Appleton and says, look, why should
16 we buy your jumbo rolls when your prices are so high
17 relative to slit rolls coming in from China? We can't
18 resell the slit rolls in competition with the slit
19 rolls from China, so you've got to reduce your prices
20 to us to make us competitive with slit rolls from
21 China.
22 So either way, we are competing with the
23 Chinese slit rolls, and we are seeing both volume and
24 price effects as a result of that competition.
25 Obviously, another indicator of the price effects is

1 just a shift in the market share. Imports are gaining
2 market share relative to the domestic producers, and
3 that's what happens when you add up all the individual
4 instances of lost sales that are documented in the
5 petition, and which you will receive elsewhere in the
6 record of this investigation.
7 As I mentioned a moment ago, this is really
8 a classic case of a price-cost squeeze, or is it cost-
9 price squeeze? I never know which one to say. But
10 the fact is that in the later period of investigation,
11 you've had these increasing pulp prices that are up on
12 the screen, the increasing energy prices that were up
13 on the screen, and so costs of production are going
14 up, but when Appleton has tried to raise prices to
15 pass those along, it's been rejected in the
16 marketplace, and they have been unable to pass through
17 price increases, and so they have that no-win
18 situation.
19 The costs are going up, but if they raise
20 their prices, they lose more market share. So
21 particularly in the most recent period, as Mr.
22 Schonfeld explained and Ms. Hatfield explained, you
23 have this anomalous situation of prices going down or
24 not being able to increase in the face of increasing
25 costs of production.

1 And in a situation where the foreign
2 producers should be raising their prices -- because
3 pulp prices are global. They are not just set in the
4 United States. It's a global commodity -- and because
5 of the favorable exchange rate, they should be
6 increasing their prices, but just the reverse has been
7 happening. So we think it is an extremely strong
8 price effects case.
9 Now turning to the third statutory factor,
10 the volume effects, the price effects, have
11 necessarily flowed through to all the other
12 performance indicators, and if you just ticked them
13 off and looked at the statute, what you will find is
14 that the unfairly priced imports have adversely
15 affected output sales, market share profits,
16 productivity, return on investment, and utilization of
17 capacity at Appleton.
18 Continuing down the list, as we mentioned,
19 they adversely affected domestic prices, and finally,
20 the unfairly priced imports have adversely affected
21 the domestic industry's cash flow, inventories,
22 employment growth and investment. And as Mr.
23 Schonfeld discussed, Appleton has made every effort to
24 maintain competitive production capacity in thermal
25 paper.

1 It is investing $100 million to build a new
2 thermal coating mill that will focus on production of
3 lightweight thermal paper. Contrary to what Mr.
4 Silverman said, we are not making that investment
5 contingent upon an affirmative vote from the ITC.
6 Ground has been broken. That investment is going to
7 happen. It's going to come on stream next year. What
8 we are saying is that the return on investment
9 projected for that investment is at risk because of
10 the increasing imports at dumped and subsidized
11 prices.
12 In conclusion, the volume of imports is very
13 significant. The increase in the volume of imports is
14 very significant. The imports have definitely
15 adversely affected domestic prices, and the imports
16 have had a very severe adverse impact on the domestic
17 industry's performance indicators and its bottom line.
18 So we don't think there is any reason for the
19 Commission to do anything else but to find current
20 material injury, but if any Commissioner wants to take
21 the next step and look at threat, Paul Jameson will
22 take us through the threat factors.
23 MR. JAMESON: Thank you. Paul Jameson
24 again. So the information on the record also supports
25 a determination that the domestic industry is

1 threatened with material injury by reason of dumped
2 imports from Germany and Korea and dumped and
3 subsidized imports from China.
4 The subsidies that are alleged with regard
5 to imports from China are substantial, involving at
6 least two subsidies that are prohibited under Article
7 3 of the Subsidies Agreement and over 20 programs that
8 cause serious prejudice under Article 6.1 of the
9 Subsidies Agreement.
10 The first countervailing duty investigation
11 of a paper product from China involving coated free
12 sheet resolved in preliminary subsidy margins of
13 between 10 and 20 percent, and it is likely that the
14 subsidies in this investigation will be of the same
15 magnitude.
16 As explained in our petition, the existing
17 capacity in Germany and Korea combined far exceeds the
18 capacity in the United States. Our countervailing
19 duty petition regarding the Chinese case documents the
20 extraordinary buildup of lightweight thermal paper
21 capacity in that country.
22 Spurred by massive subsidies designed to
23 encourage the production and export of lightweight
24 thermal paper, the substantial increase in jumbo
25 rolls, especially from Germany, indicates that these

1 producers do have the extra capacity to increase
2 exports.
3 The increase of imports of lightweight
4 thermal paper from nothing in the beginning of the
5 period of investigation to very substantial quantities
6 in the most recent interim period speaks to the
7 abilities of producers in that country, in China, to
8 increase exports.
9 We will discuss this in detail in our post-
10 conference brief once we've had the opportunity to
11 analyze the foreign producers' responses.
12 As we've discussed in our petition and this
13 morning, the prices of the imported lightweight
14 thermal paper, both in jumbo roll and in inverted roll
15 form, have already caused price depression and
16 suppression. Further increases in imports can only
17 exacerbate this trend.
18 As we have noted, the producers of
19 lightweight thermal paper can and do produce other
20 types of thermal paper on the same production lines,
21 so the potential for product shifting to lightweight
22 thermal paper also exists.
23 Finally, as Mr. Schonfeld explained, the
24 dumped and subsidized imports pose a real threat to
25 Appleton's $100 million project to expand the

1 lightweight thermal paper production capacity.
2 Appleton has already begun construction of the new
3 coating line to produce that product in its West
4 Carrollton, Ohio, facilities.
5 But the decline in prices for lightweight
6 thermal paper, due to increases in dumped and
7 subsidized imports at prices that undersell the
8 domestic prices, has made it likely that the new
9 investment will receive a return on the investment
10 that was lower than what was envisioned when the
11 initial decision was made.
12 But as I discussed earlier, the criteria for
13 cumulation for purposes of present material injury are
14 satisfied. Imports from all three countries compete
15 with each other and with the domestic like product.
16 If the Commission decides to find threat of
17 material injury, these factors should also lead the
18 Commission to exercise its discretion to cumulate
19 threat of material injury.
20 Finally, the domestic industry is already
21 suffering operational and financial harm and is
22 vulnerable to further injury in the event of further
23 increases in the subject import volumes and further
24 price aggression.
25 As Mr. Dorn noted, Appleton believes that

1 the record strongly supports a finding of present
2 material injury and that the Commission does not need
3 to reach the question of threat. But should the
4 Commission find it necessary to consider whether the
5 domestic lightweight thermal paper industry is
6 threatened with material injury by reason of dumped
7 and subsidized imports from China, Korea, and Germany,
8 this record strongly supports an affirmative finding
9 on threat as well. Thank you.
10 MR. DORN: One final point I would like to
11 mention is the point we make in our petition, starting
12 at page 12, I believe, explaining why converters are
13 not part of the domestic industry because they lack
14 sufficient production-related activities in the United
15 States to constitute domestic production under the
16 standards that the Commission has used in past cases.
17 We submitted additional information with
18 regard to that point in our September 28 submission to
19 the Department of Commerce, which has been placed on
20 the record of this case.
21 We plan to say a lot about that in our post-
22 conference brief. Unfortunately, in terms of a public
23 hearing, the criteria that we have to look at deal
24 with confidential data. In fact, at this point, I
25 don't even have a questionnaire response, a so-called

1 "producers' questionnaire response," from any of the
2 converters on the other side of the room who are going
3 to be testifying today. I don't have a single
4 questionnaire response from them.
5 So we're going to analyze the information on
6 the confidential record that we will receive in the
7 EPO releases this week and address each of those
8 factors in detail, expanding on what we've done in our
9 petition and what we did in our September 28
10 submission.
11 We will also explain why, alternatively, a
12 number of these converters should be excluded from the
13 domestic industry because they are related to parties,
14 and they are importing the dumped and subsidized
15 product. So that would be an alternative reason for
16 excluding them from the domestic industry.
17 But, again, that's going to be highly
18 dependent on the level of their importing activities,
19 and we don't have much, even on the confidential
20 record, that we've received yet, so we're really not
21 prepared to address that on the public record today,
22 but we will do so in detail, I assure you, in our
23 post-conference brief.
24 That concludes our presentation. Thank you.
25 MR. CARPENTER: Thank you, ladies and

1 gentlemen, for your presentation. We appreciate that.
2 I'll note for the record that we will accept the
3 exhibits provided in connection with Mr. Schonfeld's
4 and Ms. Hatfield's testimony as an exhibit to the
5 transcript.
6 Mr. Dorn, I'll also note, in response to
7 your last comment, apparently there was some sort of
8 electronic glitch in the APO release yesterday, and
9 quite a number of documents that were ready for
10 release did not, in fact, get released, but we will
11 try to remedy that as quickly as possible.
12 MR. DORN: Thank you.
13 MR. CARPENTER: At this point, we'll begin
14 the questions with Mr. Cassise.
15 MR. CASSISE: I would like to welcome the
16 panel. Thank you for your testimony. I do have a few
17 questions.
18 I would like to start with the scope
19 definition and your choice of the 70 grams per square
20 meter. From your testimony this morning, it seems as
21 if the 55 grams per square meter is the most common
22 product within the scope definition. Approximately
23 what percentage of these sales are that product, and
24 what are the other common grams-per-square-meter
25 products in the scope definition?

1 MS. HATFIELD: This is Karen Hatfield at
2 Appleton. The 55 gram represents a substantial
3 percentage of the paper for the POS market, point of
4 sale, that is, and we estimate it to be at least 75
5 percent. The other products that would be
6 interchangeable with it in the kinds of printers that
7 we were just talking about, the receipt printers,
8 would be 48 gram that is often substituted with that
9 down to about a 45 gram type of product.
10 At Appleton, we have a 55-gram product, we
11 have a 48-gram product, and we have also, in the past,
12 had a 45-gram product as well that we introduced a
13 number of years ago. Those products are the vast
14 majority and represents virtually everything in this
15 market.
16 MR. CASSISE: So those three products, would
17 it be fair to say, represent 98 percent of point of
18 sale? Could you put a percentage on it for me, just
19 generally? Seventy-five for 55 gram --
20 MS. HATFIELD: Ball park, I would say, yes,
21 those products would represent that magnitude.
22 MR. CASSISE: Ninety-eight percent.
23 MS. HATFIELD: Uh-huh.
24 MR. CASSISE: I asked that question because,
25 looking through the product list, your public product

1 list, on your Web site, there are a number of outlier
2 products, point-of-sale products that are over the 70
3 and then other end-use products that have lower
4 weights than 70. If you could explain what these
5 products are -- apparently they are a low percentage,
6 but if you could give us some detail on that as well.
7 MS. HATFIELD: This is Karen Hatfield at
8 Appleton again. I'll step back a second.
9 The products that we offer -- we have a
10 number of different lightweight thermal papers that we
11 offer, as well as heavier-weight thermal papers, as
12 Mr. Schonfeld had discussed in his presentation and I
13 mentioned in mine.
14 The point-of-sale paper is, by far,
15 dominated by that 55-gram product. Forty-eight to 55
16 is the product that is most easily handled by those
17 point-of-sale printers. It is also what most
18 retailers choose to use in the product, for its ease
19 of use and for the low cost. Certainly, retailers
20 don't want to spend any more on a receipt paper
21 typically than they need to.
22 We do offer some higher basis-weight papers
23 that could be used in that market, and that is mainly
24 for very isolated cases, for example, like a
25 Nordstrom's or a Talbot's that wanted a heavier feel

1 to their receipt. They could use a higher basis-
2 weight paper, but that is, by far, an outlier. We
3 list these products on our Web site as being able to
4 be used in that kind of application, but it is a small
5 percentage of the total market for point-of-sale
6 receipt paper.
7 MR. CASSISE: For what reason would
8 Nordstrom's want a heavier paper? Is that perceived
9 as higher quality?
10 MS. HATFIELD: We believe that their
11 association is more for their brand image so that they
12 are portraying the best brand image possible for their
13 product. Again, most retailers do not use that kind
14 of paper. It's a small percentage of the total.
15 MR. CASSISE: Okay.
16 MS. HATFIELD: This is Karen again. I
17 apologize. One other thing I wanted to add is that
18 the papers that we mentioned that are for a higher
19 basis, that had the higher basis-weight product, that
20 are occasionally used for point-of-sale products;
21 those are actually very often used for other
22 applications, such as medical charts and some other
23 things. So they are not necessarily designed for the
24 POS use, but occasionally some retailers choose to use
25 it for that purpose.

1 MR. CASSISE: Ms. Hatfield, you had also
2 mentioned, in your testimony, that there was a
3 certification process, and then once a product is
4 certified, the competition relies on price. Who does
5 the certifications? What does the certification
6 entail? If you could give us some more detail on
7 that.
8 MS. HATFIELD: Sure. Again, Karen Hatfield
9 at Appleton. The certification process is handled by
10 the printer makers, the printer manufacturers, so IBM,
11 Epson, and those kinds of printer manufacturers, and
12 what they do is there are a number of pieces to the
13 process, including chemical testing of the paper. We
14 are required to supply information on what actually
15 goes into the product.
16 There is a great deal of actual just testing
17 in the printer where they will run literally miles of
18 paper through the printer and assess how well it runs
19 through the machine. Is there dusting that's coming
20 off of it? Is there exceptional wear on the cutting
21 mechanism, which can often happen if it's a heavier
22 basis-weight paper, which, again, is why they focus in
23 more on the 55-gram-type products.
24 It takes generally a few months to go
25 through that process just because of the volume of

1 material that they are trying to run through these
2 printers to make sure that it is appropriate for use
3 in the IBM printers because, ultimately, it goes back
4 to supporting the warranty and the service
5 arrangements that IBM has for servicing those
6 printers.
7 So it's a process that takes a number of
8 months. We supply material for that, as well as cover
9 some of the costs for doing that testing, in order to
10 get that certification, and, ultimately, it comes down
11 to they list those products that are approved on their
12 Web sites.
13 MR. CASSISE: So the point-of-sale printer
14 manufacturers are certifying your jumbo rolls, not
15 necessarily a downstream slitted product, or are they
16 certifying both?
17 MS. HATFIELD: They are strictly certifying
18 the paper that is created on the jumbo roll basis.
19 Since there is no change in the physical
20 characteristics of the product as it gets converted,
21 the converters are not typically involved in
22 certifying that unless they are also a printer
23 manufacturer like NCR.
24 MR. CASSISE: So, for example, they wouldn't
25 certify that if the width fits in their machine, they

1 would certify that the thermal paper is functional in
2 their heat.
3 MS. HATFIELD: That's correct. They would
4 specify the type of width that they would need in the
5 machine, or the range of widths, but the certification
6 of the paper itself goes back to the jumbo roll
7 manufacturer, the coater.
8 MR. CASSISE: Are you aware of any
9 downstream certification that's done?
10 MS. HATFIELD: I'm not.
11 MR. CASSISE: Okay.
12 MS. HATFIELD: One other thing. They do
13 certify, in addition to the width and all of that,
14 they do generally specify the thickness of the paper
15 that is most effectively run through their machines.
16 Again, they typically put out a range of tolerances
17 for widths for thickness and those elements in their
18 certification process.
19 MR. CASSISE: I was involved in the Thermal
20 Transfer Ribbon case, and one of the issues that came
21 up was that there were many different bar-coding
22 devices that the thermal transfer ribbon converters
23 sold to, and so the converters kind of specialized in
24 different products.
25 How many point-of-sale machines are there

1 generally? Are we talking a handful of different
2 products? Are we talking hundreds of products? Could
3 you give us a sense of how many ultimate end users,
4 the machines themselves, how many of those machines
5 exist; the types of machines, not the number of
6 machines?
7 MS. HATFIELD: Right. Well, there are
8 probably four to five major manufacturers of these
9 machines, and a printer, typically, we estimate that
10 it will last about seven years. That's what the
11 manufacturers have told us, before it needs some kind
12 of work or print head replacement and that kind of
13 thing.
14 So I don't know the exact number of
15 different variations out there, but IO can tell you
16 that there is a broad range of that because of that
17 seven-year time span, and actually it can often go on
18 well beyond that. There are a lot of older printers
19 in the market, as well as the newer models, just like
20 you would see with computers today. There would be a
21 wide mix of types of things.
22 So there are certain standard widths and
23 specifications. There are also some variants that are
24 a little more unusual, just based on older printers.
25 But, again, that goes back to the width of the

1 product, not the paper itself.

2 MR. CASSISE: Could you give me a ball-park

3 figure on how many you think there are? You said

4 there are how many manufacturers of these machines,

5 roughly, in today's market?

6 MS. HATFIELD: I believe there are four to

7 five major manufacturers.

8 MR. CASSISE: Do you have any sense of how

9 many machines are on the market that they produce

10 today? Do they try to converge into a single

11 specification to keep them standard, or are they all

12 different?

13 MS. HATFIELD: There are standard widths and

14 standard sizes that are very typical for the machines

15 in terms of the diameter of the roll that will fit

16 into the machine, as well as standard widths. But as

17 far as the number of different machines out there, I

18 couldn't tell you off the top of my head, but I could

19 definitely do that in the post-conference brief, if

20 that would be helpful.

21 MR. CASSISE: Okay. Is there a standard

22 width?

23 MS. HATFIELD: Three and an eighth is

24 typically the width of the product. The roll length

25 varies a little bit. There are few standard sizes,

1 but the standard is three and an eighth, but there are
2 a few others beyond that, just, again, for the out
3 lots.
4 MR. CASSISE: But Nordstrom's wants six
5 inches?
6 MS. HATFIELD: No.
7 MR. CASSISE: I would like to talk a little
8 bit about the technical expertise needed in the
9 coating process.
10 Again, to use TTR as an example, there was a
11 lot of research and development that went into the
12 making of the inks in that investigation, and I was
13 wondering if it was a similar situation here, where
14 there was a lot of research and development to come up
15 with new and improved thermal coats that created
16 proprietary brands or patented or trade-secret
17 formulations, or is it just a standard industry
18 formulation that very little adjustment is made to
19 over the years?
20 MR. SCHONFELD: This is Walter Schonfeld
21 from Appleton. Let me try to answer that question.
22 Every manufacturer of thermal paper has
23 their own formulation for the active coat, the coat
24 that creates the image, but, in reality, they are
25 undifferentiated in the marketplace, for the most

1 part, and easily substitutable between them so no one
2 says, "XYZ manufacturer, that's the chemistry that
3 works best for me."
4 As long as it fits within a range, and you
5 could see it from the images that were up on the
6 screen, as long as it fits within a range of the image
7 is good enough, that's really all anyone cares about.
8 But everybody does have their own different
9 formulation that's slightly different, for one reason
10 or another, but, again, it doesn't drive market
11 differentiation in any meaningful way. People still
12 buy it, based mostly on price.
13 MR. CASSISE: Is your company trying to
14 strive to find different formulations to get an
15 advantage over competition, or is the market content
16 with the formulations that exist?
17 MR. SCHONFELD: For us, we continue to try
18 and find new formulations, for a lot of different
19 reasons, including ease of manufacture, as, I would
20 presume, do our competitors. Does it drive
21 differentiation in the marketplace at the low end of
22 the market, which is the lightweight paper point of
23 sale, which is a commodity product? It doesn't drive
24 differentiation in the marketplace.
25 As long as you meet certain, you know,

1 general rules as to the image looks good enough to be
2 able to do X, Y, or Z, and you could see the variation
3 in the images, and all of those were acceptable, there
4 really isn't any way to differentiate that kind of
5 commoditized product.
6 MR. CASSISE: So it would be fair to say
7 that most of your research and development budget
8 would go to the high value-added thermal paper and not
9 this product.
10 MR. SCHONFELD: There are reasons why we
11 continue to invest in this product, everything from
12 continued cost reduction for our product, which I'm
13 sure all of our competitors go as well. There are
14 environmental and other workability issues that we try
15 to anticipate as we move forward. These are all sort
16 of internal kinds of issues but nothing that drives
17 demand or positioning in the marketplace.
18 MR. CASSISE: So it's fair to say that you
19 don't perceive quality issues in the market. There is
20 not one producer that makes a higher-quality product
21 than another. This is a pure commodity product, in
22 your mind.
23 MR. SCHONFELD: There is variability in
24 quality, but it doesn't, to the best of our knowledge,
25 drive any price differentiation in the marketplace.

1 So it's value that's unvalued, if you will, by the
2 ultimate consumer.
3 Just to go a little bit further, though,
4 there is a fair amount of investment that does go on,
5 mostly on the production side of the business, to try
6 and do things to improve the runability of our
7 products for our own internal uses and also for our
8 customers, but we haven't found any way to
9 differentiate that except from an internal
10 perspective.
11 MR. CASSISE: And to go further in the
12 technical expertise, Mr. Sitter, you said you work in
13 the coating facilities at Appleton.
14 If you had to train a new employee to do
15 your job, how long would it take for you to train him
16 to do the job in an efficient and productive manner?
17 MR. SITTER: This is Mike Sitter from
18 Appleton. Training somebody to be a coater operator
19 is an art form. It's not as simple as stand there and
20 push this button, and you'll get the same result every
21 time.
22 I was going to add to what Walter just said
23 about the coating end of it. In the last two and a
24 half to three years, I've seen at least four different
25 coating formulations on my machine. Each of them

1 behave a different way.

2 So becoming a coater operator for any type

3 of paper, and especially for thermal because of its

4 sensitivity, obviously, is something that happens over

5 a long period of time. You start out at an entry-

6 level job. You don't jump right up to the top coating

7 operator.

8 For instance, for me, I started seven years

9 ago. I started in an entry-level job, watching the

10 operators, watching how things work, asking questions.

11 You go in, and you get some formal, dedicated

12 training, but it's not done after that.

13 Day One, your coater might run a certain

14 way. The next day, the temperature jumps 20 degrees,

15 and it's 30 percent more humid. So coating

16 application changes in those conditions.

17 So it's never a thing where you can put a

18 time limit on it and say, "This is exactly -- I'll

19 give you one week at this station or one month at this

20 station, and you're going to know everything you need

21 to know about coating because next week," like Walter

22 said, in order to improve runability, in order to

23 lower costs to the company, the formulation changes,

24 and everything is completely different.

25 The color lines alone from my coating head,

1 which is one of two on my machine, have been modified
2 four times in the last month to machinery, to take off
3 outdated pieces of machinery, change valves, whatever
4 they have to do to get a quality product.
5 So that's the type of thing you can't really
6 put a definite start-and-stop time for training. It's
7 something that happens over a period of time, and you
8 never stop learning. There's people that have been
9 coating operators for 30 years that have probably
10 forgotten more about coating paper than I'll ever
11 know. Those are the types of people you want to ask a
12 lot of questions, and they are very valuable.
13 So it's taken that entire time to get to
14 that point.
15 MR. CASSISE: I understand, but the company
16 did give you formal training. How long was that
17 training, and what did it consist of?
18 MR. SITTER: This is Mike again. Going back
19 to my original statement, I had years of informal
20 training, and formal training as well, that if I was
21 taken off the schedule to train, would probably in the
22 months category over the period of the years I've been
23 employed.
24 So there is refresher training that goes on
25 yearly, sometimes monthly, but, like I said, it goes

1 back to the original thing of you are always in
2 training mode. If you're somebody who wants to come
3 in and just, like I said, push a button and expect the
4 same result to happen every day, you're going to fail
5 as a coater operator.
6 MR. SCHONFELD: This is Walter Schonfeld.
7 If I could just add one comment to that.
8 As a company, we have a formal training
9 program for all of our employees, and the comment Mike
10 is making is basically the following: No one comes in
11 starting out as a coater operator. They have multiple
12 other positions that they have to fill beforehand
13 where they pick up training and skills that are useful
14 and necessary to be a coating operator, after which
15 they then go through weeks and months of additional
16 training just to be a coating operator on top of that.
17 So it's hard for him to quantify for you
18 specifically because it's a multistage progression of
19 skills, and coating operator is one of the most
20 skilled positions in the --
21 MR. CASSISE: Could you quickly go through
22 that ladder, or would it take too long?
23 MR. SCHONFELD: Maybe I would propose, for a
24 lot of reasons, that we provide it to you in the post-
25 brief, if we could.

1 MR. CASSISE: Sure.
2 (Pause.)
3 MR. CASSISE: Ms. Hatfield, you had
4 mentioned top coating, and this may or may not be an
5 issue, but you said most of the paper was not top
6 coated. Could you just explain why you would top coat
7 the paper? And if you do top coat the paper, how much
8 does it add to the cost or affect the quality of the
9 paper? Just explain a little bit about top coating.
10 That would be helpful.
11 MS. HATFIELD: Okay. This is Karen Hatfield
12 again. Top coating is typically added to provide some
13 kind of additional environmental resistance or
14 durability to the thermal paper product.
15 Substantially all of the point-of-sale
16 receipt product is not top coated, but we have had a
17 product that had a top coat that was for some specific
18 customers, which is actually going away as customers
19 have moved away from it. But those who were using it
20 in the past were doing it for, like, a home fix-up
21 store that works with contractors to provide some
22 additional resistance from grease that gets on their
23 hands so that the image would endure even if it
24 encountered that kind of substance that would degrade
25 a non-top-coated thermal coating.

