



UNITED STATES SENATOR  
**SUSAN M. COLLINS**



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**\*\*Testimony of U.S. Senator Susan M. Collins\*\***  
**International Trade Commission**  
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Madam Chairwoman and members of the Commission, I appreciate the opportunity to testify before you today about how Chinese and Indonesian subsidies are injuring the United States paper industry.

U.S. manufacturers and their employees can compete against the best in the world, but they cannot compete against foreign manufacturers who receive huge government subsidies and other unfair advantages. Time and time again, I hear from Maine manufacturers and workers whose efforts to compete successfully in the global economy are unsuccessful because Chinese and Indonesian manufacturers enjoy advantages from illegal pricing and subsidies. The results of these unfair practices are lost jobs, shuttered factories, and decimated communities. Since 2002, the U.S. paper sector has lost an estimated 60,000 jobs.

Over the past decade, China has undergone a significant economic transformation, and today its economy is no longer completely controlled by the government. Unfortunately, as China has become a key international economic player, it has repeatedly refused to comply with standard international trading rules and practices. The use of subsidies and other economic incentives that are designed to give its producers an unfair competitive advantage are clearly in violation of international rules.

In 2006 and 2007, the ITC conducted an investigation on behalf of the NewPage Corporation. This investigation focused on unfair subsidies to the coated free sheet paper industries in China, South Korea, and Indonesia, as well as injurious dumping by producers in those countries. Although the Department of Commerce's investigation had shown that these countries were engaging in unfair dumping practices and receiving government subsidies, the ITC determined that U.S. manufacturers had not been injured.

Unfortunately, the Chinese and Indonesians have viewed this determination as a green light to increase their dumped and subsidized exports to the United States. This is apparent from the fact that between 2007—when the ITC's determination was made—and the first half of 2009, imports of coated paper from China increased from 13 percent to 21 percent of the U.S. market.

In Maine, we have an abundant supply of the primary renewable resource—timber—which produces very high quality pulp for paper production. We have ample hydroelectric power to run our mills, and we have the best trained, the highest skilled, and most dedicated paper workers in the world. With this winning combination, American producers should easily succeed in this market, but instead they have suffered losses in market share to countries like China that don't even produce their own pulp.

The loss of market share is a direct result of China subsidizing its domestic coated paper industry. In addition to national and local income tax exemptions, the Chinese government provides low-cost loans through government-owned banks, as well as grants for the development of new paper capacity, and tax breaks based on

export performance and domestic equipment purchases. These subsidies have unfairly put U.S. producers like NewPage and Sappi at a competitive disadvantage.

The Department of Commerce found in its recent investigation that China has used a number of subsidies deemed illegal under WTO rules including: loans to the paper industry; income tax reductions for foreign-invested companies; exemptions and reductions of local income taxes for foreign-invested companies; value-added tax rebates on purchases of domestically produced equipment; tariff exemptions on imported equipment; and grants to state-owned enterprises. The Department of Commerce found that the Indonesian government was subsidizing its domestic paper industry by providing timber below cost, forgiving government loans, and banning the export of logs.

If that were not enough, the Department of Commerce has also found both nations guilty of dumping their paper into the U.S. market.

I was disappointed when the Department of Commerce decided earlier this month not to investigate as a potential subsidy China's manipulation of its currency. I believe that the continued undervaluation of the yuan is also a critical issue for our nation's competitiveness. Economists believe that the yuan is undervalued by at least 30 percent, creating an even greater unfair advantage for Chinese paper manufacturers. In the Senate, I am working to correct this imbalance by cosponsoring the Currency Exchange Rate Oversight Reform Act of 2010. The bill establishes consequences for countries that fail to adopt appropriate policies to eliminate currency misalignment and includes tools to address the impact of currency misalignment on U.S. industries.

Unfair trade practices in China and other countries have had a negative effect on many industries in Maine. The pulp and paper industry in Maine has often been referred to as the "backbone" of my State's economy, and with good reason. Last year, the industry put nearly \$900 million into the state's economy. In total, the pulp and paper industry accounts for 22 percent of all manufacturing wages in the state. In some communities, the mill can represent 60-80 percent of total tax revenues.

When machines or mills are shut down, it is devastating to the local and state economies. In 2009, NewPage's Rumford mill was forced to take extended unscheduled downtime due to market conditions. The lost wages associated with these machine shutdowns cost our communities in so many ways. Maine's paper mills are also very much interconnected with their communities. According to PricewaterhouseCoopers, each paper-making job in Maine creates 3.28 additional direct jobs for suppliers and contractors. When logging, transportation, retail, and other fields are taken into account, each job at a Maine paper mill creates six additional jobs in the community.

Five Maine plants produce coated paper: NewPage's mill in Rumford; Verso Paper mills in Bucksport and Jay; and Sappi Fine Paper mills in Westbrook and Skowhegan. The mills are efficient and up-to-date. They employ sustainable forestry practices that help ensure a viable long-term supply of timber, while protecting our environment. Altogether, some 4,000 workers in Maine derive their employment from the production of coated paper. These workers are highly skilled, with average salaries of \$60,000. Nevertheless, I am deeply worried. Some of Maine's mills and paper machines have been idled for weeks or months at a time, leaving workers without a steady paycheck. These shutdowns, even if temporary, can cause lasting damage to communities.

Mills in the United States need to have a healthy rate of return not only to allow them to stay in business, but also to be able to invest in upgrades and the latest production technologies. In a capital-intensive industry like this, continued capital investment is critical. These workers and their communities rely on the economic benefits of the mills.

Given these circumstances, I urge you to consider the record carefully as I believe clear violations of international trading rules and practices exist. If these violations are not addressed, Maine's proud tradition of producing pulp and paper could be lost to foreign manufacturers who have benefited from unfair government subsidies and assistance.

Thank you very much for the opportunity to address you today.