1 So the top coating is typically used on our
2 higher value-added, thermal grades, things for labels,
3 like I mentioned, to provide scuff resistance when
4 it's in transit for a shipping label because the boxes
5 rub against each other and distort the bar code. It
6 can also provide greater longevity to the image,
7 again, just providing against some light reaction and
8 other environmental factors.
9 So that's typically what top coating is. It
10 adds another point in the process. It's another
11 coating stage which could be passing through an
12 additional coating station, or it could involve
13 another pass through the machine, depending on the
14 equipment.
15 So it is a more expensive piece. I don't
16 know, specifically, the cost percentage. It would
17 depend on the different product and the type of top
18 coating that it needed and that kind of thing. But it
19 would be a more expensive product to make.
20 MR. CASSISE: Okay. So the top coat goes
21 over the thermal coat in order to resist or to
22 increase the durability of the image.
23 MS. HATFIELD: That's correct.
24 MR. CASSISE: Okay. I understand now.
25 MS. HATFIELD: It's kind of like a varnish

1 on the top, if you think about it that way.
2 MR. CASSISE: Varnish is a very good
3 analogy.
4 Quickly, Mr. Dorn, I believe, in the
5 September 28th Commerce submission, the Commerce
6 Department had asked for values for your import
7 estimations, and if you could just explain quickly, if
8 you could, how you came up with those valuations.
9 Ms. Hatfield, were you involved in that as
10 well? I know you were involved in the volume
11 estimations.
12 MR. DORN: I believe we used some
13 confidential data, some unit-value data, from Appleton
14 and then applied that to the volume estimates.
15 MR. CASSISE: But you reduced it by your
16 alleged margins.
17 MR. DORN: Well, by the underselling
18 margins, I believe, yes.
19 MR. CASSISE: Okay.
20 (Pause.)
21 MR. CASSISE: I'd just like a response from
22 anyone on the panel on one of Mr. Silverman's
23 allegations in his opening statement that Appleton was
24 putting its customers on allocation and/or not
25 servicing new customers. Are we in the ballpark, or

1 what's going on there?

2 MR. SCHONFELD: Like anything, you can take

3 something that is, with due respect, for the most part

4 a misrepresentation, and find a threat of truth in it.

5 What happened was, for a short period of

6 time, measured in a few months last year, there was a

7 demand spike in the industry. We extended lead times

8 to our customers from our normal two days to a few

9 weeks, to try and make sure that we could service all

10 of our customers. It was a short term demand spike.

11 We added capacity, because we have

12 additional machines we can bring on line. We brought

13 those machines on line. We got back to servicing all

14 our customers in a normal way.

15 Was there a period of time in which we

16 extended lead times; yes. Did we ever put anyone on a

17 formal allocation; no. Did we ever turn anyone away;

18 no. But what we did do was, we did extend lead times

19 for our customers for a short period of time and the

20 last few years, it happened for a few months. It was

21 a unique situation.

22 MR. CASSISE: This happened for a couple of

23 months in each of the last few years?

24 MR. SCHONFELD: This happened for a couple

25 of months in each of the last few years?

1 MR. SCHONFELD: No, one time in the last few
2 years.
3 MR. CASSISE: Okay, just ballpark.
4 MR. SCHONFELD: September through the end of
5 November or early December, I think would be the
6 timeframe.
7 MR. CASSISE: Of 2006?
8 MR. SCHONFELD: 2006, correct.
9 MR. CASSISE: And do you have an explanation
10 for this demand spike?
11 MR. CASSISE: Yes, a couple of things -- it
12 happened industrywide. In hindsight, being a non-
13 economist, my guess would be, people got spooked.
14 Everybody starting ordering more product. The
15 pipeline filled up, and what happened is, then you saw
16 January, February, and March, and you can look at the
17 numbers for us and everybody else.
18 AUDIENCE MEMBER: Excuse me, we can't hear
19 you.
20 MR. SCHONFELD: I'm sorry. I apologize.
21 I'm not a public speaker by profession. So I'll try
22 and do a better job. I apologize.
23 Let me just go back and restate. There was
24 a short period of time in which there was increased
25 demand for everyone. Everyone was having

1 difficulties. A large number of manufacturers were
2 having difficulties meeting demand during that period.
3 There seemed to be a little bit of a spook
4 in the marketplace. Everybody tried to fill their
5 channel with enough inventory to make sure that
6 whatever perceived issues might be out there didn't
7 become an issue, and it just self-perpetuated itself
8 for a few months.
9 Come January, everybody realized there was
10 plenty of material. We had already worked through the
11 demand issue, as had most of our competitors. Then
12 all of a sudden, volume dried up because everybody
13 worked off their inventory. So it was one of these,
14 everybody got spooked and ordered a bunch of material.
15 MR. CASSISE: What was the reason for the
16 "spookiness"?
17 MR. SCHONFELD: I wish I could tell you. I
18 don't really know the answer to that question.
19 MR. CASSISE: Okay.
20 MR. SCHONFELD: But it was a short period of
21 time. It's only happened once. We brought additional
22 machinery on line, which we do have, and which we
23 don't run. Because frankly, at today's prices, it's
24 not economic for us to even consider putting those
25 machines on line and we worked through the problems.

1 We don't have a capacity shortage. We
2 actually have quite a bit of spare capacity. It was
3 more of a market anticipation issue than a capacity
4 shortage issue. So that's sort of the explanation for
5 the issue.
6 MR. CASSISE: That's all I have for right
7 now; thank you very much.
8 MR. CARPENTER: Mr. Bernstein?
9 MR. BERNSTEIN: Thank you, and I'd also like
10 to thank the panel for traveling here to answer our
11 questions.
12 Mr. Schonfeld, let me start with you. Does
13 the domestic industry today have sufficient capacity
14 to satisfy U.S. demand for lightweight thermal paper?
15 MR. SCHONFELD: We could not supply 100
16 percent of the thermal paper in the market; nor is our
17 allegation that we would necessarily want to increase
18 market share. Our entire goal here is to get fair
19 pricing in the marketplace, and we believe that that's
20 the real issue here.
21 MR. BERNSTEIN: Okay, thank you; listening
22 to your testimony, it appears the main reason you
23 believe you don't have fair pricing in the marketplace
24 is because of the imports from China. Am I correct in
25 that? If those imports were eliminated, would you

1 then return to a period where there was fair pricing
2 in the market?
3 MR. SCHONFELD: We believe the problem has
4 existed for quite some time, and frankly pre-dates the
5 Chinese influence into the market. They are obviously
6 a contributor to the issue. But eliminating the
7 Chinese volumes by themselves would not eliminate the
8 problems. We believe there are other unfair players
9 in the marketplace, as well, from Korea and Germany.
10 Just eliminating the Chinese would not
11 resolve the issue, because we believe that unfair
12 pricing pattern has been in place for quite some time.
13 It's been more accelerated in recent months, but that
14 doesn't mean that it's been a short-term problem.
15 MR. BERNSTEIN: Thank you, I believe your
16 testimony was that this $100 million expansion program
17 of the facility in Pennsylvania, that the decision was
18 made to go forward with that in late 2006. Am I
19 correctly summarizing what you said?
20 MR. SCHONFELD: That's correct.
21 MR. BERNSTEIN: Okay, according to the
22 information in your petition, by late 2006, the
23 quantity of imports from the subject countries had
24 already increased quite considerably. Why, in light
25 of this, did you go forward with these expansion

1 plans?

2 MR. SCHONFELD: It was very detailed, as Mr.
3 Silverman, I guess, is his name. There was no doubt a
4 detailed set of plans and presentations made to the
5 Board and financial analysis done. We'd be happy to
6 talk with you about that, because it's a confidential
7 matter, outside of this public hearing.

8 But there was quite a bit of analysis that
9 went into indicating that it was still economically
10 viable for us to compete in the marketplace and we
11 thought we could compete, particularly if the playing
12 field were leveled with regard to price.

13 MR. BERNSTEIN: If you could either submit
14 that material in your post-conference submission; or,
15 if it is in your questionnaire response -- and I have
16 not have personally looked at your questionnaire
17 response -- indicate in your post-conference
18 submission where we could find it, I think that would
19 be very much appreciated.

20 I know, at one point, Mr. Dorn stated that
21 there was a contemplation that this new facility would
22 make a certain return on investment. We would be
23 interested to know what you had contemplated in that
24 respect and what you contemplated the market
25 conditions would be.

1 Can you indicate for purposes of the public
2 session how much of this facility is going to be
3 devoted to production of the product you are calling
4 lightweight thermal paper, or even a ballpark type?
5 MR. SCHONFELD: Day one, all of it.
6 MR. BERNSTEIN: Is this designed to be a
7 lower cost facility, more efficient production
8 operations? Can you describe why you are expanding to
9 this degree, other than your contemplation of expanded
10 demand in the market?
11 MR. SCHONFELD: There really are two reasons
12 for us to build the facility. One is, we do believe
13 the market is continuing to expand, and we want to be
14 able to service that market for the long term. This
15 facility will allow us to do that.
16 Obviously, the second reason is, it is a
17 more modern piece of equipment, and every time you
18 upgrade equipment, whether it's a printer, computer,
19 or a coding machine that costs $100 million, your
20 costs hopefully will go down in unit measure terms
21 with regard to the individual units produced on that
22 machine.
23 So sure, will the machine be more efficient
24 than some of the ones we have today? Absolutely, it
25 will be. But the real motivation for putting the

1 equipment -- and you'll see this when you see the
2 confidential submission -- is we believe that we're
3 going to be able to fill that machine up, as well as
4 the additional capacity we have now, based on what we
5 believe the market can do.
6 MR. BERNSTEIN: How will the production
7 equipment for lightweight thermal paper at the new
8 facility be staffed? Mr. Sitter said at point in
9 response to one of Mr. Cassise's questions that it
10 takes years to be able to know how to be a coating
11 operator.
12 Yet, I also understood that it does not seem
13 the operating staff will be transferred from Appleton
14 to staff this new facility. So who are the people who
15 are staffing this, and how are they going to be able
16 to run the machines?
17 MR. SCHONFELD: As a follow-up to the
18 response I made earlier, the point to keep in mind is
19 that the training process is really one of going
20 through multiple positions within an organization.
21 While there isn't a coding operation at West
22 Carrollton today, there's a paper manufacturing
23 operation and they coat carbonless product in that
24 facility, as well.
25 So we do have people who are both

1 experienced and have worked up through what I would
2 call the early stages of being qualified to be a
3 coding operator; and frankly, there is still coding
4 that goes on, even if it's not thermal coding. So
5 that's point one. So the final training, the few
6 months worth of training will obviously have to
7 happen.
8 At the same time, as part of getting the
9 machine on line, our plan is to bring in a few
10 individuals from the Appleton plant to help get that
11 technical experience into the facility. That's all
12 part of the implementation plan. That will be part of
13 the documents you see when you see the documents that
14 we submit confidentially.
15 MR. BERNSTEIN: Thank you, while I'm on this
16 subject, let me ask about the one allegation Mr.
17 Silverman made that Mr. Cassise did not ask you about.
18 This is that you're currently importing product from
19 Europe.
20 MR. SCHONFELD: I'm interesting in hearing
21 the data on that, because I'm not aware of that having
22 happened.
23 MR. BERNSTEIN: Thank you, let me move on to
24 another issue now. Ms. Hatfield, is there any
25 particular reason that Appleton doesn't do its own

1 conversion operations for lightweight thermal paper?
2 MS. HATFIELD: Historically, the market has
3 been separate for the coding operations and the
4 converting operations. So those segments of the value
5 chain have really grown up separately. So we have not
6 pursued that, in an effort to maintain good
7 relationships with our converter customers. We have
8 not gone down that route.
9 MR. BERNSTEIN: Okay, thank you; let's talk
10 about your converter customers. In your testimony,
11 you distinguish generally between the type of
12 converters who typically convert lightweight thermal
13 paper and other converters.
14 First of all, could you describe what type
15 of converters typically convert the product you're
16 describing as lightweight thermal paper?
17 MS. HATFIELD: Sure, there are a number of
18 converters in North America of far-ranging sizes, in
19 terms of their capacity that specialize in converting
20 jumbo rolls down to small receipt size rolls.
21 Oftentimes, they will not only do the
22 thermal paper. Thermal paper is a predominant part of
23 the business for this end user. But oftentimes, they
24 will also use convert carbonless paper, as well, for
25 like a two-ply receipt or bond paper, as well, for

1 something that's through an impact printer. So that's
2 typically where they put their focus.
3 For other high value-added products, it's a
4 different type of process. Because if you think about
5 labels, for example, There needs to be an adhesive
6 coating put on the back of it and a release paper
7 attached to that, as well. So it goes through
8 different people that specialize in that type of
9 coding in order to get it into a label type of
10 product.
11 Also, a lot of times, the converters are
12 specializing in who they're selling to, in terms of
13 selling to the label market versus lottery market,
14 entertainment industry versus the retailers that are
15 purchasing the POS product. So there's different
16 specialization in that respect.
17 MR. BERNSTEIN: Okay, so is what you're
18 saying is that the converters who handled the
19 lightweight thermal paper don't have their conversion
20 equipment couldn't handle something like a lottery
21 ticket? It would require a different type of slitting
22 machines or printing operations that these converters
23 don't have?
24 MS. HATFIELD: Yes, for the lottery
25 business, the slitting equipment, I don't know, would

1 be radically different. The specifications for that
2 market though would be different. The specifications
3 for the lottery market would be different than what it
4 would be for a POS. So that factors into the
5 specialization.
6 MR. BERNSTEIN: Okay, let's go into your own
7 production process now. You've indicated that some
8 equipment is used to produce both lightweight and
9 other thermal papers, and other equipment can be used
10 exclusively to produce thermal papers; and you really
11 haven't specified, nor did the petition distinguish
12 among these. What equipment is used by Appleton
13 exclusively to produce lightweight thermal paper?
14 MR. DORN: Can we address that in the post-
15 conference brief?
16 MR. BERNSTEIN: If you could address that in
17 the post-conference brief. Specifically, I'm seeking
18 a little more specificity on some of these assertions
19 you make on page 12 of the petition under this
20 Paragraph E; that if you would identify what the
21 certain equipment is that could be used to produce
22 both, and which equipment is dedicated to lightweight
23 thermal paper. Because the petition does not seem to
24 provide any detail in that regard.
25 Okay, Mr. Sitter, let me ask you, if you

1 were to be asked how many of the employees you
2 represent who belong to the USW at the Appleton plant
3 are involved in producing lightweight thermal paper as
4 opposed to other types of thermal paper, could you
5 give me a breakdown?
6 MR. DORN: Is that something we could do
7 post-conference?
8 MR. SITTER: Yes. It's difficult to do with
9 some of the lean manufacturing principles that we
10 brought in at this point.
11 MR. BERNSTEIN: Okay. If you could attempt
12 to do that post-conference, I would appreciate it. I
13 would note, however, for the record that the witness
14 did not indicate he could give me an immediate answer
15 to the question. Let's see what else we have here.
16 MR. DORN: I wasn't trying to cut of the
17 witness.
18 MR. BERNSTEIN: Oh, okay.
19 MR. DORN: If you'd like to follow up on
20 that, that's fine. I just think, in terms going
21 through a head count, if you want something accurate,
22 I thought we could do it much better in a post-
23 conference brief. But if you'd like for him to take
24 stab at it, I don't have any problem.
25 MR. BERNSTEIN: Well, I mean, the question

1 is, do you think you could easily perform such a
2 breakdown, for now? I mean, you can give me what the
3 breakdown would be in the post-conference brief and
4 how you compute it. But at this point, I would like
5 your impression about how easily you could perform
6 such a breakdown.
7 MR. SITTER: Yes, it's by machine; what
8 machine makes what product. I would say, when we have
9 converting products, we have carbonless or converting
10 machinery. We have carbonless machinery and we have
11 thermal machinery. So I would say it's probably about
12 half and half, as far as the membership working on
13 that equipment.
14 But like Mr. Dorn said, it would be a lot
15 easier in the post-conference brief to give you. We
16 could probably give you actual numbers.
17 MR. BERNSTEIN: Okay, again, I think we
18 would appreciate that and your explanation of how you
19 made that computation. This is for anyone on the
20 panel who can answer it. Do any purchasers of
21 lightweight thermal paper purchase both jumbo rolls
22 and slit rolls?
23 MS. HATFIELD: This is Karen Hatfield at
24 Appleton. Yes, some of the converters do purchase
25 both. As we'd indicated previously, the pricing

1 coming in from the Chinese slit rolls has been at such
2 an aggressive, that some of our converter customers
3 have struggled with how they can produce a slit
4 product at such a competitive price, with the Chinese
5 rolls coming in not only offered for sale to our
6 converter customers, but to their customers directly,
7 as well; and had therefore been put in the position of
8 needing to purchase some degree of these Chinese slit
9 rolls and just re-sell them to their customers in
10 order to remain competitive on price.
11 MR. BERNSTEIN: Are some of their customers
12 buying the Chinese slit rolls?
13 MS. HATFIELD: Yes, they are.
14 MR. BERNSTEIN: Okay, from your market
15 information, can you give any seat of the pants
16 estimate -- and I'm not asking for a formal breakdown
17 -- of what the purchaser breakdown of the Chinese
18 rolls is, between the converters and the end-user
19 customers?
20 MS. HATFIELD: I don't know that I could
21 venture a good guess at this point. What I can tell
22 you is that initially, what we were seeing in the
23 market was that it was exclusively being offered for
24 sale to converters. Then more recently in the last
25 six months or so, that has changed. So they've also

1 been offering it for sale to converters' customers.
2 So it has been a more recent development on that side
3 of things, but we are seeing it in both places.
4 MR. BERNSTEIN: Can you describe the types
5 of customers who are purchasing the Chinese slit
6 rolls?
7 MS. HATFIELD: In terns of converter
8 customers or further downstream?
9 MR. BERNSTEIN: No, no, the end user
10 customers.
11 MS. HATFIELD: Okay, as the converted rolls
12 of Chinese paper are being sold to distributors, who
13 typically just re-sell slit rolls to other groups;
14 whether that is on line. You know they might have a
15 website that just specializes in POS paper. So they
16 just list it for sale and sell it that way.
17 Some of them are distributors who, like,
18 service a specific industry such as the restaurant
19 industry. They might sell them the slit rolls of
20 paper, as well as paper cups, paper plates, other
21 things that restaurants might need.
22 So there are a couple of different groups of
23 what we call distributors. But both of those would be
24 able and have purchased the slit roll products
25 directly from the Chinese imports.

1 MR. BERNSTEIN: Basically, your contention
2 is, the customers communicate pricing offers to the
3 converters, who then communicate it to you, as
4 upstream?
5 MS. HATFIELD: You mean, the distributors?
6 MR. BERNSTEIN: Well, the distributors, yes.
7 MS. HATFIELD: Okay.
8 MR. BERNSTEIN: The distributors
9 communicated to the converters, who them communicated
10 to you, is how you're getting the pricing information
11 in the market?
12 MS. HATFIELD: We've typically gotten
13 information through customer communications. I don't
14 know how much the customers are getting directly from
15 their purchasers, the distributors on the price that's
16 offered for sale to the distributors. Some of our
17 customers have just said, this distributor isn't
18 buying from us any more, because they said they are
19 buying directly from China.
20 MR. BERNSTEIN: I now have a question for
21 the lawyers. If virtually all the imports coming in
22 from China are slit, which I believe is what the
23 testimony has been, and virtually all of the rolls
24 coming in from Germany and Korea are jumbo rolls, and
25 if the testimony has been, a slit roll can't be

1 interchanged with a jumbo roll, how is the Commission
2 supposed to find that the subject imports from China
3 are fungible with the subject imports from the two
4 other countries?
5 MR. DORN: Well, we think there's one like
6 product, and there's a reasonable overlap in
7 competition, as has been explained. I mean, there's
8 direct competition between Appleton's jumbo rolls and
9 Chinese slit rolls to the same converters, because the
10 converter has the choice of buying the slit roll from
11 China and re-selling it, or buying the jumbo roll from
12 Appleton and converting it and selling it.
13 So there is competition in the market
14 between the slit rolls and the jumbo rolls. We'll
15 also have to look at the confidential record and see
16 whether there are any jumbo rolls coming in from
17 China.
18 MR. BERNSTEIN: That would be useful. I was
19 relying on your testimony, that there seemed to be
20 very few -- at least the panel's testimony.
21 One thing that would be helpful in your
22 post-conference brief is, if you could provide any
23 examples of where the Commission has used this type of
24 economic effects test you seem to be advocating to
25 ascertain fungibility. You are saying this involves a

1 domestic like product. If that were the case, then
2 fungibility has to mean something other than it's the
3 domestic like product, because otherwise that
4 particular criterion would be met in every instance.
5 One would infer from that, that fungibility
6 is a somewhat more strict test than characteristics or
7 uses. I understand your argument that the pricing of
8 one has an effect on the pricing of another. I'm not
9 familiar with that argument being used to define
10 fungibility. But if there are any prior instances of
11 that, or you'd like to argue why you think that is a
12 good test, we are certainly interested in that.
13 MR. DORN: We'll certainly address that in
14 our post-conference brief.
15 MR. BERNSTEIN: Okay.
16 MR. DORN: We have been looking at that
17 issue.
18 MR. BERNSTEIN: Another question concerning
19 your legal theories, this concerns the domestic
20 production operations. Both the submissions you made
21 to the Commerce Department and your testimony to us
22 this morning seem to me to be premised on the view
23 that the reason converters should be determined not to
24 engage in sufficient domestic production operations is
25 that they engage in operations that are substantially

1 less substantial than the coaters,
2 You are comparing the converters to the
3 coaters, finding that the coaters are engaging in a
4 much more sophisticated process, and therefore the
5 converters should not be included.
6 I would be interested, in your post-
7 conference brief, for you to provide examples of other
8 investigations where the Commission used such a
9 comparative approach.
10 In my view, thermal transfer ribbons doesn't
11 seem to be one of them. Oftentimes, the Commission
12 seems to be engaged in more of an example of sort of
13 the absolute nature of the sophistication. We will be
14 asking the converters more about that when they appear
15 on the second panel. But if you could elaborate on
16 your legal theory here, we would appreciate that.
17 MR. DORN: We'll certainly do that. Talking
18 about thermal transfer ribbons, I mean, in that case,
19 it was a close issue as to whether the converters were
20 in or out. In the preliminary determination, the
21 Commission said they were out. Then in the final,
22 based upon some change in the factual record, they
23 said that they were in. So it's a fact intensive
24 analysis.
25 MR. BERNSTEIN: No, I'm aware of that, and

1 I'm also aware of cases of the polar extremes, where
2 the operation involved is something that requires
3 acquiring a screwdriver or knife; and the particular
4 version of the particular converting equipment you
5 included in your exhibits doesn't look like something
6 you could pick up down the street or online. It also
7 doesn't necessarily look like the type of thing you
8 could just hire somebody off the street to operate.
9 Again, we will get more testimony on that
10 from the converters later. But I am interested in
11 hearing about the comparative approach you seem to be
12 advocating.
13 MR. DORN: Comparing the facts in this case
14 with those in thermal transfer ribbons, we think it is
15 a much stronger case for excluding the converter
16 operations here than in the transfer ribbons case.
17 MR. BERNSTEIN: Also in your post-conference
18 brief, if you could discuss, if the Commission should
19 determine that converters engage in domestic
20 production operations, how should it measure apparent
21 consumption, domestic production and import
22 penetration in this investigation.
23 On the same line, and this again is a matter
24 for the post-conference submission, if you can provide
25 any insight into how you believe we should be

1 examining the domestic industry's financial
2 performance, if that should be on a segmented analysis
3 or a consolidated analysis; just so we have your views
4 on the record as to that.
5 MR. DORN: We'll do so.
6 MR. BERNSTEIN: I believe those are all the
7 questions I have; thank you.
8 MS. BRYAN: Hello, I'm Nancy Bryan, Office
9 of Economics. It's very nice meeting all of you and
10 learning about the products. It's very interesting.
11 My first question would be about this spike
12 in demand that happened, I guess, during September of
13 2006. Leading up to that demand spike, how would you
14 have characterized demand, leading up to that point?
15 MR. SCHONFELD: The market has been growing.
16 The definition of a spike is different things for
17 different people. But the market has been growing at
18 certain rates, and what happened was, we saw our
19 demand grow at a faster rate as we saw everyone else's
20 demand in the industry grow at a faster rate. Whether
21 it technically qualifies as whatever a spike as
22 defined as, I don't know. But demand definitely went
23 up, from a growth rate perspective.
24 MS. BRYAN: And so since the spike, after
25 that period ended in early December, you would you

1 would say demand fell off after that.

2 MR. SCHONFELD: Our understanding, from both

3 our own situation and the competitive information we

4 have from other manufacturers is, demand did fall off,

5 as inventory levels readjusted themselves; and then

6 demand started to pick up again in the second quarter

7 of the year as, you know, people worked through their

8 inventory levels.

9 AUDIENCE MEMBER: We're still having trouble

10 hearing.

11 MR. SCHONFELD: Sorry, I'll just have this

12 affixed to my face. I apologize. It's my fault. Is

13 this better?

14 MS. BRYAN: Okay, then currently, you would

15 say demand then is back on track growing.

16 MR. SCHONFELD: Demand is good and growing

17 as an industry overall. Yes, sure, it's back to where

18 it was.

19 MS. BRYAN: Okay, thank you, now I'd like to

20 get back to some product characteristics and, in

21 particular, the basis weights; comparing the 45 gram

22 to the 48 gram and the 55 gram, which all can be used

23 for the point of sale receipts. I believe, Ms.

24 Hatfield, you said that the 55 gram represented the

25 substantial share.

1 I guess my question would be, why do you
2 think the 48 and 45 gram aren't more popular, seeing
3 that they're lower basis weights and I'd assume lower
4 price?
5 MS. HATFIELD: Sure, as I mentioned, the 55
6 gram has been kind of the industry standard for this
7 type of product. The lower basis weight products have
8 been brought into the market at a discount versus the
9 55 gram product, which has made it more appealing to
10 converters in using it; because again, it's deemed to
11 be highly substitutable.
12 There can be some issues on the converting
13 side with a thinner paper, leading to more breaks as
14 they're converting the product into smaller rolls.
15 But from an end user perspective, most don't see a
16 difference between the 55 gram and the 4 gram. Some
17 do. Some just say it's too lightweight, and they're
18 not willing to go that low.
19 The reason I think it has been limited in
20 its popularity in the business is because when you go
21 to a lighter basis weight paper, a thinner paper, it
22 means the rolls end up being smaller after they're
23 rolled up, because they're typically rolled to a
24 footage rather than a diameter. That's true for the
25 United States, anyway. So when you use the lighter

1 basis paper, it ends up being smaller rolls.
2 For a distributor who is selling their
3 product on line, or to someone who is selling to
4 someone who had previously had the heavier basis
5 weight product, they get that roll and say it looks
6 smaller; I think I'm being cheated. So that
7 perception issue is in the marketplace, a lack of
8 understanding that thinner paper necessarily means
9 that they're still getting the same length on the
10 roll.
11 The other piece is, in terms of managing the
12 inventory through the process, the converter, again
13 because of the size of the rolls, is different.
14 Unless they want those rolls rattling around in the
15 box during shipment, they need a separate carton size
16 for the lighter basis weight rolls.
17 If they are maintaining both products and
18 offering both products for sale, that means they have
19 to have two sets of inventory for cartons and
20 everything else that they're doing along the way. So
21 it's more cumbersome for their process to be able to
22 manage both.
23 There hasn't been a big consumer demand, a
24 big end user push, to get two lighter basis weight
25 products. So I think that's probably been the other

1 factor that's limiting the market really accepting it.
2 MS. BRYAN: Do you think in the near future,
3 because it is cheaper, that it is going to become more
4 highly demanded by the end users?
5 MS. HATFIELD: I think paper markets, in
6 general, kind of gravitate toward lighter basis weight
7 products. It think there is a big gap in end user
8 education and understanding of the difference between
9 the different papers. So I think it would take a
10 major shift in order to get over to that point, given
11 the dual inventories and other things along the way
12 that kind of keep it from migrating there.
13 MS. BRYAN: Okay, and the subject imports,
14 do you know if they're more heavily concentrated in
15 the 55 gram or the 48 or 45?
16 MS. HATFIELD: There's a mix. Curler has
17 been pretty aggressive in terms of pricing on the 48
18 gram, relative to the 55 gram, and appears to be
19 making a push in that direction. But again, I
20 couldn't tell you exactly what their split would be.
21 MS. BRYAN: I think I know the answer, but
22 just to verify, for the end use customer, the printer
23 can take either basis weight. If they're currently
24 using 55, could they easily switch to a 45?
25 MS. HATFIELD: Typically, yes, the

1 converters watch the thickness of it very carefully.
2 If it gets too thin, then it can lead to jamming in
3 the printing mechanism. So on the whole, the 48 gram
4 should work okay -- 48, 45. But in some instances,
5 they could run into some increased jams and issues as
6 a result of the lighter basis weight.
7 MS. BRYAN: Okay, thank you; this is a
8 question related to the pricing product definitions.
9 If you want to comment on this in your post-conference
10 brief, that would be fine.
11 But pricing product, too, there's an
12 Appleton high yield 400 and Appleton high yield 800
13 product. If you could, at some point, just
14 characterize the differences between that product and
15 Alpha 400-2.1 product?
16 MS. HATFIELD: This is Karen Hatfield at
17 Appleton, again. The high yield product was about a
18 45 grams per square meter product that was introduced
19 in 2004. We had that product in the marketplace with
20 the whole idea of being able to put more paper on a
21 roll for a customer.
22 For example, a Walmart doesn't want to
23 change rolls any more than they have to, because they
24 want to move people through the register as quickly as
25 possible. So that's what the lighter basis weight

1 paper was intended to deliver as opposed to a more
2 aggressive price point.
3 We had that paper out in the market until
4 2006. We decided to discontinue it. There wasn't a
5 tremendous amount of demand for it. In 2007, we
6 introduced a 48 gram product, with the same chemistry
7 and characteristics as our 55 gram product, in order
8 to give our converters the alternative of the 48 or
9 the 55 gram, depending on their customer needs.
10 So there's a slight difference in basis
11 weight between those two products, and they have
12 different names and everything else as a result. But
13 in terms of substitutability, they'd be substitutable.
14 MS. BRYAN: Okay, thank you.
15 MS. HATFIELD: Sure.
16 MS. BRYAN: Okay, switching to the sales
17 contract terms, I think someone mentioned that it's
18 mostly spot market sales rather than long-term
19 contracts. Could you talk about maybe why you think
20 that is? Is it price volatility or something else; or
21 are there other types of like short-term, few month
22 contracts, also?
23 MS. HATFIELD: Long-term contracts are very
24 few and far between. It's definitely an outlier.
25 It's not the norm at all. Typically, the business is

1 more on a spot basis. We might get orders for a few
2 months in advance, but it's not considered a contract.
3 Typically, from a pricing perspective,
4 you're putting a price out there for the product, and
5 they submit orders for that price. That does not
6 prevent the customers from coming back, if they're
7 seeing a more competitive price in the market, and re-
8 negotiating for a lower price.
9 Basically putting that offer out there for
10 sale, it sets the ceiling on the price of the product,
11 but not the bottom for the price. So we may get some
12 orders for things. If a customer comes back to us and
13 says, hey, look, so and so is offering a price of
14 this. Are you going to match it? Otherwise, I'm
15 going to take my orders elsewhere.
16 MS. BRYAN: Okay, maybe you can't answer
17 this now, but typically on average, how many orders
18 would you receive in one year from a certain customer?
19 Do they come back repeated times in one year? Is it
20 like one year?
21 MS. HATFIELD: This is Karen Hatfield,
22 again. It's typically not an annual type of
23 agreement. Again, it's an ongoing type of thing, and
24 we can provide more details in our post-conference
25 brief. But I wouldn't characterize it at all as an

1 annual contract.

2 MS. BRYAN: Okay, thank you; in terms of

3 quality, I know you all have said that the product is

4 highly fungible from different sources. But we've

5 also heard that the coating is kind of an art form,

6 from Mr. Sitter.

7 So is there really no quality differences to

8 speak of? Have you ever heard quality concerns of the

9 subject imports or other producers at all?

10 MR. SCHONFELD: Yes, let's see if I can get

11 close enough to do this the right way this time.

12 Clearly, every manufacturer, from time to time, has

13 quality issues. Appleton has. Every one of our other

14 competitors from time to time has.

15 By and large, when you look at most of the

16 major players in the market, the quality differences

17 aren't sufficient to differentiate the products from a

18 price or market penetration perspective.

19 There is talk about whether some or all of

20 the Chinese product is of sufficient quality. At the

21 end of the day, the way you figure that out is, are

22 customers willing to buy it and does it replace our

23 product? The answer is, yes it does. So at the end

24 of the day, you'd have to view people voting with

25 their wallets that there's not a big enough difference

1 to really worry about. So that's pretty much the
2 answer.
3 MS. BRYAN: I understand that the jumbo
4 imported rolls are mostly coming from Germany and
5 Korea, and the converted rolls are coming from China.
6 But where do you face the toughest competition in
7 that? Is it tougher from the jumbo rolls or tougher
8 in the converted rolls from China, in terms of volume
9 and price?
10 MR. SCHONFELD: I guess it depends on what
11 time on what day you're asking me. It all seems to be
12 pretty tough right now. Prices have declined across
13 the board, and I'm not sure that I could tell you what
14 the causality was as to which one is driving down
15 prices more.
16 From our perspective, the American
17 manufacturers clearly are not the price leaders, and
18 the foreign manufacturers are leading prices down
19 right now. Whether one moves another one or causes
20 another one to move, I wish I could give you the
21 answer to that. I'm not sure anybody could ever
22 figure it out. It's just that prices just continue to
23 be competitive in the marketplace.
24 MS. BRYAN: Okay, what about competition
25 with other U.S. producers? Have you ever had to

1 reduce your price in order to compete with another
2 U.S. producer?
3 MR. SCHONFELD: Sure, there are times where
4 that happens. But again, you get into the causality
5 of, why did the other U.S. manufacturer reduce their
6 price or not reduce their price? I have a hard time
7 figuring that causability out.
8 But most of the time, what you see happening
9 in industry where you have to keep your capacity full
10 is, somebody causes you a problem somewhere. They
11 drop their price. You lose business. You drop your
12 price somewhere else.
13 So whether or not another domestic
14 manufacturer caused us to drop our price, I don't
15 think necessarily determines whether they were sort of
16 the precipitating event that caused it. But sure,
17 that kind of an issue happens all the time. It's a
18 competitive marketplace, for use.
19 MS. BRYAN: Okay, thanks; that kind of leads
20 to my next question about the market information. How
21 quickly does the pricing information sift throughout
22 all the customers? I mean, is it a very quick
23 turnaround like, oh, I've heard a price quote from a
24 Chinese supplier, and immediately the rest of the U.S.
25 industry has to lower their price, or can you comment

1 on that at all?

2 MR. SCHONFELD: We could probably give you

3 examples of instances where a competitor went and

4 offered a price at 9:00, and at 9:28 somebody was on

5 the phone to us asking us to lower our price. It

6 happens reasonably quickly. It's a relatively small

7 business. That's sort of the way the business works.

8 So could I tell you everyone is that

9 efficient? No, but by and large, there's a fair

10 amount of efficiency, and we're not measuring it in

11 weeks or months for price changes to sort of filter

12 through the market. It happens much faster than that.

13 MS. BRYAN: Okay, so there's no regional

14 price differences in the U.S. market?

15 MR. SCHONFELD: I wouldn't say there are,

16 no. But they're not meaningful, and they all move in

17 the same way, in the same direction. There are, of

18 course, transportation cost differences from one

19 region or another, which might affect prices slightly,

20 one way or another. Those kinds of things do happen,

21 but they all generally move. If it's dropping on the

22 East Coast, it's unusual for it not to drop equally on

23 the West Coast, for instance.

24 MS. BRYAN: Okay, I'm not sure if we touched

25 on this earlier. But does the ability to produce

1 custom sizes or custom widths play a factor at all?
2 It didn't sound like it did at all. But everything is
3 the three and one-eighth inch width.
4 MS. HATFIELD: Does it play a factor for our
5 converter customers?
6 MS. BRYAN: Do you ever receive a request
7 for
8 a different width?
9 MS. HATFIELD: We cut the huge jumbo rolls
10 down to smaller jumbo rolls, based on the converter's
11 specifications. So we're not cutting it down to this
12 size, but we are cutting it down to a 53 and a half
13 inch role or whatever size that they need for their
14 equipment. So we do custom widths as needed.
15 MS. BRYAN: Okay.
16 MS. HATFIELD: If it's a custom width, if
17 it's less than standard, there can be additional
18 charges based on that, because of the waste that's
19 involved.
20 MS. BRYAN: Okay, and to your knowledge, are
21 you aware that the subject producers are also able to
22 do the different widths?
23 MS. HATFIELD: Yes.
24 MS. BRYAN: For other jumbo rolls?
25 MS. HATFIELD: Yes.

1 MS. BRYAN: Okay, thank you; so do the
2 converters that buy your product also buy subject
3 imports, and why would they buy both, in your opinion?
4 MS. HATFIELD: Yes, the converters typically
5 buy from different sources. As we look at the major
6 converters in the business, I mean, they're buying
7 domestic and foreign produced product. What was the
8 second part of your question; I'm sorry?
9 MS. BRYAN: Why do you think that is? Is it
10 just because they don't want to buy all of their
11 product from one source for whatever reason, or that
12 you can't fill their whole entire order? I'm just
13 throwing out ideas.
14 MS. HATFIELD: My assumption is that that is
15 largely based on trying to get pricing down to the
16 lowest level that they possibly can.
17 MS. BRYAN: Okay, so that can be a
18 combination of domestic sources and imported sources
19 then. It could be the best pricing combination.
20 MS. HATFIELD: I don't know that I'd
21 necessarily say that. But a number of our converters
22 do mix things up, sourcing from different places.
23 MS. BRYAN: Okay.
24 MS. HATFIELD: Yes, you may want to pose
25 that question to them, when they're up.

1 MS. BRYAN: I will.
2 MS. HATFIELD: Okay.
3 MS. BRYAN: I think that's all I have for
4 now, thank you.
5 MR. CARPENTER: Ms. Klir?
6 MS. KLIR: Hello, I want to make sure
7 everyone can hear me, too. This is Mary Klir from the
8 Office of Investigations, and thank you very much for
9 your testimony. It's very helpful.
10 I just have a few questions. This first
11 one, you may want to handle in your post-conference
12 brief. I'll leave it up to you.
13 I'm just looking for estimates here.
14 Approximately what percent of your total raw material
15 costs are accounted for by each of the main raw
16 material inputs for lightweight thermal paper? I'm
17 sure paper is the biggest part, but I'm curious about
18 the other components.
19 MR. SCHONFELD: Your guess is generally
20 right, and we'll provide you with a lot of detail on
21 that in the post-conference brief. I'd rather not get
22 into that in a public forum.
23 MS. KLIR: Okay, sure, thank you, and along
24 with that, if you could also comment post-conference
25 on, if these percentages change for other weights of

1 thermal paper, the heavier thermal paper for the
2 different components, that's be helpful; thank you.
3 For post-conference, for the attorneys, in
4 your post-conference brief, please analyze the
5 reported profitability of coaters and the reported
6 profitability of converters, and discuss the factors
7 affecting revenues and costs that account for any
8 differences in profitability between coders and
9 converters, as well as between the various coaters who
10 have provided questionnaire responses. That would be
11 helpful. Thank you very much. That's all I have.
12 MR. CARPENTER: Mr. Forstall?
13 MR. FORSTALL: Thank you, Mr. Carpenter, and
14 thank you, as well, to the panel for your testimony
15 this morning.
16 Let me start out just with a few quick
17 product-related questions. The first, I think I
18 probably know the answer to, based on one of your
19 slides. But I just want to make sure I'm completely
20 correct in this.
21 The base paper we're talking about for this
22 product is always free sheet, typically, or sometimes
23 free sheet? Is there any ground wood at all?
24 MR. SCHONFELD: It's most always free sheet.
25 I wouldn't guarantee that 100 percent of the time.

1 I'd have to go back and check the actual statistics on
2 it.
3 But it's actually a special product. It's
4 not really what you would normally see as free sheet.
5 It's a specially made product for thermal, in
6 particular. It's not the same free sheet you would
7 see come out for normal sheets you would put into a
8 ream of paper, for example. It is a special kind of
9 paper.
10 MR. FORSTALL: Yes, what would be some of
11 the reasons that would make it special, relative to
12 some of the other free sheets that you would see?
13 MR. SCHONFELD: It could be everything from
14 the humidity of the paper, for its ability to absorb
15 coatings, to a number of other sort of technical
16 issues. We can give you a whole list of the things
17 that vary. I don't have them on the tip of my tongue,
18 but we'll provide them to post-meeting.
19 MR. FORSTALL: Yes, I would appreciate that.
20 MR. SCHONFELD: Just understand, there are
21 some substantial differences in the product, and the
22 product is specially made for this segment. So it's
23 not like we could just go anywhere and just buy any
24 paper and use it. It needs to be designed and made
25 specially to match up with the chemistries that we

1 happen to be using.

2 So it gets to the point literally where

3 paper that works for us may not necessarily work for

4 one of our competitors, just so you're aware. So we

5 do manufacture our own paper for that.

6 MR. FORSTALL: Thank you; in terms of the

7 basic products, we're talking about 48 gram or 55

8 gram. How much of that basis weight is accounted for

9 by the weight of the coding?

10 MR. SCHONFELD: We usually measure the paper

11 in poundage and the weight in grams. So I'm sorry,

12 I'm at a loss to give you the exact numbers right now;

13 if I can provide that to you.

14 MR. FORSTALL: That would be fine.

15 MR. SCHONFELD: I just don't want to mislead

16 you. I can give you a ballpark, but I would rather

17 give you the exact number.

18 MR. FORSTALL: That would be fine.

19 MR. SCHONFELD: That's fine.

20 MR. FORSTALL: Getting back to touching on

21 some of the testimony I heard earlier about the

22 certification process, Ms. Hatfield, I believe you

23 mentioned the certification process. What are the

24 fundamental differences in the paper for different

25 manufacturers' products?

1 I mean, I guess asked another way, if you
2 failed to qualify or certify for a particular
3 manufacturer's equipment, what would you do to go back
4 and correct the problem and get that certification?
5 MS. HATFIELD: Okay, this is Karen Hatfield
6 at Appleton. If we were to run into any kind of issue
7 in the certification process, we would work with the
8 manufacturer to understand exactly what the issues
9 were. It could be a change to the base paper or a
10 tweak to the coating chemistry or the amount of
11 coating.
12 It could be any one of a number of things
13 that we would do to address whatever issue it is that
14 they were encountering; and then likely we would re-
15 submit for testing or work with them to make sure that
16 it was meeting their expectations.
17 MR. FORSTALL: Okay, thank you; one other
18 thing that was mentioned earlier, in terms of the
19 quality of the image for the particular product, how
20 would you control the quality of the image, as far as
21 the final image on the paper? What would change in
22 terms of the coating or whatever else that would tend
23 to affect the quality of the image?
24 MR. SCHONFELD: If I could just ask a
25 clarifying question, are you talking about within a

1 production run or between new products?
2 MR. FORSTALL: Between different products --
3 I think one of the things that was mentioned as a
4 difference between the lightweight versus the other
5 thermal paper was the quality image.
6 MR. SCHONFELD: I understand the question
7 now. I'm sorry, I just wanted to be clear. A couple
8 of things, the active ingredients that change the ink
9 color, everything down to things like humidity and the
10 by-products that happen to be in the product -- all of
11 those will impact not only image clarity, but image
12 quality.
13 So there are a number of factors --
14 everything from just how much ink you happen to put on
15 the piece of paper, how much coating, to factors in
16 how you do the manufacture, that could have an impact
17 -- what kind of coating mechanism you use, the
18 different kinds of coating technologies that you can
19 use, as I'm sure you're aware, and those different
20 technologies, have different levels of viability of
21 the image.
22 So there's all kinds of factors that you can
23 use to drive differences in image quality between
24 different grades of paper. Some of them cost you
25 money like coating and the different technologies,

1 which might be more expensive; and some of them are
2 just manufacturing differences. But there's a mix of
3 both in there.
4 MR. FORSTALL: Okay, thank you; just as an
5 observation, the Commission has in recent years heard,
6 I think this is the sixth paper-related case or
7 investigation that we've had. Five of those cases
8 have dealt with converted paper products of one sort
9 or another.
10 This is the first time, as far as the
11 converted product is concerned, that we haven't been
12 talking to the converters in the morning as opposed to
13 in the afternoon.
14 If you look at the petition and the process
15 description, in terms of the sorts of processes that
16 go on in converting lightweight thermal papers into
17 that final product, they sound awfully similar to the
18 processes that some of these other products go
19 through.
20 In particular, they are especially similar
21 to some of the tissue and the crepe paper products
22 that we've looked at in recent years, in terms of
23 unwinding the jumbo rolls, slitting and cutting,
24 sometimes printing, rewinding, and packaging. All of
25 those things are very similar in overall production to

1 some of these other products.
2 I'm not exactly sure. I understand
3 fundamentally the difference between the production
4 side for lightweight thermal paper and some of these
5 other converted products that we've looked at before.
6 So if you could address that issue in your post-
7 conference brief, I would very much appreciate it.
8 MR. SCHONFELD: We'll certainly do that.
9 MR. FORSTALL: Thank you. Finally, one
10 other data-related question, in Exhibit 11, I think it
11 was the October 4th submission that we received at
12 Commission which was in fact a copy of the September
13 28th submission that you'd made to Department of
14 Commerce, you presented in Exhibit 11 some facts and
15 figures on world capacity of thermal paper.
16 If you could verify for me please that those
17 figures presented, there were figures presented for
18 the United States, Japan, Europe, and the rest of the
19 world, and it looks to me like those include all known
20 world capacity, but if you could verify that I would
21 very much appreciate it.
22 Also, I apologize for not knowing 100
23 percent what's in the petition so that if it already
24 is in the petition I beg your pardon for asking, but
25 if you wouldn't mind submitting that entire report for

1 us in the post-conference brief. That way that will
2 let us judge just a little bit better how much weight
3 we should put on those numbers.
4 Mr. Carpenter, that's all the questions I
5 have.
6 MR. CARPENTER: Ms. Mazur?
7 MS. MAZUR: Good morning and thank you very
8 much for coming and testifying this morning. We
9 always appreciate when we get actual participants in
10 the industry here to present testimony. So thank you.
11 I really don't have very much to cover. I
12 think many of the issues have been very thoroughly
13 covered already and we look forward to hearing from
14 you in your post-conference brief.
15 One question I think I'd like to address to
16 the attorneys, Mr. Dorn and Mr. Jameson. Do you think
17 negligibility is an issue in this case with respect to
18 imports from any of the countries?
19 MR. DORN: Not based upon the numbers we
20 have, we don't think it's an issue. But we can
21 certainly address that in the post-conference if you'd
22 like.
23 MS. MAZUR: That's I think my point here.
24 There is so much unknown in this case with respect to
25 actual import volumes, with respect to information as

1 to the value added, for example, in conversion
2 activities. If you all would just take, well, those
3 who have access to the confidential information, take
4 careful look at what's going to be released to APO and
5 make sure that the arguments that you're making with
6 respect to domestic product, with respect to industry,
7 domestic industry, or negligibility are based on the
8 actual BPI information that you'll receive in the
9 questionnaires.
10 MR. DORN: We certainly plan to do that.
11 Thank you.
12 MS. MAZUR: Excellent. And because of
13 Commerce's extension of their initiation, Mr.
14 Carpenter will actually give you the date, but we will
15 be postponing or extending the deadline for the post-
16 conference brief, so hopefully that will give you
17 additional time to peruse all of this information.
18 Again, I thank you all very much and look
19 forward to your post-conference brief.
20 MR. CARPENTER: Just one follow-up question.
21 Mr. Bernstein had asked a question earlier
22 about why your company, or whether you had considered
23 further vertically integrating into production of the
24 downstream slitted product, and you essentially said
25 no, that the two segments had always been separate and

1 that you wanted to maintain good relations with your
2 customers.
3 MS. HATFIELD: Actually, if I could clarify
4 that for a second.
5 MR. CARPENTER: Sure.
6 MS. HATFIELD: I said we had not moved into
7 converting product. Historically those industries
8 have been maintained separate. So just to clarify.
9 MR. CARPENTER: Thank you. And maybe this
10 is more a question for the post-conference brief, but
11 just looking at the dynamics of how competition is
12 shaping up in this market and you've got a number of
13 converters who are now not just simply sourcing the
14 jumbo rolls from you and from other sources, but
15 they're importing directly from China I believe was
16 the testimony.
17 Have you given thought to any cost
18 advantages that you might be able to achieve by virtue
19 of your vertical integration by further processing the
20 product to produce the downstream slitted product?
21 And I guess a related question, too, you
22 made a comment I think in response to MS. Bryan's
23 question about slitting into narrower widths, and I
24 was wondering if you were already currently capable of
25 slitting the product to the 3-1/8 inch width. If you

1 have the machinery that's capable of doing that.
2 MR. SCHONFELD: I guess there were two
3 questions in there. The second one is do we have
4 machinery capable of doing what the converters do
5 today within our current facilities; and the second
6 question is have we considered whether moving
7 downstream and disintermediating, maybe I'm using the
8 wrong word, but disintermediating the converters would
9 be something we'd consider doing.
10 To the first question, our slitting
11 capability to slit the smaller rolls, they're still
12 jumbo-sized rolls. It's special equipment to slit to
13 what the converters provide which is the three-plus
14 inch rolls. We would need to make an investment to be
15 able to do that. As I think we've indicated in some
16 of our filings and you can check in the industry, it's
17 not a huge capital investment to do those kinds of
18 things relative to the cost of putting in a paper
19 machine, but obviously it's something we haven't yet
20 done. So we don't today have that capability.
21 Have we looked at the economics of doing
22 those kinds of things and have we looked at what
23 you've suggested in the first half of your question?
24 The answer is yes, and we'll provide you some
25 information on that in the post-conference brief if we

1 could, because it's quite confidential.
2 MR. CARPENTER: Yes. I'd appreciate that.
3 We would definitely appreciate it if you could provide
4 those details in your brief.
5 MR. SCHONFELD: There are other people in
6 the room listening to this conversation. I just want
7 to make it clear we haven't done that and we're not
8 looking to disintermediate our customers. I just want
9 to make sure that's on the record as well.
10 MR. CARPENTER: Right.
11 A couple of related questions, too, to the
12 best of your knowledge do the converters tend to
13 market their product nationwide or more in a regional
14 basis?
15 MS. HATFIELD: There's some of both. A
16 number of them are national suppliers and the
17 customers that they're selling to are often national,
18 but there are some that focus more regionally.
19 MR. CARPENTER: And another question that
20 you may prefer to answer in your brief, but I was
21 wondering whether any of your customers source their
22 jumbo rolls only from you, or whether the typical
23 practice is they would source from you as well as from
24 other companies. You don't have to answer that now if
25 that's confidential.

1 MR. SCHONFELD: The only thing we'll say is
2 there's a mix. We can provide you with some specific
3 statistics on that confidentially, but there are some
4 I'm sure for all manufacturers that are exclusive, and
5 then the larger percentage that are not.
6 MR. CARPENTER: Thank you very much.
7 Are there any other questions from staff?
8 Mr. Cassise?
9 MR. CASSISE: Mr. Dorn, in your post-
10 conference brief if you could shed a little light on
11 any other trade remedy actions in third countries.
12 You refer in the petition to an Indian action on
13 thermal paper. If you could provide information on
14 whether that includes our subject product or if it's a
15 broader category.
16 Also what the actual margins are would be
17 helpful.
18 A little bit more detail on the Indian
19 action and then if you are aware of it in any other
20 third countries.
21 MR. DORN: We'll take a look at that.
22 Thanks.
23 MR. CASSISE: Thanks. That's all I have.
24 MR. CARPENTER: Again, than you very much,
25 panel, for your testimony and for your responses to

1 our questions. They were very helpful.
2 At this point we'll take a short break to
3 allow the parties to switch sides, of about 10 minutes
4 then we'll resume with the Respondents. Thank you.
5 (Whereupon, a short recess was taken.)
6 MR. CARPENTER: Okay, let's resume the
7 conference at this time. Please proceed whenever
8 you're ready.
9 MR. SILVERMAN: Mr. Chairman, I'm William
10 Silverman with the law firm of Hunton & Williams and
11 I'm serving as the quarterback for the Respondent's
12 presentation.
13 Only one introductory comment. I hope we
14 have a resourceful panel for you. You heard a lot of
15 testimony this morning that was barely hearsay --
16 third hand, fourth hand. People testified this
17 morning about imports, they don't know. We have
18 importers here. They testified --
19 MR. DORN: Excuse me, Mr. Silverman, could
20 you speak up a little bit please? I can't hear you.
21 MR. SILVERMAN: Sorry. I'll start over.
22 They heard your testimony this morning
23 indicating they didn't know what imports were. We
24 have the importers. They talked this morning about
25 what converters do and what they don't do. We have

1 the converters. So I think it will be a fruitful
2 interchange for the panel. We'll begin.
3 MR. GREENE: Good afternoon. My name is
4 Richard Greene and I'm the Chief Operating Officer of
5 Koehler America who is the sole U.S. importer for
6 light weight thermal paper produced by Koehler.
7 I'm here today to explain Koehler's role in
8 the U.S. light weight thermal paper market and why
9 Koehler has been a consistent supplier in this market.
10 Koehler America imports light weight thermal
11 paper in jumbo roles from Koehler's mill in Germany.
12 Koehler understands that all of the other subject
13 imports also enter in the form of jumbo rolls only
14 except for the Chinese product which enters only in
15 converted form which are small rolls, ready to use in
16 cash registers.
17 Koehler believes that it is by far the
18 largest U.S. import source of light weight thermal
19 paper and sells more light weight thermal paper in the
20 United States market than all other import sources
21 combined.
22 We have succeeded in selling increasing
23 quantities of light weight thermal paper in recent
24 years, but contrary to what you heard this morning
25 from Appleton's representatives Koehler has succeeded

1 in the U.S. market through product innovation,
2 quality, and strong market demand conditions and not
3 by price undercutting.
4 Until a few years ago nearly all thermal
5 paper used for point of sale applications came in a
6 standard thickness or caliper of 2.3 mils or thousands
7 of an inch. The basis rate of the 2.3 caliper thermal
8 paper is generally 55 grams per square meter.
9 In April 2005 Koehler introduced its KT48
10 paper. Our KT48 is a 48 gram weight with a caliper of
11 2.1 mils, 10 percent thinner than the KT55 or the 2.3
12 caliper paper.
13 The advantage of this thinner paper is that
14 it can be used to make a longer finish roll with the
15 same diameter which means that the person operating
16 the register or printer at the retailer spends less
17 time changing rolls.
18 Also the product is more economical for
19 converters or customers to ship because they can ship
20 out 10 percent more footage of register weight at the
21 same shipping weight.
22 Koehler has seen its sales of KT48 paper
23 grow. While Koehler's sales of its standard 55 gram
24 paper have been dropping since 2005, Koehler's sales
25 of its KT48 paper have increased. At this point,

1 approximately two years later, about 40 percent of the
2 value of Koehler's light weight sales of thermal paper
3 consist of its KT48 product. I expect this ratio to
4 increase further in 2008 as more and more converters
5 ask for thinner paper in which they can make longer
6 rolls.
7 I understand that prior to the introduction
8 of our KT48 Appleton had introduced an even thinner
9 product with a weight of, sometimes in their papers it
10 says 42 grams, other times it's referred to as 44 or
11 45 grams, but a caliper of 1.8 mils. However, due to
12 poor quality Appleton's 1.8 caliper product never
13 gained acceptance in the market.
14 I understand that Appleton did not
15 manufacture its own base paper for this product and
16 the base paper it purchased did not maintain
17 consistency in the caliper or thickness.
18 The unusually low caliper of Appleton's
19 product plus the wide variation in the caliper caused
20 difficulties in slitting as well as in performance of
21 thermal point of sale printers.
22 As a result I understand that Appleton
23 eventually discontinued its 1.8 caliper product, and
24 we heard that this morning.
25 We introduced our 48 gram product with 2.1

1 caliper as we saw the advantages of a longer roll and
2 a lighter product, but we took the step in the middle
3 between Appleton's old 1.8 caliper and our standard
4 2.3 caliper product with the aim of producing a good
5 consistent product.
6 As a result, our sales began to develop.
7 Meanwhile it was reported to us that
8 Appleton told some of their customers that they had no
9 plans to reintroduce a thin, lighter product to
10 compete with our 2.1 caliper product.
11 This summer, more than two years after we
12 began selling our KT48, we learned that Appleton
13 reversed its strategy and has offered customers a 2.1
14 caliper, 48 gram product to compete with Koehler's
15 KT48 product. However, I've been told by converters
16 that this new Appleton product is available only on a
17 special order basis and we don't know if Appleton has
18 made any meaningful sales yet of their 48 gram
19 product.
20 Appleton made no product announcements as it
21 normally does with a new product.
22 To the best of my knowledge Kanzaki, the
23 other U.S. producer, does not offer a standard point
24 of sale 48 gram, 2.1 caliper product.
25 As a result, with no competition from either

1 Appleton or Kanzaki, Koehler has basically had this
2 segment of the market to itself, with some competition
3 from Mitsubishi, the other German jumbo roll supplier.
4 So in addition to product innovation,
5 Koehler's gained business through product quality.
6 Koehler makes all of the base paper it coats. In
7 contrast, Appleton purchases a large portion of its
8 base paper from outside supplies and Kanzaki purchases
9 100 percent of its base paper.
10 In addition, Koehler focuses almost
11 exclusively on the lighter weight paper for point of
12 sale applications while Appleton and Kanzaki
13 concentrate on a broader line of thermal papers
14 including heavier weight papers for applications like
15 tickets, labels and text.
16 Koehler's focus on point of sale thermal
17 paper and its ability to control all of its paper,
18 both the paper making and coating stages, allows
19 Koehler to deliver a high quality, consistent product.
20 Many of our loyal customers have told us
21 they prefer to purchase our paper over Appleton or
22 Kanzaki because of Koehler's high quality. Converters
23 have also told us they like the way it prints and also
24 that it converts on their slitting machines more
25 smoothly.

1 In fact in the last 19 years of doing
2 business in the United States we have never paid a
3 claim for runnability or product performance.
4 Insufficient capacity at Appleton and
5 Kanzaki, evidenced by Appleton placing customers on
6 allocation at various times, and by Kanzaki
7 periodically entering and leaving the light weight
8 thermal paper market, as well as numerous complaints
9 about Appleton's poor quality in the second half of
10 2006 are additional factors that have increased our
11 sales here.
12 Finally, Koehler's sales have increased
13 worldwide, not just in the United States, reflecting
14 increasing worldwide demand for light weight thermal
15 paper.
16 For point of sale applications retailers
17 have discovered that the use of thermal paper in
18 thermal paper printers to generate receipts is more
19 cost efficient than using carbonless paper or plain
20 paper. I expect this trend to continue.
21 Appleton's witnesses this morning testified
22 that Appleton's prices are depressed because of price
23 undercutting by imports. That claim just doesn't make
24 any sense to me.
25 First, our prices have gone up since 2004

1 and also in the interim period.

2 Second, in the first quarter of this year

3 Kanzaki lowered prices by three to five percent,

4 seeking new business; and Appleton, Mitsubishi and

5 Koehler were forced to follow.

6 This past summer Koehler announced a five

7 percent price increase. Appleton and Kanzaki

8 initially matched our price increase but then Kanzaki

9 withdrew its price increase completely and Appleton

10 cut its price hike from five to three percent.

11 From time to time I've gotten calls from

12 converters who have asked Koehler to lower its price

13 to match Appleton's or Kanzaki's offer. For example,

14 "Good morning, Richard. Kanzaki is coming in two

15 percent lower than Koehler on the 55 gram. I will

16 need to cancel three trucks if we cannot get some help

17 on pricing. Thanks, and please advise."

18 We sent him an e-mail responding and

19 matching the offer.

20 So to the extent that there's a downward

21 price leader it's Kanzaki or Appleton and not Koehler.

22 The last point I'd like to discuss is the

23 difference between the product from China versus the

24 product from Koehler.

25 Koehler imports only jumbo rolls which it

1 sells to converters located throughout the United
2 States. Those converters add value not only by
3 slitting and packaging, but also by adding customer
4 ordered printing to the back for 40 to 40 percent of
5 what they produce.
6 My understanding is that none of the Chinese
7 product is imported in jumbo roll form, but instead is
8 imported in the slit and pre-packaged form ready to
9 use in a cash register.
10 Furthermore, as I mentioned above, Koehler
11 sells a significant and increasing share of its
12 product in 48 gram with a 2.1 caliper. In contrast,
13 the finished cash register rolls that come from China
14 are only 55 gram, 2.3 caliper, unprinted, and
15 therefore do not offer greater length possibilities or
16 freight savings like the lighter weight products do.
17 Thank you for your attention.
18 MR. FRUEH: Good afternoon. My name is
19 Willie Frueh and I am the Director of the Thermal
20 Paper Division at Papier Fabrique, August Koehler AG,
21 the largest German producer of the light weight
22 thermal paper that is the subject of this
23 investigation.
24 Koehler produces the base paper used in its
25 thermal paper production, coats the paper, and rolls

1 the product into jumbo rolls for sale to thermal paper
2 converters in Germany, the United States, and more
3 than 70 third country markets.
4 The quantity of Koehler's home market and
5 third country export sales have been significant
6 throughout the period of investigation and Koehler
7 anticipates that they will continue to remain
8 significant into the future.
9 As shown in Koehler's foreign producer
10 questionnaire response, the total quantity of exports
11 to third countries greatly exceeds the quantity of
12 sales to the United States during each year of the
13 period of investigation, and we expect this to
14 continue.
15 We expect sales to third countries to
16 continue to be strong because many third country
17 markets are more attractive to Koehler than the U.S.
18 market. For example, prices in the U.S. are lower
19 than prices in most of Koehler's other major export
20 markets.
21 In addition, demand is expanding greatly in
22 many other markets, particularly in Europe. For these
23 reasons we expect our third country shipments to
24 remain at least as strong as they have been in recent
25 years and more likely increase.

1 In addition, Koehler's operating at full
2 capacity and therefore is not likely to increase its
3 exports to the U.S. because in order to do so it would
4 need to abandon some other markets or customers. We
5 are unwilling to abandon other markets or customers
6 for the reasons discussed above which make sales to
7 other markets more attractive than sales to the U.S..
8 In fact Koehler has been turning down some
9 light weight thermal paper business in the U.S.
10 throughout 2007. Also several months ago Koehler
11 budgeted for a decrease in light weight thermal paper
12 sales to the U.S. in 2008.
13 Koehler has been able to succeed in all
14 markets not because of our price but because our
15 quality generally exceeds that available from other
16 light weight thermal paper producers. We produce all
17 of our base paper which allows us to strictly control
18 the quality of the base paper. This translates into
19 increased quality in the finished light weight thermal
20 paper, particularly with respect to the consistency
21 and the thickness of the paper. Also Koehler coats
22 its light weight thermal paper using a curtain coater
23 which allows for the application of the coating in the
24 most consistent way possible.
25 The strict control of Koehler's paper making

1 and coating operations result in high quality and
2 consistent light weight thermal paper. Because of
3 this our customers repeatedly tell us that our light
4 weight thermal paper works better in slitting
5 machines.
6 In addition, Koehler's light weight thermal
7 paper has better imageability than comparable
8 products. This means that the point of sale receipt
9 initially has a darker print tone and retains the
10 image at a higher quality for a longer period of time
11 than other non-top coated thermal paper product.
12 Thank you for this time.
13 MR. GRANHOLM: Mr. Carpenter, ladies and
14 gentlemen, good afternoon. My name is Donald
15 Granholm. I am Vice President of Supply Chain
16 Management for Nashua Corporation, a major
17 manufacturer and marketer of both printed and non-
18 printed point of sale transaction roles. Nashua is a
19 NASDAQ traded company with nearly $270 million of
20 total revenue in 2006.
21 In addition to converting light weight
22 thermal paper point of sale roles, Nashua is also a
23 manufacturer and marketer of labels and specialty
24 papers. We supply labeling products for industrial,
25 transportation, and retail applications. We employ

1 approximately 750 people, all of them here in the
2 United States.
3 As a major producer of point of sale
4 transactional roles, Nashua purchases light weight
5 thermal papers in the form of jumbo rolls. We perform
6 printing, slitting and packaging operations as
7 specified by our customers. Then we market and
8 distribute those small rolls as finished goods.
9 Nashua performs these converting operations at
10 company-owned locations in both Tennessee and
11 California.
12 Nashua sells finished transactional rolls
13 directly to final users such as major retailers who
14 use the rolls in their point of sale registers,
15 indirectly through distributors, and through major big
16 box types of office supply wholesalers.
17 Nashua purchases jumbo rolls from both U.S.
18 and German suppliers including Appleton, Koehler and
19 Mitsubishi. The value-added by Nashua during its
20 converting operations is estimated to range between 35
21 and 55 percent with printed roll products generally
22 having a higher value added than non-printed products.
23 Approximately 25 to 35 percent of Nashua's
24 business in converting light weight thermal paper
25 includes some type of printing operation such as pre-

1 printing a retailer's logo perhaps on the back of the
2 receipt.
3 I'm going to interrupt my prepared statement
4 just for a moment. Since earlier the Commission heard
5 some remarks addressing the relative value add by the
6 makers of the paper versus the converters, and also
7 I've gauged interest by the staff here in the business
8 we're in, and I don't often get a chance to talk to
9 interested people in our business, let me just pull up
10 a receipt I got yesterday here in D.C.. This is a
11 receipt from a major office wholesaler.
12 The value added for the paper producers is
13 of course the piece of paper itself and kind of what's
14 happened on the front. The thermal coating's been
15 used to apply the transactional information for my
16 purchase on the receipt. This is certainly a
17 necessary condition to sell this paper to this
18 retailer, but it's not sufficient. It's not
19 sufficient.
20 In order to complete the value equation and
21 for the retailer to buy this type of material, on the
22 back some other things have to happen. Here's where
23 the value add by the converter takes place.
24 You can see there's multi-color printing on
25 the back of the receipt and you may not be able to see

1 it from where you're sitting but I'd be happy to show
2 it to you at your convenience, there is a special
3 security printing section on here. If you scratch the
4 security printing it changes color and it's a way for
5 the retailer to verify that this is an original, not a
6 duplicate, and a perfectly valid receipt so the
7 customer can get his or her refund.
8 That's a little bit of the difference
9 between where the value add comes. Certainly a
10 thermal application is necessary, but in many cases
11 not sufficient for us to sell anything.
12 The U.S. market for thermal coated
13 transaction rolls has been growing as retailers and
14 other users of transactional receipt printers move
15 away from carbonless and other types of impact
16 printers to faster thermal printers. From 2004
17 through today Nashua has at various times purchased
18 jumbo rolls of light weight thermal paper from both
19 domestic and foreign suppliers. Multiple factors
20 enter into Nashua's sourcing decisions. Price is
21 certainly one of those factors, but it's not to the
22 exclusion of the other ones.
23 Non-price factors critically relevant to our
24 decision involving thermal paper include first,
25 product availability. To assure consistent

1 availability of sufficient quantities of thermal paper
2 Nashua buys from multiple suppliers. During the
3 periods in question domestic suppliers were, at times,
4 unable to meet Nashua's volume requirements. These
5 instances of restricted purchase quantities and missed
6 shipping dates occurred during the late third and
7 early fourth quarters. These are critical production
8 times for Nashua to provide our customers with the
9 transactional rolls they need during the peak retail
10 season of the year.
11 Second, trim optimization. Koehler and
12 Mitsubishi are willing to sell jumbo rolls in exact
13 widths specified by Nashua allowing trim waste during
14 the conversion process to be minimized. Domestic
15 producers have required Nashua to purchase multiple
16 role widths so as to trim out their own mill rolls.
17 This is a suboptimal purchasing and production
18 alternative for Nashua. Trim optimization helps lower
19 our manufacturing costs and helps us to remain
20 competitive in the retail market.
21 Third, product quality or runnability.
22 Products provided by Koehler and Mitsubishi provide
23 greater converting efficiency than domestic products.
24 Nashua achieves a higher yield or productivity rate in
25 our converting operations from rolling Koehler or

1 Mitsubishi product as opposed to running domestically
2 produced papers. Again, this helps us reduce our
3 manufacturing costs and increase our competitiveness.
4 Fourth, product uniqueness. Only German
5 based suppliers offer thermal paper with 2.1 mil
6 caliper and 48 gram basis weight, a product that
7 besides providing greater converting efficiency is
8 preferred by some of Nashua's customers.
9 Fifth, desire for multiple supply sources.
10 As a procurement strategy Nashua strives to source key
11 purchased products from multiple suppliers. With the
12 increasing consolidation of the U.S. paper industry in
13 general and the market for jumbo rolls of light weight
14 thermal paper in particular, it is essential that
15 Nashua include foreign producers within our stable of
16 suppliers for an item as important to Nashua's
17 business as is light weight thermal paper.
18 With regard to competition on the basis of
19 price. Since January 2004 U.S. producers have during
20 certain times increased their prices to Nashua and
21 during other times reduced their prices. In a similar
22 manner prices quoted to Nashua by foreign suppliers
23 have moved upwards during some periods and downwards
24 during others. While Nashua does not know the
25 motivations or reasons that underlie specific pricing

1 decisions of either domestic or foreign producers, in
2 our experience it has been most often the case that
3 the German producers of light weight thermal paper
4 issue price increase notices in advance of such
5 notices from domestic producers. As recently as
6 September this year, Nashua has seen foreign producers
7 of jumbo rolls be the first to give notice of a price
8 increase.
9 In conclusion, Nashua views the market for
10 jumbo rolls of light weight thermal paper as being
11 global in scope. In order to be competitive in the
12 market for our finished goods we need to have fair and
13 even-handed access to the full spectrum of raw
14 materials available in the global marketplace. The
15 markets for our products are highly competitive and
16 our ability to effectively compete in those markets is
17 critical to our success.
18 Foreign producers of jumbo rolls compete on
19 the basis of product innovation, product quality,
20 manufacturing efficiency, as well as price. Their
21 presence in the U.S. market in turn makes U.S.
22 producers stronger competitors.
23 Nashua thanks the Commission for the
24 opportunity to present our views in what we consider
25 to be a very important case.

1 I'll be happy to try to answer any questions
2 you may have.
3 MR. SANDT: Good afternoon. My name is
4 Roger Sandt. I'm the CEO of Sandt Products,
5 Incorporated. We are a strong, healthy, but a lot
6 smaller competitor than the people that you see at the
7 table, but we co-exist and manage to get our share of
8 the business.
9 Sandt Products purchases light weight
10 thermal in jumbo rolls and performs printing, slitting
11 and packaging operations in order to produce finished
12 rolls suitable for use in business machines such as
13 retail register tapes.
14 Depending largely on whether we are printing
15 the merchandise, our value added ranges from about 25
16 percent to 100 percent of the value of the input jumbo
17 roll.
18 We have a substantial slitting, printing,
19 and packaging equipment capital base as well as having
20 skilled labor to run these machines.
21 With respect to light weight paper, Sandt
22 Products generally purchases exclusively 48 gram
23 merchandise, and primarily purchases from Koehler.
24 Until 2003 we purchased exclusively 55 gram
25 merchandise and our primary source was Appleton.

1 However, at the end of that year Appleton informed us
2 that because of an allocation it would supply us with
3 less paper in the upcoming year than they had in the
4 previous year. The amount of paper Appleton offered
5 to continue supplying us would not meet the needs of
6 our then current customer base and leave no room for
7 growth.
8 Therefore, we switched to Koehler as our
9 main supplier in order to meet our needs.
10 Initially we purchased 55 gram from Koehler,
11 but eventually switched to 48 gram when it was
12 introduced about two years ago, when we realized the
13 advantages of 48 gram, both in the potential for
14 longer footage rolls and the decrease in shipping
15 weight.
16 We still occasionally purchase some 55 gram
17 merchandise from both Kanzaki and Appleton when faced
18 with critical needs, but prefer not to mix 48 gram and
19 55 gram thermal paper because our customers will not
20 accept variation in the product that we supply to
21 them. Therefore we now focus our light weight thermal
22 purchases on 48 gram and buy 55 gram only when
23 absolutely necessary.
24 We have been unable to find a domestic
25 source for 48 gram merchandise. Sandt Products is a

1 regular customer of Appleton's 80 gram merchandise
2 which is not subject to this investigation and has
3 regular contact with Appleton sales people. We have
4 made clear to Appleton that we are not interested in
5 purchasing 55 gram paper but in the event they began
6 making 48 gram paper with a 2.1 caliper we would be
7 very interested in having an alternative source for
8 that product.
9 We have made this intention clear numerous
10 times over the past two years. Appleton is well aware
11 of our interest in the 48 gram paper. Only recently,
12 and it was in August, a new sales representative left
13 us samples of both the standard, what they call
14 Appleton 400 2.3 which is a 55 gram paper; and a 48
15 gram 2.1. There was no announcement, no fanfare.
16 This particular sales person did not know our business
17 that well, but we assured him that we were still
18 interested in purchasing the 48 gram.
19 To my knowledge there has been no
20 announcement, sales follow-up, or we have not received
21 any pricing on this product. Therefore we don't think
22 it's generally available.
23 We are an existing Appleton customer. Our
24 company has made it clear that the 48 gram is the
25 paper that we wish to purchase and to date we don't

1 know its availability to us.

2 Thank you, and I would be glad to answer any

3 questions.

4 MR. ENDSLEY: Good afternoon. My name is

5 Doug Endsley and I'm the President of Register Tapes

6 Unlimited, Inc., which is the largest producer in the

7 country of register tape for grocery stores with full

8 color printed advertising on the back.

9 RTUI is also a converter of thermal paper.

10 RTUI purchases thermal paper in jumbo rolls and

11 performs printing, slitting and packaging operations

12 in order to produced finished rolls suitable for use

13 as register tape in grocery stores.

14 Roughly 90 percent or RTUI's business

15 includes printing. For the printed tapes that we

16 sell, I estimate that our printing, slitting and

17 packaging operations are equal in value to the jumbo

18 roll costs we purchase. In other words, when we sell

19 our finished product it's for roughly double what we

20 pay for the jumbo roll.

21 The value added for this merchandise is so

22 high because it requires a significant capital

23 investment to operate a converting and printing

24 operation such as RTUI's and also a significant

25 investment in the training and education of our

1 employees. A significant amount of technical
2 expertise is required to operate the machinery.
3 For example, a printer must serve a five-
4 year apprenticeship in order to be qualified to run
5 one of our printing presses. Employees also receive
6 on the job training for at least six months before
7 operating the slitting machines.
8 In the last two years we've built a new
9 facility with a total value of our investment
10 including equipment of approximately $20 million. We
11 spend $19 million a year in labor costs. We have 350
12 employees and sales associates.
13 Lightweight thermal paper is a growing
14 market. RTUI's business has grown 700 percent in the
15 past six years and we anticipate growing further as
16 customers continue to transition to thermal paper from
17 carbonless or other paper.
18 RTUI purchases its light weight thermal
19 paper primarily from Koehler and we do so for reasons
20 other than the price. Koehler has been a long-term
21 supplier to RTI.
22 About 10 years ago Appleton offered to sell
23 us light weight thermal paper at a price substantially
24 lower than what we were paying at Koehler. I decided
25 to make the switch at Appleton and sever the

1 relationship with Koehler. Before the first orders
2 even shipped, however, Appleton called to let me know
3 that they were putting us on allocation due to tight
4 supplies. The orders were never shipped, so after
5 losing my new supplier before receiving a single pound
6 of merchandise, I was forced to return to Koehler and
7 beg for paper.
8 Koehler was also operating on a tight supply
9 and was not able to ship right away, but began
10 supplying as soon as it was possible. I've been a
11 loyal Koehler customer ever since.
12 RTUI has contracts to provide tape to over
13 5,000 grocery stores. Failure to provide tape timely
14 would result in breaching our contracts with these
15 chains.
16 Another reason RTI purchases Koehler light
17 weight thermal paper is its superior quality. For
18 example, RTUI Pressman prefer color paper because they
19 tell us it takes the ink better and produces a better
20 print.
21 I used to get complains from printers when
22 we supply them with other paper. Although Koehler is
23 RTUI's primary source of paper, we occasionally
24 purchase from domestic suppliers when faced with short
25 supplies.

1 Sometimes Appleton agrees to supply us, and
2 sometimes they do not. For example, about a year ago
3 I tried to purchase from Appleton but was rejected.
4 Not enough supply. Appleton told me they were not
5 adding any new customers at that time.
6 I cannot run a business using a supplier
7 that decides sometimes to sell and sometimes to not.
8 For that reason, I've not purchased thermal paper from
9 Appleton in over 18 months.
10 Historically the prices of Koehler
11 merchandise have been nearly identical with one or two
12 percent to the similar domestic merchandise that we
13 have occasionally purchased. However, recently
14 Kanzaki has been offering prices below either Koehler
15 or Appleton to the extent that if there is a downward
16 price leader, today in my experience it's Kanzaki.
17 Listening to earlier testimony, I got a
18 sense that prices haven't escalated. Since the fourth
19 quarter of 2003 through January of this year, prices
20 have went up 20 percent. Now they have fallen back 7
21 percent since then, but 20 percent in a three and a
22 half year timeframe I think is probably historic.
23 Thank you.
24 MR. SCHWARTZ: Good afternoon. My name is
25 Steve Schwartz. I'm the President and CEO of Rite-

1 Made Paper Converters, Incorporated, and I'm here
2 today to represent Rite-Made at this proceeding.
3 Rite-Made is a 100 percent employee-owned company and
4 among the largest producers of converted small roll
5 thermal paper products in the United States.
6 As I looked around this morning, I saw
7 representatives from a couple of old friends --
8 Appleton and Koehler. Appleton, Koehler and Kanzaki,
9 though not represented here, have all been long term
10 partners of Rite-Made. I want to make it clear, I
11 have no axe to grind. Rite-Made continues to purchase
12 thermal paper products from both Appleton and Kanzaki
13 in addition to Koehler and Mitsubishi.
14 However, in the fall of 2006 I had to reduce
15 purchases of light weight thermal paper from Appleton
16 for certain quality reasons that I will discuss
17 shortly.
18 I value Rite-Made's relationship with both
19 Appleton and Kanzaki, but I am here to testify today
20 because continued access to imported German jumbo roll
21 light weight thermal paper is essential to Rite-Made
22 for various non-price reasons.
23 Rite-Made operates three plants in the
24 United States. We have about 100 full-time employees,
25 a number which has increased steadily over the years.

1 In 2007 our revenues will approach $50
2 million. We have invested millions of dollars in
3 increasingly sophisticated equipment to produce plain
4 and imprinted light weight thermal paper in recent
5 years.
6 In 2007 alone we have invested or committed
7 to invest $1.7 million in new slitting and printing
8 equipment and broken ground on a new headquarters and
9 manufacturing facility in Kansas City with a cost of
10 about $7 million.
11 In addition to investing in new, modern,
12 highly efficient manufacturing equipment, we are
13 experiencing significant growth in the demand for
14 printed products. Printed products currently account
15 for about 25 percent of our light weight thermal
16 sales, but it is the fastest growing segment of our
17 business.
18 In regard to the focus of this proceeding, I
19 believe it is very important for the Commission to
20 distinguish between the subject merchandise that is
21 imported from Germany versus the merchandise that is
22 imported from China. And I would point out, we have
23 not imported any finished goods from China.
24 The imported German product is all jumbo
25 rolls which is sold exclusively as a raw material for

1 conversion into small rolls. The Chinese product, on
2 the other hand, is to my knowledge all imported as
3 small rolls and is not a raw material that can be used
4 by converters.
5 In addition, to my knowledge, the Chinese
6 merchandise is neither OEM tested nor approved, while
7 the German product is.
8 In short, it's my feeling the German imports
9 which are raw materials do not compete directly with
10 the Chinese imports.
11 Rite-Made began purchasing light weight
12 thermal paper from Appleton, Koehler and Kanzaki
13 nearly 20 years ago. Both Appleton and Koehler have
14 been important suppliers of this product. Over the
15 years our purchases from Appleton have grown fairly
16 steadily, however beginning in May of 2005 Rite-Made
17 began experiencing various problems slitting the
18 Appleton paper and also receiving complaints from
19 customers with respect to the image quality of
20 Appleton light weight thermal paper.
21 These problems continued until the fall of
22 2006. The main problems in slitting were weaving of
23 the paper during slitting and a build-up of a dusty
24 film on the rollers of some of our slitting equipment.
25 These problems resulted in excessive waste and

1 significant reductions in our production efficiency.
2 Throughout this period of about a year and a
3 half, however, Rite-Made continued purchasing some
4 Appleton light weight thermal paper and did all it
5 could to work cooperatively with Appleton to resolve
6 the problem. Rite-Made incurred substantial expense
7 during that time attempting to resolve these problems.
8 Finally, after a year and a half of
9 continuing problems and substantial expense, in the
10 fall of 2006 we had no choice but to modify our
11 sourcing which resulted in a reduction of our
12 purchases of light weight thermal papers from Appleton
13 at that time.
14 In addition, it is important that this
15 Commission understand that it is vital that Rite-Made
16 have multiple dependable sources of any raw material
17 including light weight thermal paper in order to
18 protect against supply disruption or other unforeseen
19 problems such as the Appleton quality issues discussed
20 previously.
21 While we have purchased light weight thermal
22 paper in small quantities from Kanzaki over the years,
23 Kanzaki, in our opinion, has never been committed to
24 the light weight thermal paper market and therefore we
25 do not consider them to be a reliable ongoing source

1 for Rite-Made.

2 Domestically Appleton is the only source

3 that has been consistently committed to the light

4 weight thermal paper market. Therefore it is critical

5 to Rite-Made that its access to German light weight

6 thermal paper continue.

7 I would also like to point out, there are

8 those who would like you to believe that the decision

9 as to where to source light weight thermal paper is

10 driven entirely by cost, however in reality various

11 non-price factors also drive Rite-Made's purchasing

12 decisions. In fact in the long term the cost of jumbo

13 rolls of light weight thermal paper is not in and of

14 itself critical to Rite-Made because this cost is

15 passed through to Rite-Made's customers as part of the

16 final product cost.

17 Instead, our sourcing decision is based on a

18 combination of reliability of supply, consistency in

19 quality, and price.

20 To the extent that pricing is relevant it is

21 important to note that earlier this year following a

22 general increase in the price of light weight thermal

23 papers in the fall of 2006, Kanzaki apparently seeking

24 to increase sales at that time of light weight thermal

25 papers offered to supply their light weight thermal

1 paper at below the then-existing general market price
2 level. The effect of this action was to trigger price
3 reductions by Appleton and Koehler in order to match
4 this offering.
5 I thank the Commission for your time and
6 would be glad to answer any questions.
7 MR. JAHNS: Good morning. My name is Falk
8 Jahns and I am the Area Sales Manager for North
9 America for Mitsubishi HiTec Paper GmbH. I have held
10 this position with Mitsubishi for approximately five
11 years and have been in the paper industry for more
12 than 10 years. Based on my experience I believe that
13 I can speak to several of these issues that have been
14 raised in this investigation of light weight thermal
15 paper and can also speak to Mitsubishi's experience in
16 this market.
17 Mitsubishi was something of a late entrant
18 into this market and began shipping light weight
19 thermal paper to the United States in 2000. Since
20 2004, though, our shipments to the United States have
21 remained constant. As reflected in our foreign
22 producer questionnaire response, our 2006 shipments
23 dipped slightly, but we expect that our full year 2007
24 exports will be essentially unchanged from prior
25 years. This stable export quantity comes at a time

1 when the U.S. market for light weight thermal paper is
2 growing.
3 While no formal consumption figures are
4 published, industry participants estimate that the
5 U.S. market for light weight thermal paper is growing
6 at about 10 percent a year as new users are found for
7 thermal paper and as carbonless paper declines in
8 popularity.
9 Like Koehler, 100 percent of our light
10 weight thermal paper exports to the United States are
11 of jumbo rolls which are sold exclusively to
12 converters for the production of converted rolls.
13 We have never sold converted rolls in the
14 United States and we do not compete against converted
15 rolls in the U.S. market. While we do compete against
16 Appleton and Koehler's jumbo rolls product, but to my
17 knowledge we have never competed against import of
18 light weight thermal paper from any Chinese producer.
19 They simply do not sell jumbo rolls of light weight
20 thermal paper in the U.S. market.
21 Furthermore even our competition with
22 Appleton is somewhat limited as we each focus on
23 different products in the U.S. market.
24 Like Koehler, the majority of our light
25 weight thermal paper exports since 2004 have been of a

1 product with a basis weight of 48 grams per square
2 meter. By contrast, Appleton principally markets and
3 sells a 55 gram product.
4 In our experience, customers generally tend
5 to prefer our product or another for reasons of cost,
6 performance or image, and the two products generally
7 do not compete against each other in the market.
8 As to pricing, Mitsubishi is a mid-level
9 player in the U.S. market and definitely smaller than
10 market leaders like Appleton and Koehler. As such,
11 Mitsubishi does not have the market presence to be a
12 price leader and our consistent export volumes suggest
13 that we have not aggressively undersold the market to
14 gain market share.
15 Finally, we are surprised that Appleton is
16 claiming that its production facilities are under-
17 utilized or that it lost sales opportunities in the
18 U.S. market. In August 2006 we received a written
19 request from Appleton to supply it with 10,000 metric
20 tons of light weight thermal paper per year through
21 2008 for sale under the Appleton brand. We can only
22 assume that Appleton made this request because it was
23 unable to satisfy customers from its own production
24 facilities. Mitsubishi declined this inquiry.
25 This request which we will submit in our

1 post-conference brief, undermines Appleton's claim to
2 have underutilized production capacity.
3 Thank you.
4 MR. DOUGAN: Good afternoon. My name is Jim
5 Dougan from Economic Consulting Services and I'm here
6 today on behalf of the German Respondents.
7 There is much about Petitioner's case that
8 simply does not add up. The panel this afternoon has
9 provided substantial evidence to rebut Petitioner's
10 causation arguments with respect to imports from
11 Germany. Other information that is publicly available
12 on the Petitioner's business contrasts with the data
13 presented to the Commission and raises questions about
14 the evidence provided in support of Petitioner's
15 injury case.
16 First, there is an inconsistency between
17 Petitioner's characterization of the health of the
18 thermal paper business and the documents presented to
19 the Commission and in their reporting --
20 MR. CARPENTER: Excuse me one second.
21 Mr. Dorn?
22 MR. DORN: Can we get a copy of the slides?
23 MR. CARPENTER: Do you have copies?
24 MR. DOUGAN: They're at the table.
25 MR. BERNSTEIN: Have they been presented to

1 staff? I was --

2 MR. CARPENTER: Oh, uh huh.

3 MR. BERNSTEIN: -- presentation was going on

4 and it's going on behind my back.

5 MR. DOUGAN: Sorry about that. That's my

6 mistake.

7 I've only gotten to the title page so far.

8 MR. SILVERMAN: Can we get the 30 seconds

9 back?

10 MR. CARPENTER: Yes, we stopped the clock.

11 (Laughter).

12 MR. CARPENTER: Please proceed.

13 MR. DOUGAN: Thank you.

14 There is an inconsistency between

15 Petitioner's characterization of the health of their

16 thermal paper business in the documents presented to

17 the Commission and in their reporting to the SEC and

18 in other public statements. Please refer to Exhibit

19 1.

20 As you can see from the slide, Appleton has

21 been consistently profitable at the operating income

22 level in their thermal paper business since the

23 beginning of the POI. This is a very different story

24 from the results presented in the petition and in

25 Appleton's producer's questionnaire.

1 Now Respondents recognize that Appleton's
2 thermal paper reporting segment covers a broader range
3 of merchandise that is included within the scope of
4 the petition, but nowhere in its public filings does
5 it make a distinction between the two alleged market
6 segments of thermal paper, and in particular it does
7 not make reference to the allegedly injurious
8 conditions in the light weight market.
9 Moreover, no mention is made of unfairly
10 traded imports as a cause for any observed decline in
11 performance, even though Mr. Schonfeld's testimony
12 this morning alleged that such unfair pricing preceded
13 the relatively recent entry of imports from China.
14 Second, there is Appleton's announcement in
15 January 2007 of its decision to invest $100 million in
16 light weight thermal paper capacity at its West
17 Carrollton mill. Please see Exhibit 2 for excerpts
18 from Appleton's press release announcing the project.
19 The significance of this investment is
20 underscored by the fact that it is the only capital
21 investment of any kind made by Appleton since 2003 for
22 which it has issued a press release. This is Appleton
23 telling the world that they are bullish on the thermal
24 papers business. Again, this outlook seems surprising
25 when compared to the financial results presented in

1 their questionnaire.

2 To fully appreciate the magnitude of this

3 investment, however, it is helpful to have further

4 context about Appleton's historical capital

5 investments as well as its overall business situation.

6 Please refer to Exhibit 3.

7 Capital expenditures for Appleton Papers as

8 a consolidated entity in fiscal years 2004, 2005, and

9 2006 were 36.5 million, 32.5 million and 36.5 million

10 respectively. Please note, these are capital

11 investments made for the consolidated organization

12 which includes operations in the other coated and

13 security paper segments, the company's performance

14 packaging division, and its British subsidiary.

15 Collectively, these businesses account for over three-

16 fourths of Appleton's operations as measured by 2006

17 net sales with total thermal paper segment

18 representing less than one-fourth.

19 By definition, light weight thermal paper

20 would account for even less than one-fourth. Thus the

21 numbers in this chart represent a comprehensive view

22 of all capital expenditures made by the broader

23 organization.

24 Compare those numbers covering all of

25 Appleton's business with the $100 million investment

1 in one facility for its light weight thermal paper
2 segment alone. Clearly, such an investment simply
3 dwarfs any capital expenditure made by this company in
4 recent history and consequently was unlikely to be
5 approved without extensive return on investment
6 calculations and other financial analysis. That such
7 an investment would be approved in January 2007, given
8 the 2004 to 2006 results reported in Appleton's
9 questionnaire, doesn't seem to make sense.
10 To understand why, additional context is
11 also helpful. At fiscal year end 2006 Appleton had
12 approximately $20 million in cash on its balance
13 sheet. Given this, relative to the planned
14 investment, it stands to reason that the company
15 intended to raise the investment funds from external
16 sources and presumably Appleton management had
17 something in mind when they approved the project and
18 announced it to the world.
19 Here's where another wrinkle comes in.
20 Appleton is a heavily leveraged company and operates
21 under debt covenants that restrict its management's
22 flexibility in selecting and financing new projects.
23 As of December 2006, Appleton was carrying
24 approximately $523 million in long term debt. Please
25 look at Exhibit 4.

1 This works out to a debt to equity ratio
2 over four, meaning that its debt is more than four
3 times its equity and represents 82 percent of total
4 capital. These are indicators of a highly leveraged
5 company.
6 Moreover, Appleton has spent approximately
7 $50 million a year in interest expense in each of the
8 last three fiscal years which equates to approximately
9 five percent of total net sales.
10 By comparison, at the end of 2006, Nashua
11 Corporation, the only other U.S. thermal paper
12 producer for which financial data were publicly
13 available, carried $4.5 million in debt with a debt to
14 equity ratio of effectively zero and interest expense
15 amounting to less than one percent of net sales. In
16 other words, Nashua has comparatively little debt.
17 The point of this comparison is not to pass
18 judgment on how Appleton aligns its capital structure,
19 but rather to point out the significance of its debt
20 compared to another thermal paper producer. With
21 Appleton's level of indebtedness come strict
22 requirements from lenders in the form of debt
23 covenants. If Appleton defaults on any of these
24 covenants it could require pre-payment of the amounts
25 outstanding which, as you can see from the slide,

1 could be a very sizeable sum.

2 These covenants also restrict Appleton's

3 ability to meet capital expenditures which under the

4 covenants are limited to $50 million in any one fiscal

5 year. Therefore, to successfully complete its West

6 Carrollton project as announced by 2008, Appleton

7 would need to use its entire CapEx allowance under the

8 covenants for this one facility for this one line of

9 business.

10 Given the situation, we ask the staff what

11 is the likelihood that Appleton management and

12 debtholders would in January 2007 have approved an

13 investment of this magnitude and strategic

14 significance for a business returning the 2004 to 2006

15 results shown in Appleton's questionnaire?

16 Thank you for your time.

17 MS. JEONG: Good afternoon. My name is Rosa

18 Jeong. I'm with the law firm of Greenberg Traurig.

19 We're here this morning on behalf of Paper Resources,

20 LLC which is an importer of Chinese thermal paper in

21 Shanghai Hanhong Paper company which is an exporter of

22 Chinese thermal paper. Also with me this afternoon

23 are Mr. Christopher Burns of Paper Resources and

24 Philippe Bruno of Greenberg Traurig.

25 Mr. Burns is here to provide you with

1 details concerning the thermal paper business and the
2 products that he imports from China. We believe that
3 Paper Resources accounts for the great bulk of Chinese
4 imports which makes Mr. Burns' testimony particularly
5 informative for the Commission staff.
6 On behalf of our clients I'd like to first
7 thank the Commission staff for the time for this
8 opportunity.
9 Among the scores of recent cases filed with
10 the Commission recently against Chinese imports this
11 case struck us as almost refreshing. Why? For once,
12 China is not the primary culprit. Chinese goods have
13 not been in the U.S. market for most of the period of
14 investigation. There were no Chinese imports in 2004
15 and almost none in 2005. Commercial shipments only
16 started in 2006.
17 What's shown by the data collected by the
18 Commission and as Mr. Schonfeld of Appleton testified
19 this morning, whatever problems the U.S. industry
20 suffers, they pre-date Chinese imports and cannot have
21 been caused by them.
22 Although it's become almost fashionable for
23 U.S. Petitioners to blame China for their problems, in
24 this case. Appleton is pointing their finger at the
25 wrong place. Even with the increase in 2007, Chinese

1 imports remain and will remain a very small part of
2 the market when compared to the overall market which
3 is projected to grow at a healthy pace.
4 As Mr. Burns will further discuss, imports
5 from China are all slit rolls which do not compete
6 with the jumbo rolls produced by Appleton. Appleton,
7 of course, knows this but claims that China is causing
8 problems by selling the downstream product directly to
9 their customers, i.e., the converters. This is not
10 true.
11 As Mr. Burns will testify, his customers use
12 Chinese imports to expand their national reach and
13 protect their markets.
14 Further, the record contains no real pricing
15 data that shows underselling by the Chinese product.
16 Appleton's claimed that price competition from Chinese
17 rolls causes an upstream price pressure on the jumbo
18 rolls, is simply unsupported.
19 Under these circumstances we believe that
20 the record shows no reasonable indication of present
21 material injury or a threat of material injury to the
22 U.S. thermal paper industry by reason of Chinese
23 imports and that the Commission should reach a
24 negative determination based on the preliminary
25 record.

1 However, should the Commission find it
2 necessary to proceed to a final phase of this
3 investigation, we submit that the Commission should
4 define a domestic like product to include all thermal
5 paper and not just paper weighing 70 grams per square
6 meter or less.
7 Based on the Commission's normal six prong
8 like product analysis, it's clear that the 70 grams do
9 not represent a clear dividing line between light
10 weight and heavy weight product. Rather the market
11 encompasses a continual product with a wide range of
12 weights and grades.
13 We believe that the analysis of thermal
14 paper industry as a whole will reveal a picture which
15 is very different from that portrayed by Appleton.
16 Thank you.
17 MR. BURNS: Good morning. My name is
18 Christopher Burns. I am the owner and managing
19 director of Paper Resources located in Norwalk,
20 Connecticut. We import and broker thermal paper.
21 I've been in the paper business for 16 years. The
22 last six have been focused on the thermal industry. A
23 hundred percent of the paper that my company imports
24 from China is imported from Hanhong Paper Company
25 which is located in China. We are the exclusive

1 distributor for Hanhong and they are a converter.
2 What I mean by a converter is they purchase jumbo
3 rolls from a paper producer, the print and slit them
4 or slit them into various widths and lengths. I
5 believe we are the largest importer of thermal paper
6 from China.
7 The paper Hanhong produces and we import is
8 to service the POS market. We sell to both converters
9 and distributors. We sell only full container
10 quantities and only on a made to order basis. We do
11 not inventory paper.
12 The majority of the paper we import is 55
13 gram slit or finished rolls in what has been defined
14 as light weight in this case. Over 90 percent of the
15 paper we import is produced to 3-1/8 inch wide. We do
16 buy and sell paper over 70 grams, but the vast
17 majority is 55 gram.
18 I'd like to point out thermal has many
19 markets in addition to POS, such as tickets, tags,
20 labels, lottery, and applications for the gaming
21 industry. Examples of products are airline boarding
22 passes, baggage tags, event tickets, kiosks, ATMs,
23 coupons, slot tickets and wholesale delivery receipts.
24 The total thermal market is roughly 225,000 tons of
25 which 52 percent is POS.

1 Market growth averaged 7.3 percent the last
2 12 years with six to eight percent forecast for the
3 next two.
4 I'd also like to emphasize there is no
5 bright dividing line between the light weight and
6 heavy weight market. I disagree 70 gram defines the
7 upper end of the light weight market. In my mind
8 there is only one market which is made up of a wide
9 range of weights and grades and which all compete for
10 the same applications.
11 I've talked this over with several of my
12 customers. All of them agree the market is not neatly
13 divided between under and over 70 gram. Heavier paper
14 is perceived to be more high end and is used where the
15 end user wants a more durable, substantial transaction
16 record. For example, most mass market retailers
17 demand 48 to 55 gram POS paper, but some high end
18 retailers specify a heavier POS paper to complement
19 their luxury image.
20 Over 70 gram can be used and is used in most
21 applications of lighter paper. For example, I sell 80
22 gram paper which is used for airline boarding passes,
23 but depending on availability, I can substitute 70 or
24 even 55 gram for the same application. If you compare
25 68 with 72, no one would be able to tell the

1 difference.

2 The majority of the companies in the thermal
3 paper industry including coaters, converters and
4 distributors are involved with the so-called light
5 weight and heavy weight papers. There is no
6 difference in the production process between heavy
7 weight and light weight paper. The difference between
8 light weight and heavy weight is the weight of the
9 base paper. Light weight and heavy weight paper is
10 coated in exactly the same manner. Heavier paper does
11 cost more on an area basis, but is roughly the same
12 cost on a per pound basis.

13 I started at Paper Resources two years ago
14 when fundamental changes became clear in the market.
15 First, as you hear earlier this morning, the order of
16 business is producers sell paper in jumbo rolls, the
17 converters slit the jumbo rolls into various widths,
18 lengths, and then package the rolls for sale. The
19 converter sells the rolls to distributors and end
20 users. Historically there were hundreds of different
21 widths, lengths, and packaging requirements depending
22 on the customer and the brand of printer installed.

23 In the past several years we have seen the
24 number of roll widths, lengths, and packaging
25 requirements consolidate primarily into one width, 3-

1 1/8 inch wide, four to six different lengths, and one
2 standard package. The 3-1/8 inch roll accounts
3 for over 90 percent of the slit roll market. This
4 consolidation into one size has transformed the POS
5 market into a commodity.
6 Another major factor is the growth in the
7 number of converting companies. There are over 42
8 converters competing in a market where 15 years ago
9 there were maybe 15. The growth in converting
10 capacity has outpaced the growth and demand through
11 sheer volume of converters and gains in converting
12 efficiency.
13 Converters and distributors have modified
14 their selling policies to help leverage
15 standardization in their favor. Historically paper
16 converting was a regional business and distribution
17 was a local business. Freight and communications
18 limited the geographical reach of converters and
19 distributors.
20 Today with better communications and
21 efficiencies in truck routing, converters have
22 expanded their geographical reach. UPS has allowed
23 distributors to sell national accounts out of one
24 facility or to drop ship products from the closest
25 converter to their customer. Converters are selling

1 more and more to the paper consumer which is pushing
2 the distributor out of the supply chain.
3 With the thermal business becoming more and
4 more national, more and more global, and more and more
5 competitive, converters and distributors are looking
6 outside the normal supply chain for an edge. This is
7 where we fit in.
8 For example, one of Paper Resources largest
9 customers is a regional converter. This converter has
10 national business that historically they would not be
11 able to fully service in-house at a profit. By
12 sourcing some of their requirements from China, the
13 converter was able to supply the national company at a
14 profit.
15 Additionally, many distributors are witness
16 to converters calling on their customers as a
17 converter tries to broaden their customer base. To
18 protect their business the distributors have looked to
19 alternative sources of supply to push back competition
20 from the converters.
21 In summing up our value to the market, we
22 sell our products based on quality, convenience,
23 reliability, and the prompt shipments our freight
24 advantages from China afford us. An example of our
25 freight advantage is we can ship a container from

1 China to Vegas for $3100. Freight from Michigan to
2 the same destination is $3600. Hanhong has allowed
3 our customers to expand or retain business they
4 otherwise might have lost. My customers tell me they
5 do not purchase on pricing advantages. In fact we had
6 three price increases in the last 18 months. We sell
7 on reliability, quality, availability, and our promise
8 not to compete with them.
9 I honestly believe Hanhong has not harmed
10 the market and most certainly has not harmed Appleton
11 whose business is fundamentally different from ours.
12 We do not compete with Appleton's business, we do not
13 import jumbo rolls, nor have we taken sales away from
14 Appleton. Rather we have helped protect and grow
15 their markets.
16 Thank you very much.
17 MR. SILVERMAN: That completes the
18 testimony.
19 MR. CARPENTER: Thank you very much, panel,
20 for your testimony. We appreciate so many witnesses
21 coming here today. It's been very helpful.
22 For the record, we will accept the exhibits
23 to the testimony of Mr. Dougan and will attach those
24 to the transcript.
25 (The exhibits of Mr. Dougan

1 were received into evidence.)
2 We'll begin the questions with Mr. Cassise.
3 MR. CASSISE: Good afternoon to everyone.
4 Thank you for your testimony. I do have a few
5 questions.
6 Just as points of clarification, both
7 Koehler and Mitsubishi have U.S. importing
8 subsidiaries that are the exclusive importers of the
9 parent company product. Is that a fair statement?
10 MR. JAHNS: Yes, that's correct for
11 Mitsubishi.
12 MR. GREENE: It's correct for Koehler as
13 well.
14 MR. CASSISE: So when we look at your U.S.
15 importers' questionnaires, combined that will
16 constitute all of the German imports into the United
17 States market.
18 MR. GREENE: Yes.
19 MR. EMERSON: Mr. Cassise, could I make one
20 clarification?
21 MR. CASSISE: Sure.
22 MR. EMERSON: the relationship between
23 Mitsubishi HiTec Papers and its importer is exclusive.
24 It's not quite the same corporate relationship that
25 you described in your question. The specific

1 relationship between the two companies is spelled out
2 in the questionnaire responses. But you mentioned
3 sort of parent and subsidiary. That's not exactly
4 right for the Mitsubishi companies that have
5 responded, but like I said, it's spelled out in the
6 questionnaire responses.
7 MR. CASSISE: Thank you, Mr. Emmerson. [sic]
8 This question is for anyone on the panel.
9 Is anyone aware of imports from any other country
10 besides China, Germany and Korea coming into the U.S.
11 market?
12 I see no one raising their hand. That's a
13 no. Okay, thank you.
14 I guess we should get into the technical
15 expertise, more detail of the technical expertise of
16 the converting process. Some of you have mentioned
17 some percentages of value added. I think Mr.
18 Granholm, you had mentioned some of the printing
19 operations that your firm conducts.
20 I was actually kind of curious for you to
21 explain a little bit more about the security printing
22 which I never knew existed on the back of a receipt,
23 but could you go through some of your firm's printing
24 operations and just kind of detail how much value
25 added you think that adds to your product?

1 MR. GRANHOLM: Certainly. I'll do my best.
2 In my statement I estimated that about 25 to
3 35 percent of our POS transaction roll business
4 involves some type of printing or value added
5 operation. That kind of flows up and down with our
6 success in the marketplace and seasonally as well.
7 In terms of printing capabilities, we have
8 the ability to print in multiple colors, to
9 incorporate custom logos or artwork on the back of
10 some of the receipts. We also have the ability to add
11 a security stripe or security printing. What happens
12 is there are certain words on the back of this
13 particular receipt I waved at you earlier that are
14 printed in a little different color. They're printed
15 in gray. When you rub it, it turns in to a different
16 color. so if you just ran a receipt through a xerox
17 machine and tried to return your TV from Circuit City
18 six times, it could verify that you don't have an
19 original receipt because they couldn't get the certain
20 printing to change colors.
21 That technology, that security ink, and the
22 application of it is made available to converters
23 under license. It's intellectual property that's
24 protected by a patent. So there's a considerable
25 value add for this type of converting operation. Of

1 course not all retailers choose to do that, but many
2 well known consumer brand names do.
3 MR. CASSISE: What firm owns the patents to
4 that technology?
5 MR. GRANHOLM: I don't know. I could get
6 back to you on that.
7 MR. CASSISE: That's fine.
8 Is it fair to say that the major retailers
9 would not buy your product if you didn't have that
10 printing technology available to them?
11 MR. GRANHOLM: I would say they're desirous
12 of it. The converters, this is just a Nashua
13 exclusive province, but the converters in the
14 industry, many of them have this capability. A good
15 number of them anyway have this capability. And we
16 solve a problem for the customer. We solve the
17 problem by adding to the value of the product in a
18 thermal print type of application.
19 MR. CASSISE: Again, this is for all of the
20 converters. I have in front of me a copy of
21 Appleton's public product list and on the bottom it
22 has its new product. It says new, the 48.2 gram per
23 square meter product, the Alpha 400-2.1. Has anyone
24 been offered this product?
25 One of you had mentioned the product that

1 you couldn't get it or there wasn't a sales follow-up,
2 but I would like any converter's experience with --
3 MR. SILVERMAN: What's the date of the
4 document?
5 MR. CASSISE: I printed this, oh, there is a
6 date on it. June 21, 2007.
7 MR. SCHWARTZ: I can address that question.
8 This is Steve Schwartz.
9 We did some testing in one of our facilities
10 for Appleton on that product in terms of slitting it,
11 and we have also purchased I believe one truckload of
12 that product.
13 MR. CASSISE: Mr. Schwartz, that wasn't the
14 product that you said you had the dusty film
15 experience with.
16 MR. SCHWARTZ: No. That was the 55 gram
17 product.
18 MR. GRANHOLM: Speaking for Nashua, I was
19 not aware that this product was in the marketplace. I
20 have spoken to an Appleton rep in the course of the
21 past year and that was not part of our discussion. I
22 was not made aware that this product was in the
23 market.
24 MR. CASSISE: Mr. Sandt, I'm looking at my
25 notes and I think it was you that had mentioned --

1 MR. SANDT: We're eager to have a second
2 source and we would welcome any further discussion on
3 it with Appleton, but as I mentioned, our knowledge of
4 it comes very casually. It came from samples being
5 dropped with us and then seen in the questionnaire.
6 But further than that, we've never been offered it,
7 which usually comes with a price, that's never been
8 offered to us.
9 MR. CASSISE: But you said that a sales
10 person did mention the product to you in a casual
11 manner.
12 MR. SANDT: I called our office this morning
13 just to make sure that, I was going to sit here and
14 tell you that I was unaware of it and we have a new
15 sales representative that doesn't know too much about
16 light weight thermal and he came in with samples of
17 both the current 55 gram and this other paper, but it
18 was never brought to my attention and we would have
19 pursued it perhaps a little bit more if it was. But
20 there has been no either overt or even normal sales
21 follow-up to sell us that and I can tell you that we
22 are, as I've mentioned, we've mentioned it numerous
23 times, both to Appleton and Kanzaki. When you have
24 this product, we'd be very interested in looking into
25 it.

1 MR. CASSISE: So none of the converters on
2 the panel have actually purchased this product.
3 MR. SCHWARTZ: This is Steve Schwartz. To
4 my knowledge we have purchased one truckload.
5 MR. CASSISE: What timeframe was that?
6 MR. SCHWARTZ: I wouldn't care to guess at
7 that. It was within I think the past three or four
8 months, but we would have that information available.
9 MR. CASSISE: Okay, thank you.
10 Mr. Burns, you had mentioned something
11 interesting, and I asked a similar question to the
12 panel this morning about the different machines, the
13 different point of sale machines and how different
14 slitters in the thermal transfer ribbons case had kind
15 of specialized in different, in a wide variety of bar
16 coding machines. According to your testimony the
17 point of sale machines, there's bene massive
18 consolidation very recently and there is basically one
19 standard width, one standard package. Could you just
20 elaborate and give me a little history lesson on that?
21 MR. BURNS: I think traditionally there were
22 a lot of different printers out there and everyone was
23 kind of fighting or the market share maybe like VHS
24 and Beta or the new HDDVD players. Who's fighting for
25 the standardization.

1 MR. CASSISE: Have the number of POS machine
2 manufacturers also consolidated? I'm assuming there
3 are less machines out there, but --
4 MR. BURNS: The three major ones would be
5 Aviant, Epson, Samsung are the three that I'm aware
6 of. I have a new Samsung printer in my office and it
7 prints just about everything. There used to be a lot
8 of different core requirements. There used to be a
9 lot of different widths, and there used to be a lot of
10 different lengths. We sell, again, I would say 95
11 percent of our volume is 3-1/8 inch wide and then it
12 comes down to certain customers like different
13 lengths. I would say that's more to keep the prices
14 in perspective with other things. Two hundred feet
15 versus 220.
16 MR. CASSISE: Any of the other converters
17 comment on this issue? Mr. Schwartz, Mr. Granholm,
18 Mr. Sandt? Has the number of specific specifications
19 gone down over the years? Has there been
20 specification consolidation, if you will?
21 MR. GRANHOLM: Don Granholm, Nashua. My
22 comments are based strictly on review of company
23 records, having not been in the industry for a decade,
24 but only relatively recent to the industry, but we
25 have fewer SKUs or part numbers today than we did in

1 the past, that's certainly true, and the preponderance
2 of the material we sell is as Mr. Burns described,
3 highly concentrated on a relatively small number of
4 different lengths and very small variants in the
5 width.
6 MR. SCHWARTZ: This is Steve Schwartz. I
7 would respond to that.
8 There has been a change and probably a
9 reduction. In the past, before the advent of thermal
10 technology, NCR dominated the equipment landscape and
11 every new machine that came out took a unique product
12 width. That was an after-market way to control that
13 market. But as we move to thermal technology there
14 are limited numbers of thermal print head
15 manufacturers, and there has been a reduction. But I
16 would strongly disagree with Mr. Burns' assessment of
17 the simplicity of the marketplace.
18 About 70 percent of our sales are in thermal
19 papers; 30 percent are not even in thermal papers.
20 They're in bonds or uncoated free sheet and
21 carbonless. And within the thermal, I would guess
22 about three-fourths of that 70 percent of that is in
23 some sort of 3-1/8 inch configuration, but there are a
24 great many other sizes and some of them are quite
25 important including a number in the 2-1/4 inch width.

1 So it is not quite this one size fits all
2 that has been presented.
3 Thank you.
4 MR. SANDT: This is Roger Sandt. I would
5 say the sizes have come down, however there is still a
6 variety. I certainly wouldn't generalize that this is
7 what we're going to have forever. Most of you
8 remember that you had a fax machine in your office and
9 you didn't like the paper that came from it. That's
10 the paper that we use to make POS rolls. That market
11 has completely changed. It uses cut size paper. And
12 I think we all have to be aware that there can be
13 changes and there will be changes in the industry.
14 There's ink jet printing that is somewhat
15 widespread where you have certain banks who put out
16 4,000 or 5,000 terminals. You get a lot of this and
17 the market changes now. You simply don't change a
18 cash register within a big chain like Federated
19 because it's a huge capital investment, but at some
20 time the machines will turn over and we don't know
21 what they are. We see little changes now, but we have
22 to remain very flexible.
23 MR. SCHWARTZ: Can I add one further
24 comment?
25 MR. CASSISE: Sure.

1 MR. SCHWARTZ: To give you some idea I think
2 of the complexity, we have a stock product offering of
3 about 100 products. This is thermal papers and non-
4 thermal papers. But the total data bank of products
5 that we manufacture is around 2,000 different
6 products. Many of those are very simple changes in
7 configuration -- lengths and so forth. But there are
8 a variety of widths, there are differences in core
9 specifications, differences in paper grades, there's
10 printing requirements, there are people that have
11 unique end of roll mark requirements, all kinds of
12 different types of security features which has barely
13 been touched on.
14 So this is a much more complex market than
15 has been presented in some aspects.
16 MR. CASSISE: Thank you.
17 Shifting gears, again, to mention the
18 thermal transfer ribbons. One of the things the
19 Commission looked at was the additional raw materials
20 that the converters use besides the jumbo rolls. In
21 that case it was things like the cores and the leaders
22 and the packaging materials.
23 Can the converters shed some light on what
24 additional raw materials you use in the production of
25 your final product? Of course not counting the jumbo

1 rolls.

2 Mr. Schwartz, would you like to start?

3 MR. SCHWARTZ: Sure. I think it's fairly

4 standard. You have cores, you have cartons, you have

5 certain materials to seal the ends of the rolls so

6 they don't come loose, there may be some kind of

7 internal packaging materials, you have labels.

8 Obviously if you move into printed products then you

9 get into a wide variety of inks, security inks, non-

10 security inks, and so forth.

11 Essentially that pretty much covers -- there

12 may be shrink packaging, that type of thing.

13 MR. CASSISE: If you give me a range, say

14 your low end products all the way to your high end

15 products with printing and fancy packaging, what would

16 be just the general percentage of the cost of those

17 additional raw materials of the final product?

18 MR. SCHWARTZ: I believe that information is

19 in the questionnaire I provided. I'm not sure I want

20 to try to quote that right off the top of my head. We

21 can certainly supply it.

22 MR. CASSISE: That's fine.

23 Also when you're briefing that issue, where

24 those items are sourced would be helpful as well.

25 Whether they're U.S. manufactured goods or imported as

1 well.

2 Is there a general consensus amongst the

3 converters how much a new converting facility would

4 cost to build?

5 MR. SANDT: I was just going to answer your

6 previous question by saying that you can minimize or

7 maximize the materials that we use, but there was a

8 time that you could get into this business on the

9 cheap. You can't. The equipment is very expensive.

10 People at this table have probably spent upwards of a

11 million dollars instead of $100,000 or less to do

12 pretty much the same thing. That's a cost that gets

13 thrown into the cost of doing business, as much as the

14 materials that go into it.

15 MR. CASSISE: So your answer to my question

16 would be a million dollars to start --

17 MR. SANDT: I'd rather have somebody else

18 answer. I'm not building a new plant.

19 MR. SCHWARTZ: I'll be happy to take a stab

20 at that and I think Doug probably has got good

21 information in it as well.

22 We're in the process of constructing a new

23 85,000 square foot headquarters facility in Kansas

24 City. We'll open in approximately one year.

25 If you were to build that from scratch and

1 install all of the equipment new, we would easily have
2 an investment in that of $10 to $12 million. Some of
3 that would be the structure and the balance would be
4 the equipment.
5 MR. CASSISE: That facility would be
6 dedicated to the production of this product?
7 MR. SCHWARTZ: Dedicated entirely, yes, to
8 the production of small rolled products of which light
9 weight thermal papers are the major item.
10 MR. CASSISE: Mr. Schwartz, while we're
11 talking about new facilities, how long would it take
12 you to train new employees to operate those splitting
13 machines in a productive manner?
14 MR. SCHWARTZ: In our printing department we
15 have a basic requirement to hire someone that they
16 have five years of commercial printing experience.
17 MR. CASSISE: That's the printers.
18 Actually, we could back up a moment. Those
19 are two distinct production processes in your
20 facility, correct?
21 MR. SCHWARTZ: Yes.
22 MR. CASSISE: So a printer, five years of
23 experience. How about the slitting machine? How much
24 experience or training would be required for that?
25 MR. SCHWARTZ: That would really vary by the

1 level of sophistication. We have machines, they're
2 the old machines which are being replaced which are
3 primarily manually operated, hand/eye coordination
4 type. You can virtually train somebody to run those
5 machines in three or four weeks.
6 MR. CARPENTER: Mr. Schwartz, would you turn
7 --
8 MR. SCHWARTZ: Sorry, my apologies. I can't
9 ever see the light.
10 Did everybody hear that answer or do I need
11 to repeat it?
12 MR. SILVERMAN: Can you repeat it for the
13 court reporter, please.
14 MR. SCHWARTZ: Yes. The amount of time to
15 train depends upon the level of sophistication of the
16 equipment.
17 The old manual slitters which are being
18 rapidly phased out within our operation, you could
19 take somebody with motivation and good hand/eye
20 coordination and they could be trained to run that
21 machine in about four weeks.
22 At the far end of the scale are the newest
23 levels of equipment. Appleton showed you a picture of
24 a slitter. There's actually an advancement beyond
25 that slitter that's called a fully automated dual

1 jennerjohn. We require that we have, the operators to
2 go into training for that type of equipment have three
3 years of successful experience, increasingly
4 successful experience in operating other equipment in
5 the plant.
6 These are quite sophisticated, computer
7 controlled, very different level of skills than the
8 manual equipment.
9 MR. CASSISE: Would that machine, the latter
10 machine you mentioned, be similar to the one that we
11 saw on the slide this morning?
12 MR. SCHWARTZ: It's actually two of those
13 machines that have been combined and then fully
14 automated so that this combined dual machine has been
15 automated and computerized so that it can be
16 essentially operated with two people.
17 The machine you looked at would also operate
18 with two people.
19 MR. CASSISE: You would characterize the
20 slide we saw this morning as a state of the art
21 slitting, converting machine?
22 MR. SCHWARTZ: One step short of state of
23 the art.
24 MR. CASSISE: One step short. Okay.
25 MR. GREENE: Excuse me, if I might say one

1 thing.

2 MR. CASSISE: Sure.

3 MR. GREENE: Richard Greene from Koehler

4 America. This dual slitting machine that Mr. Schwartz

5 refers to, I understand from a good source that there

6 have at least 10 of them been sold in the United

7 States and they cost about $750,000 per machine.

8 MR. CASSISE: Thank you very much.

9 MR. SILVERMAN: this is Bill Silverman. I

10 just want to add in our submissions to the Commerce

11 Department which I think we submitted and will be

12 supplementing with some additional information that

13 was whited out in the first one. We tried to do an

14 estimate on how many converters there are, how many

15 machines they have, how much the cost, to get some

16 idea of the scope of the industry. You just happen to

17 have four here, but there are more than four in the

18 universe and we wanted to explain to the department

19 for a similar issue, not the identical issue you may

20 be after, how big the investment is nationwide. We'll

21 try to get that to you in a way that you can use.

22 You've made the calculation based on their knowledge

23 of the whole industry, not just before. So you can

24 see how many of those machines, how many employees,

25 and you add up the cost of all those machines, it's

1 quite substantial.

2 But I'm a little concerned because you will

3 hear at some point, if you haven't already, that a

4 paper making machine costs X. But that's not the

5 comparison point we're talking about when we're trying

6 to make a statement about the ratio of the converter's

7 contribution. Since Kanzaki buys all its paper,

8 doesn't make it, so they can't use that. And the

9 general understanding, as our testimony said earlier,

10 even Appleton does not sue 100 percent of its own

11 paper. It uses much paper from somewhere else. So you

12 can't use that papermaking machine as part of the

13 comparison.

14 MR. CASSISE: I think Mr. Burns earlier

15 raised the issue that the test may not be more

16 production activities, but sufficient production

17 activities. But that issue will be briefed.

18 Mr. Burns, real quick on the chinese

19 product. Is the Chinese product certified? We heard

20 something about certification today. Is there any

21 certification that occurs with the Chinese product?

22 MR. BURNS: No, we are not certified.

23 MR. CASSISE: Any of your customers, have

24 you lost sales because you're not certified?

25 MR. BURNS: I would say we've only lost

1 sales to a national retailer who would request that
2 you be certified for all their equipment and I would
3 also say if you wanted to participate in the internet
4 bid process you need to have a certified grade. We
5 don't participate in the internet. But we've simply
6 stated as was testified earlier, we have a product
7 that works, we guarantee the product, we'll take it
8 back if it doesn't work. We've never had to take any
9 back.
10 MR. CASSISE: I was wondering if you could
11 tell us a little bit about the producers in China, if
12 you have any knowledge about the producers in China.
13 You said that the company you buy from is a converter
14 in China. Where do they get their jumbo rolls? Is
15 the industry similar to the U.S. where everyone, there
16 are a small number of jumbo roll producers and many
17 converters?
18 Or is it dissimilar to the U.S. market. If
19 you could shed any light, that would be helpful.
20 MR. BURNS: The market in China does not
21 work any differently than it does here. you've got a
22 lot of converters. You've got some big ones and
23 you've got some medium sized ones and you've got some
24 mom and pop operations. There are three to four
25 coaters in China that matter. Some of them have paper

1 that's suitable for export to the United States and
2 some of them do not. The differences there would be
3 whether the paper is too smooth or too rough for a
4 print head wear, the density of the image that comes
5 out of the paper and the archival quality of the
6 paper.
7 Koehler has put out a comparison of their
8 grade against two of the major Chinese thermal
9 coaters. We are not part of that comparison I
10 believe. We take a little different approach to how
11 we produce the paper and we do not source our base
12 paper within China. We source it on the global market
13 so we have a much more consistent sheet than what
14 typically comes out of China.
15 You've heard today that caliper is a huge
16 issue for the converters and for the business machines
17 so that you have a consistent roll diameter. and
18 we've had a very consistent sheet. Again, we've had
19 no paper returned to us since December '05 until
20 today.
21 MR. CASSISE: So you haven't encountered any
22 China quality issues with your customers then?
23 MR. BURNS: No, we have not. And again, I'd
24 like to point out, we're exclusive with Hanhong and
25 they're exclusive to us. We don't go to China and

1 source from the lowest cost converter of the month.
2 We've always promised we have the same pallets, cores,
3 cartons, base paper, coating technology, tape, label,
4 the whole thing. Every month.
5 MR. CASSISE: Is it possible for you to
6 estimate how many converters there are in China?
7 MR. BURNS: I couldn't tell you how many
8 there are, but there are probably seven that matter.
9 That would have the wherewithal to support an export
10 market month in and month out with a consistent
11 quality. Most of them would probably only be able to
12 do one to five containers a month.
13 MR. CASSISE: What would that be in tonnage?
14 MR. BURNS: A container is roughly 18 tons
15 of paper, carton, cores and pallets.
16 MR. CASSISE: Okay.
17 Does anyone want to talk about this 2006
18 demand spike that we heard about this morning? Or is
19 this not something you experienced?
20 MR. ENDSLEY: I'd like to comment on that.
21 MR. CASSISE: Okay.
22 MR. ENDSLEY: Doug Endsley.
23 I'm not sure about a demand spike, but about
24 30 days ago I called and asked, actually one of my
25 representatives called to price a container from

1 Appleton and the price was much higher than what we
2 were paying everywhere else. When we asked why such a
3 sudden spiking of their pricing we were told that it's
4 because 90 percent of their capacity is going for
5 higher grades. They only have 10 percent of their
6 capacity for light weight. Therefore it's supply and
7 demand.
8 MR. CASSISE: Okay. So Appleton had a
9 supply problem. You didn't encounter a demand
10 problem.
11 MR. ENDSLEY: No.
12 MR. CASSISE: It wasn't an end user demand
13 spike in the summer of 2006. The back to school
14 season was really big that year? No?
15 MR. BURNS: I would just say there was just
16 a general perception that there was not enough thermal
17 paper in the market. That was the general perception.
18 Because again, they talked earlier that there's no
19 industry association that tracks the thermal business.
20 No one really knows how much capacity is out there in
21 thermal paper. No one knows how much converting
22 capacity is. No one really knows what demand is. If
23 you put NCR, Nashua, and a couple of paper mills in a
24 room and asked them what the demand is for thermal
25 paper you're going to get four different answers.

1 So the supply chains that we're talking
2 about here are very long and if any one of them, just
3 one of them is disrupted, it can have a ripple effect
4 and people will panic and they will buy. And as it
5 was said earlier, it was for the retail season and no
6 one wants to lose business for the retial season which
7 people are building up for. If you're importing paper
8 from overseas for the retail season, you're looking
9 into June, July and August orders to get it here, to
10 convert it, to get it in the supply chain.
11 MR. CASSISE: So you increase your
12 inventories slightly in the third quarter to get ready
13 for the fourth quarter.
14 MR. BURNS: Yes, you would have your supply
15 chain full.
16 MR. SCHWARTZ: This is Steve Schwartz. I
17 would make a comment on that. And this is applicable
18 to any paper market, and I've been in this business
19 for 31 years.
20 What occurs, and I believe what occurred in
21 the fall of 2006 was a combination of moving into this
22 busy time of the year and an announced price increase.
23 I believe the combination of those two stimulated a
24 surge in orders which extended backlogs at the mill.
25 In the bond market, briefly, I have seen

1 mills go from basically calling for weakened tonnage
2 in four weeks essentially they're on allocation
3 because of the sudden and unexpected increase in
4 pricing. Everybody tries to slam in orders, and all
5 of a sudden their backlogs jump from two weeks to
6 eight weeks and you have this artificial tightness.
7 I believe there was a combination of those
8 factors that created some of this, pre-buys and
9 concern about availability for the retail season.
10 MR. CASSISE: Mr. Greene?
11 MR. GREENE: I had heard late in 2006, and I
12 don't have a way of verifying this, but that one of
13 the reasons Appleton could not supply was that they
14 took a large lottery business, I heard it was from New
15 York, and a lot of their production went for that.
16 That was a higher value added production, higher
17 priced product, and that's why they cut back on their
18 light weight thermal paper.
19 Maybe Appleton can verify that.
20 MR. CASSISE: Thank you, Mr. Greene.
21 MR. BURNS: I would say that what he said
22 about the lottery is right. I'd heard that too.
23 MR. EMERSON: Eric Emerson from Steptoe.
24 I would also add I think that the testimony
25 from Appleton came up in the context of a short term

1 supply disruption in sort of the fall of 2006. As
2 you'll see from the document that we will submit with
3 the part of our post-conference brief, the request to
4 supply Appleton with about 10,000 tons per year of
5 product from Mitsubishi, that was starting in 2006 but
6 that was through 2007 and beyond.
7 So the document that you will see as part of
8 the post-conference, it's not a three month bandaid,
9 it was a much more extended request for supply.
10 MR. CASSISE: Thank you, Mr. Emerson.
11 MR. GRANHOLM: This is Don Granholm. When
12 the staff reviews the sales data to be submitted by
13 Nashua as part of our questionnaire, you'll see that
14 there is a distinct seasonal pattern in the sale of
15 these types of products.
16 There is a spike in demand in the fourth
17 quarter, but it's every year that I've looked at in
18 our company's records, it's a stairstep pattern:
19 first quarter, second quarter, third quarter. Came
20 fourth quarter, the seasonality, fourth quarter
21 compared to first quarter, can in the neighborhood of
22 25 percent greater demand, but this is a pattern of
23 demand. It's not what happened in the fourth quarter
24 of 2006.
25 From just looking at Nashua data, it was not

1 dissimilar or irrepresentative of what patterns have
2 occurred before.
3 MR. CASSISE: Demand normally mirrors that
4 of the retail industry, in that there is a spike in
5 the fourth quarter, but that seasonality had nothing
6 to do with what happened in 2006.
7 MR. GRANHOLM: Nashua can't give any type of
8 insider testimony to what happened to the industry as
9 a whole in the fourth quarter of 2006, for the reasons
10 Mr. Burns just alluded to; that is, there is no
11 industry data for us to review.
12 I can comment to the staff, based on
13 Nashua's own data and experience, that, yes, our
14 consumption of lightweight thermal paper in the fourth
15 quarter of 2006 was high. It would look like a spike,
16 if you plotted it, but that spike would be a
17 repetition of the pattern of demand you would have
18 seen from 2005 or 2004.
19 MR. CASSISE: Right. It would be a similar
20 spike that they witnessed in the fourth quarter of
21 2005. It wasn't any larger than the spike you saw in
22 the fourth quarter of 2005.
23 MR. GRANHOLM: Don Granholm again. Not in
24 any type of statistically significant way.
25 MR. CASSISE: Okay, okay. I think that's

1 all I have for this time. Thanks.
2 MR. CARPENTER: Mr. Bernstein?
3 MR. BERNSTEIN: I would like to thank this
4 panel as well for coming down, some of you, from
5 fairly long distances and answering our questions, and
6 I'll apologize in advance if I mispronounce either
7 your names or the names of your employers.
8 Mr. Greene, let me start with you. You had
9 stated in your testimony that Koehler is focusing on
10 lighter-weight paper for point-of-sale applications.
11 When you use that term, what do you mean by the term
12 "lighter-weight paper"?
13 MR. GREENE: We mean 48-gram paper. That's
14 our main focus today, 2.1 caliper.
15 MR. BERNSTEIN: So you're dealing with 48
16 grams.
17 MR. GREENE: We do sell some 55, but our
18 focus now is 48.
19 MR. BERNSTEIN: Does Koehler sell anything
20 in the U.S. heavier than 55 gram?
21 MR. GREENE: Less than one percent.
22 MR. BERNSTEIN: Thank you.
23 Mr. Granholm and Mr. Schwartz, you also
24 talked about lighter-weight product in your prepared
25 statements. Let me ask you the same question I asked

1 Mr. Greene. When you use that term, what do you think
2 you're referring to?
3 MR. GRANHOLM: This is Don Granholm, Nashua.
4 In the context of my remarks, I was trying to restrict
5 myself when I used the term "light-weight thermal
6 paper" to refer to it as defined in the complaint, so
7 less than 70 grams.
8 MR. BERNSTEIN: Okay. Thank you.
9 Mr. Schwartz?
10 MR. SCHWARTZ: Yes. Dave Schwartz. I would
11 agree, we are talking about the subject paper less
12 than 70 grams.
13 MR. BERNSTEIN: Could the converters'
14 witnesses on the panel tell me, what is the basis
15 weight of the thermal paper you convert? What is the
16 range?
17 MR. SCHWARTZ: This is Steve Schwartz, Rite-
18 Made. We convert from 48 gram, 55 gram, 80 gram.
19 Anything other than the 48 and 55, the sum total of
20 the other thermal papers would be about 10 percent of
21 our total thermal production.
22 MR. BERNSTEIN: Is the 80 gram converted on
23 the same equipment as the lighter weights?
24 MR. SCHWARTZ: Yes.
25 MR. BERNSTEIN: Mr. Endsley, just doing down

1 the table here.

2 MR. ENDSLEY: Yes, sir. Most of our

3 products are the 48 and the 55 gram, but we do do some

4 3.2 and 3.8 caliper. I'm not sure of the gram weight

5 on those, but those are heavier-duty, I would say,

6 above the grade of 70 grams.

7 MR. BERNSTEIN: Okay. Let me go back. The

8 heavier paper you do; does this tend to be used for

9 point-of-sale applications?

10 MR. ENDSLEY: We actually print and sell

11 sports book tickets to the casinos in Las Vegas.

12 MR. BERNSTEIN: Okay. Mr. Schwartz, going

13 back to you, the 80-gram product, what is the end use

14 of that?

15 MR. SCHWARTZ: The primary use by our

16 customers is in point-of-sale transactions,

17 transaction equipment.

18 MR. BERNSTEIN: Is this this high-end retail

19 phenomenon that had been spoken of earlier?

20 MR. SCHWARTZ: It's a combination of

21 retailers who do have, as Mr. Burns referred to, a

22 luxury image, plus there are certain segments of this

23 industry that, for reasons that are completely

24 mystifying to me, have simply always utilized this

25 higher-basis-weight sheet.

1 MR. BERNSTEIN: Thank you.
2 Mr. Granholm?
3 MR. GRANHOLM: In thermal applications, the
4 vast majority of what Nashua converts is under 70
5 grams. We do convert some papers over that weight
6 with thermal applications, but they are mostly for
7 what the industry calls "ticketing and tag" type of
8 applications, not transactional receipts.
9 MR. BERNSTEIN: And Mr. Sandt?
10 MR. SANDT: We primarily convert 48 gram and
11 have maybe five to 10 percent of our business in the
12 70 gram and above, and it's usually 80 gram, and it's
13 for the feel of quality. It goes for POS
14 applications.
15 You mentioned, is it interchangeable on our
16 equipment? In our case, a lot of these are smaller-
17 quantity orders that we wouldn't put on our high-speed
18 equipment. Most of us here have high-speed equipment
19 that we just run on things that have a sale like a
20 house on fire. That would be the only difference in
21 interchangeablity.
22 MR. BERNSTEIN: Okay. Thank you.
23 Mr. Granholm, Nashua is listed in the
24 petition as a producer of thermal paper, not the
25 light-weight thermal paper as defined in the petition

1 but heavier-weight thermal paper. Does Nashua have
2 the physical capability, if it desired, to produce the
3 under-70-gram, basis-weight thermal paper?
4 MR. GRANHOLM: Don Granholm, Nashua. Nashua
5 has a coated division. We apply thermal coatings to
6 papers. We do not make paper ourselves, so we buy
7 someone else's paper and apply thermal coatings to it.
8 Our division does not participate in the lighter
9 weight, anything close to what we've been talking
10 about here today. Our thermal applications go
11 primarily to feed label-converting activities, not
12 point-of-sale converting activities.
13 MR. BERNSTEIN: Is there any particular
14 reason you can give me why Nashua hasn't participated
15 in the lighter-weight market as a coater?
16 MR. GRANHOLM: Our coating capabilities are
17 rather limited. We have one facility, and we've
18 dedicated those assets to support primarily higher-
19 value-added label types of applications where the
20 paper, after it's coated, it's also laminated and may
21 have other top coatings applied, and then it's printed
22 and sold into the label market as opposed to the
23 point-of-sale transactional market.
24 MR. BERNSTEIN: Okay. Thank you.
25 Now I have a few questions for the lawyers

1 on this particular issue.

2 Ms. Jeong, you're the one counsel who

3 specifically addressed, in your presentation, a like

4 product issue. If you could clarify, are you arguing

5 that the Commission should find the broader domestic

6 like product you advocated for purposes of this

7 preliminary phase investigation, or are you just

8 laying down a marker if this goes down to a final?

9 MS. JEONG: What we believe, even based on

10 the lightweight, as defined in the petition, their

11 preliminary record shows that there is no reasonable

12 indication of material injury. I guess our intention

13 was really to put down a marker, should the Commission

14 go to the final in this case. I think, if you look at

15 all of the facts and testimony, that the facts do

16 support a finding of one like product that includes

17 all heavier grades and heavier weights of thermal

18 paper.

19 MR. BERNSTEIN: Mr. Silverman, do your

20 clients have a position on domestic like product?

21 MR. SILVERMAN: Well, the story is, if we

22 make an issue of the like product, it means the record

23 is incomplete. So we prefer to take it as it is, for

24 purposes of the prelim., and if it goes to final,

25 we'll have a flag there to discuss it later. But for

1 purposes of the prelim., we'll take the like product
2 definition as it is.
3 MR. BERNSTEIN: Thank you.
4 And, Mr. Emerson, do you have anything to
5 say?
6 MR. EMERSON: Nothing to add. I would say
7 that Mr. Silverman has summarized it.
8 MR. BERNSTEIN: Okay. Thank you. Let me go
9 on to the next issue.
10 Mr. Emerson and Mr. Jahns, I apologize if
11 this was something you already responded to in one of
12 Mr. Cassise's questions. Does Mitsubishi export any
13 lightweight thermal paper directly to converters in
14 the U.S., or is it all to your affiliated U.S.
15 importer?
16 MR. JAHNS: We have one direct customer in
17 the U.S., yes.
18 MR. BERNSTEIN: Okay. My next question on
19 this is to counsel, particularly Mr. Silverman,
20 because I think this may arise more with converters
21 that produce German merchandise.
22 If the Commission should conclude, as you
23 will be arguing, that converters engage in sufficient
24 domestic production-related activities to be included
25 in the domestic industry, the Commission will then

1 have to address this issue of whether any of these
2 converters are subject to exclusion from the domestic
3 industry as related parties.
4 We have one issue with respect to the extent
5 that our record indicates that any converters are
6 importing directly, and this may be the case of China,
7 at least, that's fairly straightforward.
8 To the extent that converters may be
9 purchasing an imported product, as you may be aware,
10 the Commission has developed this principle over the
11 years that purchasers of an imported product are
12 deemed related parties only if they control some
13 significant portion of imports, and, for this, the
14 Commission tends to look at whether the purchaser is
15 the sole or principal customer of an importer.
16 To the extent that this information is not
17 provided in the questionnaires that Koehler and
18 Mitsubishi will be filling out -- Mr. Emerson, this is
19 addressed to you as well -- if you could provide some
20 information in your post-conference brief concerning
21 the diversification of your U.S. importers' customer
22 base simply so if the Commission needs to get to this
23 issue, it has sufficient information to do this.
24 Clearly, if Petitioners want to address this
25 issue, they can as well. You had already indicated,

1 in your opening statement this morning, you were
2 prepared to address related-party issues.
3 Mr. Silverman?
4 MR. SILVERMAN: Yes. This is Bill
5 Silverman. We would be glad to do it, particularly
6 since we heard there will be an extension of the
7 deadline for the brief.
8 MR. BERNSTEIN: Okay. I apologize for the
9 rather technical nature of that question, which has
10 probably lost all of the industry witnesses, but it is
11 one of the things that we attorneys have to give
12 advice to the commissioners about.
13 I believe, in his testimony, Mr. Schwartz
14 said he didn't deal with any imports from China. The
15 remaining three converters on the panel; do you have
16 any experience with imports from China?
17 MR. ENDSLEY: No, I don't.
18 MR. BERNSTEIN: Okay. Mr. Granholm?
19 MR. GRANHOLM: During the period in
20 question, Nashua has imported less than one container
21 load of Chinese product.
22 MR. BERNSTEIN: Was that for testing
23 purposes?
24 MR. GRANHOLM: It was for market-evaluation
25 purposes.

1 MR. BERNSTEIN: Okay. Does Nashua have any
2 plans you can tell us about to explore further
3 purchases of Chinese product?
4 MR. GRANHOLM: I think that's something, if
5 the Commission would like us to comment, we would
6 prefer to do it in a post-conference brief.
7 MR. BERNSTEIN: Okay. I think that would be
8 appreciated.
9 Mr. Sandt?
10 MR. SANDT: We have no intention of buying,
11 and we have not bought it.
12 MR. BERNSTEIN: Okay. The next question is
13 to anybody on the panel who can answer it. In the
14 last two hours or so, with the Respondent panel, I
15 haven't heard a single word about subject imports from
16 Korea. I realize that Korean counsel, the Korean
17 witnesses, have not appeared here today, but does
18 anybody on the panel have any experience with the
19 Korean product that you can tell us about?
20 MR. BURNS: Chris Burns. I sell the Korean
21 product from Hansel, and I would tell you that their
22 imports are meaningless, for a couple of reasons.
23 Hansel decided to bow out of the lightweight market
24 pretty much earlier last year. Pricing got pretty
25 rough, and they decided that they were going to focus

1 more on heavyweight grades, basis weights. As
2 everyone has said, we've seen basis weights go down.
3 They want to go up in basis weights.
4 They want to focus more on value-added
5 grades and top-coated grades, and Hansel also had kind
6 of a realignment in their production. They have a
7 facility with a paper mill and a coater and another
8 facility with a coater. They have taken the coater
9 that's standalone and put it at the other paper
10 facility.
11 So, in doing that, they have lost a lot of
12 production. In 2007 through June, Hansel has imported
13 less than 1,000 tons of jumbo rolls of lightweight
14 paper.
15 MR. BERNSTEIN: Thank you. Anything from
16 any of the other witnesses on this?
17 Okay. Another question for the lawyers. Do
18 you all have a position on cumulation? I'll start,
19 going left to right, Ms. Jeong.
20 MS. JEONG: We would like to address that in
21 our post-conference brief.
22 MR. BERNSTEIN: Okay. Mr. Silverman?
23 MR. SILVERMAN: I'm going to ask Mr. Ferrin
24 to answer, if that's okay.
25 MR. BERNSTEIN: Okay. Certainly.

1 MR. FERRIN: This is Richard Ferrin. We
2 believe that the Chinese product should not be
3 cumulated with the product from either Korea or
4 Germany. If you take a look at the four-step test,
5 first, in terms of fungibility, the German and Korean
6 imports consist entirely of the jumbo rolls, whereas
7 the Chinese sell only converted rolls.
8 Secondly, Chinese imports are of lower
9 quality than imports from Germany or Korea.
10 Third, there is the difference in terms of
11 OEM approval. The Chinese product is not OEM approved
12 by either IBM or Epson, whereas it is with respect to
13 German product.
14 In terms of the distribution channels, the
15 Chinese imports are already slit and packaged and
16 generally sold to distributors. Very little Chinese
17 product is sold to converters.
18 In contrast, all German and Korean product
19 is sold to converters, who then covert and sell the
20 downstream product to distributors.
21 In terms of the simultaneous presence in the
22 market, we note that, again, as mentioned by the
23 attorney for the Chinese, for most of the period of
24 investigation Chinese imports were not present in the
25 market at all, whereas German imports were present

1 throughout the POI. For those reasons, if you look,
2 at least three or four parts of the test point towards
3 decumulation.
4 MR. BERNSTEIN: Mr. Emerson?
5 MR. EMERSON: We support the Koehler
6 position, believing that Chinese imports should not be
7 cumulated with the German and Korean imports for the
8 case.
9 MR. BERNSTEIN: I would, at least, request
10 the German parties who are arguing noncumulation to, I
11 guess, devote some discussion in your post-conference
12 brief to how you think the Commission should analyze
13 causation with respect to, I assume, Germany and Korea
14 because most of the data that seems to be available
15 indicate those two countries have accounted for the
16 bulk of the subject imports during the period we're
17 looking at. So if you could provide us some guidance
18 with that, we would appreciate that.
19 Mr. Burns, a factual question for you. You
20 stated that you sold both to converters and to
21 distributors directly. Can you give, for purposes of
22 a public session, any breakdown on what the relative
23 sales are to those two channels of distribution?
24 MR. BURNS: That's a post-conference for us.
25 MR. BERNSTEIN: Okay. Thank you.

1 Another question: You had stated, at one
2 point, that one of the converters who purchased from
3 you did so because they were not able to service in
4 house at a profit. Am I repeating that correctly? Am
5 I paraphrasing incorrectly there?
6 MR. BURNS: I would say that, yes, you are.
7 This is Chris Burns. If a lot of the internet bids,
8 which we don't participate in, but some of our
9 customers do, if it's a national account, it's pretty
10 much one price for the whole country. If you're a
11 regional converter, you cannot service the farthest
12 reaches of the national account, so, for that, they
13 would source the product from China.
14 MR. BERNSTEIN: Well, it would seem to me,
15 in plain English, that means if somebody is able to
16 purchase from you that they can't service in house at
17 a profit, that your price is cheaper.
18 MR. BURNS: It's a freight issue. It's
19 purely a freight issue.
20 MR. BERNSTEIN: Okay. If you could provide
21 any supporting documentation for that in the post-
22 conference, we would appreciate that. I would ask the
23 converters on the panel, is this a concept that
24 constrains your ability to service particular markets,
25 freight cost? Is anyone willing to answer that?

1 MR. SCHWARTZ: Steve Schwartz with Rite-
2 Made.
3 MR. BERNSTEIN: Okay.
4 MR. SCHWARTZ: We operate three plants: one
5 on the East Coast, one in the Midwest, and one on the
6 West Coast. We have invested. We have employees, we
7 have facilities, we have equipment, and we continue to
8 make investments. We do that so that we can service
9 national accounts.
10 MR. BERNSTEIN: Okay. Mr. Granholm, you
11 looked like you had something to say.
12 MR. GRANHOLM: Don Granholm with Nashua.
13 Nashua converts lightweight thermal papers in two
14 facilities, one in the eastern time zone, Tennessee;
15 one in the Pacific time zone, California. A strong
16 part of the rationale for doing that is to minimize
17 freight costs and, as well, to minimize the transit
18 time from our facility to the customer's facility.
19 MR. BERNSTEIN: Do you think it would be
20 impractical or ineffective to try to service the
21 continental U.S. from a single facility?
22 MR. GRANHOLM: I can't speak for everybody
23 in the industry, but from Nashua's perspective, it's a
24 challenge that we would prefer not to take on. We
25 have enough already on our plate.

1 MR. BERNSTEIN: Do any of the other
2 converters care to answer that question about whether
3 you think it would be practical to service the U.S.
4 market from a single facility?
5 MR. SANDT: We don't do it in a great extent
6 at Sandt Products, but we do it, and it depends on the
7 mix, but we're in Lancaster, Pennsylvania. We can
8 service nationwide accounts who have locations on the
9 West Coast and compete against everybody else here in
10 the room on a price basis and make out on it.
11 MR. BERNSTEIN: Okay. Thank you.
12 MR. GREENE: Richard Greene, Koehler
13 America. One of the reasons behind our emphasis on 48
14 gram is to give converters that don't have a national
15 footprint with this lighter-weight paper the ability
16 to ship longer distances, more footage on a roll
17 longer distances, and not have to buy from China on
18 the West Coast. They have a lower freight cost, so it
19 helps them to act as a national distributor of the
20 lighter-weight paper.
21 MR. BERNSTEIN: Thank you.
22 MR. SANDT: I can give something specific,
23 if you would like. There was a figure thrown out of
24 going from Michigan to Las Vegas of $3,600. We can go
25 from Lancaster, Pennsylvania, to two spots in

1 California, northern and southern California, for
2 $1,900.
3 MR. BERNSTEIN: Okay. Thank you. Another
4 request for the lawyers. This will be the same one I
5 made this morning to the Petitioners.
6 If the Commission should determine that
7 converters engage in domestic production operations,
8 if you could provide us your position on how the
9 Commission should measure apparent consumption,
10 domestic production, and import penetration, and also
11 what you think the best measure of industry
12 performance, particularly financial performance, would
13 be in those circumstances.
14 Let me ask Mr. Dougan.
15 MR. SILVERMAN: Bill Silverman. The last
16 part of your question was how you should measure --
17 MR. BERNSTEIN: Well, whether you believe
18 all of the entrants should be aggregated, that we
19 should do this on some sort of segmented analysis, do
20 one number for converters and one for coaters, as
21 opposed to aggregating everybody together, if you have
22 a position on that.
23 Again, same thing for Petitioners, just to
24 give you the opportunity to assert something on that.
25 Mr. Dougan, nobody has asked you any

1 questions so far, so let me ask you a couple. With
2 respect to your Exhibit 1 about the Appleton Papers
3 segmented operating results, now I will acknowledge,
4 before I ask this, I realize this isn't the type of
5 data we'll be looking at when we make our
6 determination, so your counsel don't jump in and
7 correct me. But just on the basis of these particular
8 operating ratios you see here, would you view this as
9 a particularly healthy producer, or is this good for
10 this industry?
11 MR. DOUGAN: I wasn't reviewed it with
12 respect to other U.S. producers of the subject
13 merchandise because those data are not publicly
14 available. So whether this is representative of an
15 industry-level profitability, frankly, I'm not sure.
16 The purpose of this exhibit and my argument was to
17 demonstrate by reference that it was different than
18 information that was provided to the Commission as
19 part of their questionnaire submission.
20 MR. BERNSTEIN: Okay. I appreciate that.
21 Going back to Exhibit 4, with Appleton being
22 highly leveraged and having a lot of long-term debt,
23 if the Commission should need to make a threat
24 analysis here, one of the things that it typically
25 examines with respect to threat is how vulnerable the

1 industry may be to future subject imports.
2 Doesn't the fact that a major or the largest
3 producer, no matter how the industry is defined, is so
4 heavily leveraged and has such a high debt load tend
5 to make it more vulnerable to increased imports?
6 MR. DOUGAN: I would answer that question in
7 the following way. If they perceive themselves to be
8 vulnerable and if this is an issue with them and this
9 is a problem, why are they making a $100 million
10 investment in this line of business or actually more
11 narrowly defined? That's the question to me, is what
12 I'm trying to understand. So I raise that question.
13 Obviously, someone within Appleton
14 management, as part of the evaluation process of this
15 investment, must have taken these things into
16 consideration and given the green light, and they know
17 more about their business than, at least at this
18 moment, than I do.
19 MR. BERNSTEIN: Okay. Thank you.
20 A final question to -- I think this is
21 principally directed to the converters. Is there any
22 sort of expectation that, among purchasers, that
23 Appleton is likely to expand its product line or offer
24 better-quality products or offer a different type of
25 pricing when its new production facility is completed

1 next year? Is there any industry scuttlebutt at all
2 among those who may be possible purchasers?
3 MR. SCHWARTZ: Steve Schwartz. I don't know
4 that there is any significant scuttlebutt, but I
5 think, at least speaking for Rite-Made, I think the
6 assumption is that there will be a need for Appleton
7 to fill the capacity of that machine and that they
8 will endeavor to do what they feel is appropriate in
9 marketing their product to accomplish that end.
10 MR. BERNSTEIN: Any further responses from
11 the panel? Okay. Hearing none, I have no further
12 questions. Thank you.
13 MR. CARPENTER: Ms. Bryan?
14 MS. BRYAN: Good afternoon, everyone, and
15 thanks for your testimony thus far.
16 I, first, have one more question on the
17 Appleton allocation issue in '06, and it's a two-part
18 question, and anyone who wants to jump in here, go for
19 it.
20 Was Appleton the only producer that had
21 supply issues in that time period? Were there any
22 other producers that had allocation issues, and was it
23 concentrated on just the 48-gram or 55-gram paper, or
24 was it all of their product line that they had
25 allocation on?

1 MR. SITTER: As just a point of
2 clarification, Appleton did not introduce their 48-
3 gram product until after that time period.
4 MS. BRYAN: Okay. Thanks. Okay.
5 So by no one coming forward, I assume it was
6 just Appleton that had supply issues during that
7 period.
8 MR. GRANHOLM: This is Don Granholm with
9 Nashua. I can't characterize the behavior of the
10 whole industry during that period of time, but
11 Nashua's producers during the period were able to meet
12 all of our requests. We bought the majority of our
13 requirements from non-Appleton sources during that
14 period.
15 MS. BRYAN: Okay. Thank you.
16 This question is for converters that buy
17 both 48-gram and 55-gram paper. When your customers
18 put in an order, are they going to specifically
19 request just 48 gram or just 55 gram? Do you keep
20 that separate, or is it kind of all lumped together
21 ever?
22 MR. SCHWARTZ: Steve Schwartz with Rite-
23 Made. Within our stock product line, we have two
24 lines, a 48-gram line and a 55-gram line, and they
25 have separate stock numbers.

1 In regard to production for specific
2 customers under their specifications, they have
3 determined, through some process, which they prefer.
4 So we don't arbitrarily make that decision.
5 MS. BRYAN: Okay. Thank you.
6 And for those of you that do source the 48
7 gram, have you ever had customer complaints about
8 issues that would just pertain to 48 gram versus 55
9 gram, that it's thinner or weaker in any sense?
10 MR. SCHWARTZ: Steve Schwartz with Rite-
11 Made. We've had no complaints.
12 MR. GRANHOLM: Don Granholm, Nashua. No
13 significant complaints, to my knowledge.
14 MR. SANDT: Roger Sandt from Sandt Products.
15 No significant complaints.
16 MS. BRYAN: Okay. Thank you.
17 This question would be about the shipping
18 advantages of the 48 gram versus the 55 gram. Maybe,
19 Mr. Greene, you would like to address this. Is there
20 any way you can quantify in terms of a reduce cost to
21 shipping a container maybe of just 48 versus a
22 container of just 55 or a percentage of how much more
23 paper can be shipped in one container?
24 MR. GREENE: Well, the weight of the 48 gram
25 is 15 percent lower than the 55 gram, and freight is

1 generally charged by weight. So your shipping costs
2 go down simply because of that.
3 MS. BRYAN: Okay. Thank you. That's very
4 helpful.
5 This question, I guess, is primarily for the
6 foreign producers, but also the converters, if you
7 want to add something. Has the exchange rate and the
8 value of the dollar had any impact on what prices you
9 can obtain in the U.S. in terms of your own currency,
10 and has that affected your desire to export to the
11 United States at all?
12 (Pause.)
13 MR. FRUEH: This is Willy Frueh from
14 Koehler. We do make, as we do now, make our budget
15 for the next year, and we do take a certain exchange
16 rate into consideration. We are a long-term player,
17 and there are times where our earnings are better and
18 times when the earnings are not that brilliant, but we
19 commit to supply our customers on a regular basis.
20 MS. BRYAN: Okay. Thank you.
21 MR. JAHNS: Falk, counsel, Mitsubishi. Last
22 year, we had tried really to increase the prices when
23 we saw that the actually the exchange rate was
24 working, or starting to work, against us, so when it
25 got very unfavorable for the mill. We have really

1 succeeded. We have been very successful with price
2 increases until the beginning of this year.
3 However, then, unfortunately, prices have
4 dropped significantly. We have projected the price
5 decreases have come out of the market. So we have
6 tried to work against it; however, in some kind of
7 way, due to the fact that, as Mr. Frueh said, we have
8 a certain budget which we have to meet as well, and so
9 we certainly had to come back into the market in some
10 kind of way.
11 MS. BRYAN: Okay. Thank you. I appreciate
12 that.
13 Another question for the converters who buy
14 both imported jumbo rolls and domestically produced
15 jumbo rolls of the same basis weight and convert them.
16 Once the rolls have been converted, at that point, do
17 you know anymore from which source the original paper
18 came from? And, second part: If you do not keep
19 track anymore, and you just sell it all, is it all the
20 same price, regardless of whether jumbo rolls are
21 sourced from?
22 MR. SCHWARTZ: Steve Schwartz with Rite-
23 Made. We do have quality control numbers on all of
24 the cartons we produce that can be tracked back to the
25 mill source, but, in general, in our stock products,

1 we do not, unless there is some particular customer
2 specify that he wants product only from a certain mill
3 or some other mill, we ship those interchangeably but
4 at the same basis weight. In other words, we would
5 ship the domestic and foreign 55 gram interchangeably.
6 MS. BRYAN: And at the same price.
7 MR. SCHWARTZ: At the same price, yes.
8 MS. BRYAN: Anyone else have anything to
9 add?
10 MR. GRANHOLM: Don Granholm from Nashua. We
11 also, within particular basis weights, we substitute
12 different manufacturers' paper interchangeably within
13 this basis weight, but we also maintain stock numbers
14 that we can tell whether it's a 48-gram product or a
15 55-gram product. The pricing within a basis weight --
16 our pricing to our customers is constant, irrespective
17 of which mill we bought the paper from.
18 MS. BRYAN: Okay. Thank you.
19 This is maybe sort of a hypothetical
20 question, but I guess you've already addressed it. I
21 was going to ask if you have, like, one of your
22 customers having a quality problem with some of your
23 paper, and they come back to you and say, "This one
24 had an issue," I guess you can, like you said, you can
25 track which source that came from. Is that correct?

1 Did I hear that correctly?

2 MR. GRANHOLM: Don Granholm, Nashua. Yes.

3 We can, based on a production number that we put on

4 our external packaging, as long as the customer

5 preserves that, we can know when it was produced and

6 what materials went into it to help us track quality

7 problems back to the root cause.

8 MR. SCHWARTZ: Steve Schwartz. I would

9 clarify that you're specifically referring here to

10 customer complaints that would be related to probably

11 image quality rather than some factor resulting from

12 the conversion process, and, yes, as I testified, we

13 did receive some of those complaints, and we can track

14 that back actually to the specific mill.

15 MS. BRYAN: Okay. Thank you.

16 MR. SANDT: Ms. Bryan?

17 MS. BRYAN: Yes.

18 MR. SANDT: Roger Sandt. On the last

19 question, Don Granholm mentioned interchangeability.

20 We have separate numbers for 48 and 55 gram. I think

21 you were addressing just 55 gram in that question.

22 MS. BRYAN: For a specific basis weight.

23 MR. SANDT: As the other converters, we have

24 tracking numbers on every carton. We can go back to

25 who the manufacturer of the paper is, when we made it,

1 et cetera.

2 MS. BRYAN: Okay. Thank you.

3 This is an issue, I believe Mr. Schwartz

4 brought up earlier, that you can fairly easily pass

5 along price changes to your customers.

6 MR. SCHWARTZ: Steve Schwartz. I didn't use

7 the words "fairly easily." What I indicated was that,

8 absent external factors, the base paper cost is a

9 pass-through cost of the finished goods. Obviously,

10 no customer wants to see his prices increased. It is

11 a time-consuming process for our administrative and

12 sales staffs to do this.

13 Essentially, my point was that, over time,

14 absent external factors, a higher price for the jumbo

15 rolls or a lower price does not necessarily mean that

16 you will do better or worse.

17 In a short-term situation, if you have a

18 fixed-term contract with a customer, if prices

19 decrease, you get a benefit. If mill prices increase,

20 then obviously you do worse. But as all of my jumbo

21 mill suppliers know, I am generally supportive of

22 their efforts to increase prices.

23 MS. BRYAN: Okay. Thank you.

24 MR. ENDSLEY: Yes, Ms. Bryan.

25 MS. BRYAN: Yes.

1 MR. ENDSLEY: Doug Endsley. I have a
2 different business model than the other converters in
3 the fact that 90 percent of the product that we
4 produce we give free to the grocery stores, and we
5 raise our revenue by selling advertising on the back
6 of the register receipt tapes. So I'm very sensitive
7 to prices since we're giving it away free.
8 MS. BRYAN: Right. I didn't mean by my
9 question that the market would be insensitive to
10 price; just if you can pass along price changes down
11 the road.
12 I have just one final product-related
13 question. This is, if you want to print something on
14 the back, I guess, or on the front in color ink rather
15 than just black ink, does that impact which basis
16 weight of paper you require, or does it not matter?
17 That has no bearing on that decision.
18 MR. GRANHOLM: Generally speaking, it
19 doesn't really impact anything.
20 MS. BRYAN: Okay. Okay. Thank you. That's
21 all I have.
22 MR. CARPENTER: Ms. Klir?
23 MS. KLIR: I would like to thank this panel
24 also for their testimony. Before I get to a more
25 specific question, I apologize. I may not have all of

1 the questionnaires with me, but if any of you who have
2 testified have not filled out a questionnaire, please
3 do so. Like I said, I don't know what the status is
4 at this point because things are moving quickly, but
5 we would appreciate that.
6 I actually just have one question for post-
7 conference, and it's one that I posed earlier. This
8 would be for counsel and for Mr. Dougan, and you may
9 have been planning on doing this anyway, but I just
10 want to make sure you have an opportunity to please
11 analyze the reported profitability of coaters and the
12 reported profitability of converters and discuss the
13 factors affecting revenues and costs, any of the
14 factors that account for any of the differences in
15 profitability between the coaters and converters, as
16 well as between the various coaters. That's all.
17 Thank you.
18 MR. DOUGAN: I would be happy to do that.
19 Thank you.
20 MS. KLIR: Thanks. That's all I have for
21 now.
22 MR. CARPENTER: Mr. Forstall?
23 MR. FORSTALL: Thank you, Mr. Carpenter, and
24 also thank you to this panel for your testimony.
25 We heard testimony in the earlier panel that

1 lightweight thermal paper was a commodity, and I just
2 wanted to get particularly you, Mr. Greene, and Mr.
3 Frueh and also Mr. Jahns, your thoughts as to whether
4 or not you agreed with that assessment of this
5 particular product.
6 MR. FRUEH: This is Willy Frueh from
7 Koehler. We do produce a lot of thermal paper in
8 lightweight, and this is probably over 80 percent of
9 all thermal paper that we produce is the lightweight
10 thermal paper.
11 We do not consider this product a commodity
12 because we know how important it is to keep the
13 constant quality level of this product to constantly
14 optimize the product, and we know exactly where the
15 differences lie between our products and the products
16 of our competition, and, at the end of the day, these
17 advantages in the quality decide if you make your
18 business with a customer or not.
19 So, for us, this is a very critical product,
20 and also very quality sensitive.
21 MR. FORSTALL: Thank you.
22 MR. JAHNS: This is Falk Jahns. I just can
23 only confirm what Mr. Frueh has said, that we are
24 speaking here really about specialty paper grades,
25 high-technically performing grades where you need

1 special requirements.

2 You need to keep a very close focus on

3 certain features for the paper, for example,

4 smoothness, so that you don't have an abrasion on the

5 print head, that you don't have any deposits, because,

6 in the end, if a claim because of poor paper quality

7 comes up, it's becoming very, very expensive. So we

8 are really speaking here about a very sensitive paper,

9 more or less, and not about a commodity like, let's

10 say, cut-sized papers.

11 MR. FORSTALL: Thank you.

12 Mr. Greene, I think you spoke just briefly

13 about some of the things that allow Koehler to

14 maintain its presence in the U.S. market, and one of

15 them, I think, was the fact that you had a better

16 image, a darker image, I think you said. That gets

17 back to your actual coating formulation that is

18 actually on the paper.

19 MR. GREENE: Yes.

20 MR. FORSTALL: Mr. Endsley, I think you and

21 also perhaps Mr. Schwartz mentioned that you had

22 multicolor presses, and I just wanted to ask you

23 specifically, what kind of presses do you use? Are

24 they rotary flexils? What is typically used in the

25 industry? Are your presses any different because

1 you're doing things a little bit differently and maybe
2 want a little bit higher-end look for your
3 advertisers? Are your presses any different than what
4 some of the other converters would have?
5 MR. ENDSLEY: Yes. This is Doug Endsley.
6 We've got four presses. They are all offset printing,
7 roll to roll. Due to the fact that we're printing on
8 the slickness of the thermal paper, we have to use
9 ultraviolet inks, and we have to cure those.
10 MR. SCHWARTZ: Steve Schwartz with Rite-
11 Made. Yes. Mr. Endsley does have a different
12 application.
13 We operate three presses. We have a fourth
14 on order. These are wide-web, high-speed,
15 flexigraphic presses using water-based inks with
16 currently three-color capability. We'll have four-
17 color capability on the new press when it's delivered
18 next year.
19 MR. FORSTALL: Thank you.
20 In fact, I would invite all of the
21 converters, in your post-hearing briefs, if you could
22 spend a little time talking in detail about your
23 production process and just how it works in terms of
24 what the flow is. Presumably, if you're printing a
25 receipt, you're going to print that first before you

1 slit it, but I just want to make sure I have some idea
2 of how the flow works once you get the paper into your
3 plant, from the point you get it into the plant to
4 when you get it out of the plant as a finished
5 product.
6 There was testimony early on -- I think, Mr.
7 Greene and Mr. Granholm, you both had some testimony
8 involved. I got a little confused as to who the price
9 leader in the U.S. market was. It sounded to me, from
10 your testimony, that when things are going up, the
11 Europeans are leading the way, and when things are
12 going down, the U.S. domestic producers are leading
13 the way. So I just got a little confused about who
14 the price leader was at any given time.
15 MR. GREENE: Richard Greene. I think you've
16 got it right.
17 MR. FORSTALL: I thought you might feel that
18 way.
19 Mr. Carpenter, I have no further comments or
20 questions.
21 MR. CARPENTER: Thank you. Ms. Mazur?
22 MS. MAZUR: Thank you all very much for
23 coming, particularly in a preliminary phase
24 investigation. It's usually pretty difficult to get
25 respondents or any firms to really come to testify

1 before us. The fact that we have such a comprehensive
2 participation today, we very much appreciate. The
3 Commission very much appreciates. With that, I have
4 no questions. Thank you.
5 MR. CARPENTER: I just have a couple of
6 quick follow-up questions.
7 First of all, on like product, Ms. Jeong,
8 you made the argument about expanding the like product
9 beyond the 70 grams, and, Mr. Burns, I believe you
10 indicated that if you compared 68 and 72 grams, no one
11 would be able to tell the difference between the two.
12 My question is, in response to Mr.
13 Bernstein's question when he went around the table
14 asking what other products converters were making, I
15 didn't hear much, if anything, between 55 grams and 80
16 grams. I was wondering if we could just go back to
17 that for a second, and if I could ask the converters
18 here, do you make anything between 55 and 80 grams?
19 MR. SCHWARTZ: Steve Schwartz with Rite-
20 Made. Not at this time, no.
21 MR. ENDSLEY: Doug Endsley. I do not
22 either.
23 MR. GRANHOLM: I'm not aware, at this time,
24 of what specific products we might have in the range
25 that you just stated, but I would have to check to

1 find out.

2 MR. SANDT: We don't do anything in that

3 range at Sandt Products.

4 MR. CARPENTER: Thank you. Mr. Burns?

5 MR. BURNS: I know that Hansel makes 55, 56,

6 60, 65, 75, 78, 80, up to 150 gram, top coated and

7 non-top coated.

8 MR. CARPENTER: Would it be possible, in a

9 post-conference brief, for you to provide us, for

10 those products that were more than 55 grams and less

11 than eight grams, if you could just give us an

12 estimated percentage of your total production that's

13 accounted for by those products.

14 MR. BURNS: Yes.

15 MR. CARPENTER: Thank you. The one factual

16 point that I think I heard all of the parties agree to

17 was that there were no nonsubject imports. I just

18 wonder if I could get a response from counsel for the

19 Respondents here. Would you agree, then, that the

20 Bratsk decision by the Federal Circuit is not

21 applicable in this particular case?

22 MR. EMERSON: Reserving our right to bring

23 it up later, at this moment, I don't know that we

24 would be putting forward a significant Bratsk argument

25 right now.

1 MR. SILVERMAN: I don't understand why you
2 don't want to talk about Bratsk. To me, it's an
3 interesting case.
4 MR. CARPENTER: If you have anything further
5 you would like to state in your post-conference
6 briefs, feel free to.
7 Mr. Silverman, in your opening statement,
8 you indicated that the U.S. industry, I believe, had
9 been seeking imports from Europe in 2006 and 2007.
10 The domestic industry didn't seem to be aware of what
11 you might be speaking about. If you have any further
12 information about that, could you provide that in your
13 post-conference brief?
14 MR. SILVERMAN: Sorry about the confusion.
15 I think our friends from Mitsubishi will give you
16 chapter and verse, and they testified to it, that
17 there was some misunderstanding that I didn't say had
18 been imported. I said, in my opening, that they were
19 seeking imports, and they were seeking imports, as
20 Eric Emerson indicated a few minutes ago, and he can
21 repeat it, it was not just one shipment; it was
22 through 2000. I'll let you say it.
23 MR. EMERSON: This is Eric Emerson from
24 Steptoe & Johnson. This is the letter that we'll be
25 submitting with our post-conference brief, a request

1 from Appleton for supply of -- I believe it was 10,000
2 metric tons per year, starting in 2006. I don't
3 remember the specific date of the letter but through,
4 I believe, 2008, and that's what Mr. Silverman was
5 referring to.
6 As Mr. Jahns testified, the offer was
7 declined so there was no supply from Mitsubishi, but
8 that's what we were referring to.
9 MR. CARPENTER: Okay. Thank you very much.
10 Just one other question. Mr. Frueh, you had
11 stated, I believe, that prices in the United States
12 are lower than in most of Koehler's export markets.
13 Do you have any theories as to why that would be the
14 case?
15 MR. FRUEH: This is Willy Frueh from
16 Koehler. All I can say is that when I look at the
17 figures, this is the fact, and, I guess, to a certain
18 extent, due to competition in various markets, and in
19 all of the markets, clearly, demand is going up. We
20 have seen east Europe this year growing at 40 percent,
21 so this is significant.
22 MR. CARPENTER: Would you say that the level
23 of competition is more acute in the United States than
24 in some of your other export markets?
25 MR. FRUEH: I wouldn't say that. The

1 players are different, but it's about the same.
2 MR. CARPENTER: Thank you.
3 Any other questions from staff?
4 (No response.)
5 MR. CARPENTER: Okay. Once again, thank you
6 very much for your patience with our questions.
7 You've been very helpful.
8 This conference has run a very long time
9 already. We still have the closing statements. Would
10 it be possible to -- this is for counsel -- would it
11 be possible to move directly to the closing
12 statements, or would you like a couple of minutes to
13 prepare?
14 MR. SILVERMAN: Just give us two minutes.
15 MR. CARPENTER: Okay.
16 MR. SILVERMAN: I hope he speaks loud
17 because we've got to hear him.
18 MR. CARPENTER: We'll begin with Mr. Dorn,
19 and, Mr. Silverman and others, you can be thinking
20 about your response during that time. We'll take just
21 a couple of minutes to exchange parties. Thank you.
22 (Whereupon, a short recess was taken.)
23 MR. CARPENTER: Please proceed, Mr. Dorn,
24 whenever you're ready.
25 MR. DORN: Thank you. During his opening,

1 Mr. Silverman said that we've gerrymandered the scope
2 to exclude the profitable segment of the business.
3 What we did in our scope was we focused on the imports
4 that were causing the problem. We focused on the
5 commodity-type, lightweight thermal paper because
6 those are the imports coming in. If we had expanded
7 the scope, Mr. Silverman would have said, "Why are you
8 including products we don't even ship to the United
9 States?" So we've targeted the problem.
10 With respect to the like product issue, the
11 question is, which product made in the United States
12 best matches up with the product that's within the
13 scope of the investigation? So the product that's
14 subject to investigation is all 70 or under.
15 Which product made in the United States
16 matches up with the best, which is most similar
17 physical characteristics and uses? It's obviously the
18 product made in the United States that's 70 grams or
19 less.
20 In terms of a clear dividing line, this is
21 clearly an easy case because we've got admissions
22 that, in the United States, you only have product
23 made, 55 or lower or 80 and above. We don't have a
24 situation where we've got minor variations on either
25 side of the line. This is a clear dividing line.

1 Finally, no one disputes the like product
2 definition for the preliminary investigation.
3 There is also no dispute about the volume of
4 imports or the increase in the volume of imports.
5 That's where you begin your analysis in looking at the
6 impact of the imports. You look at the volume, and
7 we've got no dispute there. Imports increased 60
8 percent from 2004 to 2006. Imports have over half of
9 the U.S. market: clearly significant.
10 Turning to price effects, I didn't hear
11 anybody claim that imports have not affected domestic
12 prices. Mr. Dougan is an economist. You're not going
13 to have him come up here and say that if imports
14 supply 50 percent of the market, they are not having
15 any price effect. Of course, they are having a price
16 effect, just by given the degree to which they have
17 penetrated the market.
18 You also heard a lot of testimony about the
19 commodity nature of this product and the
20 standardization and the consolidation of SKUs. So
21 it's a price-sensitive product.
22 Mr. Burns testified that 2006 was a tough
23 pricing market year. Mr. Jahns testified that prices
24 are down in 2007. Mr. Jahns also admitted, as Mr.
25 Schonfeld testified, that Mitsubishi prices to the

1 U.S., irrespective of exchange rate. So if the value
2 of the dollar goes down, that doesn't affect
3 Mitsubishi's prices because they are committed to be
4 here for the long term, as Mr. Jahns testified,
5 whatever the exchange rate is. That's called
6 "dumping."
7 There is no dispute that costs have gone up.
8 There is no dispute that demand has been very strong
9 and growing. In fact, there is no dispute that all of
10 the ingredients were there for prices to go up
11 substantially from 2004 to date in tandem with a
12 growing U.S. market, a substantially growing U.S.
13 market.
14 With respect to adverse impact, I thought
15 Mr. Dougan's presentation was illuminating. Let's
16 think about it a minute. He is looking at the segment
17 reporting for all thermal paper produced by Appleton,
18 which includes lightweight thermal paper and high-
19 value-added, heavy thermal paper.
20 What it tell us is that on high-value,
21 heavyweight thermal paper, Appleton is making money.
22 Virtually no import competition with respect to high-
23 value-added, heavyweight thermal paper.
24 Where is it losing money? It's losing money
25 on lightweight thermal paper, which is where all of

1 the imports are coming in. The imports are
2 lightweight thermal paper, not heavyweight thermal
3 paper.
4 So what Mr. Dougan has done is explain
5 exactly the cause and effect of the increasing imports
6 of lightweight thermal paper that are the target of
7 this petition.
8 A couple of other points. With respect to
9 the supply situation in 2006, I think one of the
10 witnesses hit it on the head when he said it was "an
11 artificial tightness." There was never any allocation
12 of customers by Appleton. The little spike in supply,
13 which I think another witness on the other side
14 alluded to, was common to all suppliers, not just to
15 Appleton, and, as Mr. Schonfeld testified, Appleton
16 worked through that problem quite nicely.
17 With respect to the testimony regarding
18 security printing, that's a niche market. It's an
19 outlier, and it really doesn't change anything with
20 respect to the value-added issues.
21 Rite-Made's quality comment, as far as
22 Appleton knows, that issue is isolated to Rite-Made's
23 machines, not the machines of other converters. You
24 might want to ask Rite-Made if it had a problem on its
25 end as opposed to blaming Appleton for something that

1 would affect the quality of the product.
2 The comment was made about requesting a
3 product from Mitsubishi, a request made by Appleton,
4 and the timing of that request is illuminating because
5 it was made at the time that they were considering
6 $100 million investment, a good time to do a little
7 market intelligence to see what pricing was from other
8 countries, and, of course, they didn't buy a ton of
9 paper from Germany or any other European source.
10 Mr. Silverman made a point in his opening
11 remarks. I think he said the Commission has never
12 excluded the processors from the domestic industry
13 except in agricultural cases, and that's just not
14 true.
15 We'll certainly address that in our post-
16 conference brief, but even in the Thermal Transfer
17 Ribbons case, of course, ultimately, in the final, the
18 Commission accepted the converters in the industry.
19 In the preliminary determination, it excluded them,
20 and we think the facts are a lot stronger for
21 excluding the converters here than in the Transfer
22 Ribbons case.
23 This has been a difficult case to argue
24 today because we have so little information in terms
25 of the questionnaires. We look forward to -- them

1 over the next few days, and we'll be addressing all of
2 the questions you have raised this morning and this
3 afternoon. Thank you very much.
4 MR. CARPENTER: Thank you, Mr. Dorn.
5 Mr. Silverman? Mr. Dougan?
6 MR. SILVERMAN: What I would like to do is
7 allow Mr. Dougan to finish some key points from his,
8 and since we have a good half an hour to go, we'll fit
9 it all in.
10 MR. CARPENTER: Okay.
11 MR. DOUGAN: Thank you. I would like to
12 start by addressing some of the points that Mr. Dorn
13 just made.
14 I believe he mischaracterizes my testimony
15 and the evidence supporting it. I did not state that
16 Appleton was making money on its higher weights and
17 losing money on the lower weights. All I pointed out
18 was that the thermal paper segment overall was making
19 money. All we know for sure is that the thermal paper
20 segment overall is making money. So the
21 characterization that they are losing money on the
22 lower grades and making money on the higher grades is
23 theirs, not mine.
24 To this end, this is one of the reasons that
25 the staff should apply close scrutiny to the

1 Petitioners' questionnaire. The financial entry data
2 presented in the U.S. producers' questionnaires are
3 different, sometimes significantly so, from the data
4 presented in the petition. The actual data are
5 confidential, but we asked that the staff look into
6 this.
7 The magnitude of the differences suggests
8 more than small rounding error, and Petitioners'
9 questionnaire did not provide an explanation for these
10 discrepancies. These inconsistencies should be of
11 concern to staff.
12 First, Appleton is the sole Petitioner, and
13 its results speak directly to the strength of the
14 alleged injury case.
15 Second, lightweight thermal paper is
16 produced by Petitioners on the same facilities and the
17 same equipment, and thus any reporting of these
18 results represents an allocation exercise. There are
19 several different methods that can be used for
20 allocation, and staff should ensure that Petitioners
21 have performed such allocations as reasonably and as
22 accurately as possible.
23 So, given this, there is ample reason for
24 staff to be concerned about the consistency, if not
25 the accuracy, of the financial data, and the economic

1 record presents strong reasons for staff to verify
2 Appleton's U.S. producers' questionnaire before making
3 a decision as to whether to proceed with this
4 investigation.
5 If I can have one more thing, I did not
6 discuss price effects because any of the data
7 available on this are confidential and not on the
8 record, but we will discuss this in the post-
9 conference brief, and I think the results, with
10 respect to subject imports from Germany, will be quite
11 different than Mr. Dorn is thinking.
12 MR. SILVERMAN: Well, if you sit here and
13 listen to what's transpired today, I think it's
14 important to figure out what's really going on in this
15 market. Surely, you didn't get information from
16 Appleton because they are not a converter. They are
17 not a customer. They testified about things that they
18 don't have firsthand knowledge of.
19 You compare the testimony by their converter
20 witnesses with our converter witnesses. Where is
21 their substantial evidence on all of the important
22 measures of causation?
23 Now, one thing we know, during the period of
24 investigation, including the interim period, our
25 witnesses have testified that prices were going up.

1 It's not your typical case, not your typical case.
2 Prices are going up from imports.
3 Second, demand is healthy, strong,
4 increasing. You don't get that in many cases when
5 people come in and say they are vulnerable or they are
6 materially injured. There is no doubt about that.
7 We've given you substantial information in
8 the testimony and in written submissions that you will
9 get, or have gotten, showing the value added by the
10 converters. Just waving their hands and saying, "Oh,
11 no. We have better numbers," is not substantial
12 evidence on the record. We have substantial
13 evidence on the record that converters employ lots of
14 people with lots of equipment and make significant
15 value added to the product.
16 Now, I think it's also significant, when you
17 talk about prices, not to forget the hidden company,
18 which is Kanzaki. We had testimony from a number of
19 witnesses today saying Kanzaki is the low-price
20 leader. They pushed the price down.
21 Let's not forget the impact of Kanzaki as a
22 low-price leader because that's germane when you're
23 trying to determine who causes price declines or price
24 suppression. We heard testimony that Koehler itself,
25 as late as August, issued a substantial price

1 increase, and what happened? Kanzaki didn't go up.
2 Appleton only went part of the way. Is that price
3 suppression? Is that adverse price effects by reason
4 of imports? Absolutely not. That's why this case is
5 so different from the average case that you get.
6 But on turning away customers, we heard
7 testimony today that Kanzaki was not reliable. One
8 converter said they were in and out of the market.
9 That's a form of turning people away and
10 unreliability.
11 We had testimony from our converters about
12 being put on allocation and not getting their
13 quantities. They admitted it. Well, it was only
14 three to four months. If you're running a business,
15 somebody says, "Well, it's only three or four months,"
16 maybe you have to find another supplier that's more
17 reliable, and if Kanzaki is in and out of the market
18 because it's not really that important a product for
19 them, maybe you have to find some other source of
20 supply.
21 Now, of course, Appleton has an answer to
22 that: Go to Germany and get your product. They
23 wanted to do that, and we have testimony on it today,
24 and they haven't denied it. Not I, but Mitsubishi
25 will submit documents to prove exactly what they did,

1 and it wasn't for one truck load; it was for
2 substantial quantities through 2007-2008. Now, why
3 would they ask for that? Because they have
4 underutilized capacity, you want to give the workers
5 more work.
6 Something is funny, and this case smells.
7 That's an important element of it that I hope the
8 Commission will take seriously. Even though it's a
9 prelim., you're not barred from getting into this kind
10 of detail, especially if there is extra time.
11 Then I think, really, the lightning bolt --
12 if that wasn't a big enough lightning bolt, I think
13 you have to think about a company that comes to you
14 and claims they are materially injured or threatened
15 with material injury, vulnerable -- you know that
16 word. They tell you that, and then they come up with
17 $100 million investment. Give me a break.
18 What is that? If you're vulnerable, if
19 you're materially injured, how do you get people to
20 give you $100 million to expand the market, to expand
21 the capacity? Something doesn't fit. It just doesn't
22 fit, and, as my economics teacher used to say, "The
23 market speaks."
24 Forget that testimony and remember, they got
25 $100 million to expand capacity on this product.

1 Nobody is vulnerable and gets $100 million to expand
2 their capacity, and we see from their public filings
3 what their investments have been over the last couple
4 of years -- compared to this.
5 That's why I say this case needs serious
6 further inquiry because of these inconsistencies that
7 just don't make sense. This case is one that calls
8 out for the negative. Thank you very much.
9 MR. CARPENTER: Thank you, gentlemen. On
10 behalf of the Commission and the staff, I want to
11 thank the witnesses who came here today, as well as
12 counsel, for sharing your insights with us and helping
13 us develop the record in these investigations.
14 Before concluding, as you're aware, the
15 Department of Commerce has postponed initiation of
16 these investigations. Therefore, the deadline for the
17 submission of corrections to the transcript and for
18 briefs in the investigations has been moved to
19 Thursday, October 18th.
20 If briefs contain business-proprietary
21 information, a public version is due on October 19th.
22 Because of Commerce's postponement of
23 initiation, staff will notify the parties of the
24 schedule for the remainder of the investigations as
25 soon as it becomes finalized. Thank you for coming.

1 This conference is adjourned.

2 (Whereupon, at 3:08 p.m., the preliminary

3 conference in the above-entitled matter was

4 concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Certain Lightweight Thermal Paper

**INVESTIGATION NOs:** 701-TA-451 & 731-TA-1126-1128 (Preliminary)

**HEARING DATE:** October 10, 2007

**LOCATION:** Washington, D.C.

**NATURE OF HEARING:** Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: October 10, 2007

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Tammy Brodsky
Signature of Court Reporter