

**HEARING BEFORE
THE U.S. INTERNATIONAL TRADE COMMISSION**

**CERTAIN UNCOATED PAPER
FROM
AUSTRALIA, BRAZIL, CHINA, INDONESIA, AND PORTUGAL**

INVESTIGATION NOS. 701-TA-528-529 AND 731-TA-1264-1268 (FINAL)

January 7, 2016

**TESTIMONY AND MATERIALS IN SUPPORT OF IMPOSITION OF
ANTIDUMPING AND COUNTERVAILING DUTY ORDERS**

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INDUSTRIAL AND SERVICE WORKERS INTERNATIONAL UNION ("USW");
DOMTAR CORPORATION; FINCH PAPER LLC; P.H. GLATFELTER COMPANY; AND
PACKAGING CORPORATION OF AMERICA**

**Before the
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.**

IN THE MATTER OF

**CERTAIN UNCOATED PAPER FROM
AUSTRALIA, BRAZIL, THE PEOPLE'S
REPUBLIC OF CHINA, INDONESIA,
AND PORTUGAL**

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) **ITC Inv. Nos. 701-TA-528-529 and**
) **731-TA-1264-1268 (Final)**
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TESTIMONY OF RICHARD L. THOMAS

January 7, 2016

Good morning. My name is Dick Thomas. Since 2007, I have worked at Domtar as Senior Vice President of Sales and Marketing. I am responsible for pulp and paper sales and the marketing of all pulp and paper grades produced at the mills.

Domtar is the largest producer of uncoated freesheet paper in North America. We produce that product in both sheet and in roll form. Our eight U.S. paper mills produce sheeter rolls, which we then convert to Certain Uncoated Paper on our sheeting and packaging lines, which are located at two of our mills and at eight offsite plants. Our paper mills also produce uncoated free sheet paper for sale in rolls to commercial printers. Consistent with the Commission's practice, I will refer to those rolls as web rolls. Because all of our papermaking capacity can be used to make sheeter rolls, our capacity constraint for making Certain Uncoated Paper is our sheeting capacity, not our papermaking capacity.

Well over half of Domtar's revenues are derived from sales of uncoated free sheet paper. Historically, this business has been a solid EBITDA margin business. During the period of investigation, however, dumped and subsidized imports caused severe damage to the Certain Uncoated Paper portion of Domtar's U.S. operations on uncoated free sheet paper.

U.S. demand for writing and printing papers has been declining over at least the last decade, as electronic media have become more pervasive. But the rate of decline for Certain Uncoated Paper has been less than that for uncoated web rolls. Thus, Domtar has sought to allocate as much of its capacity as possible to Certain Uncoated Paper, where there has been less decline in demand. The increase in subject imports, however, has prevented us from doing so.

In response to declining demand, Domtar and other U.S. producers have been reducing papermaking capacity over the last decade to balance supply with demand, as is clear from published reports. The increase in subject imports, however, has forced the industry to significantly accelerate its disinvestment in papermaking and sheeting assets. The many closures of paper mills and machines during the POI are well-documented in the record.

Although Domtar had closed a paper machine in 2011, we nonetheless had to take substantial market downtime during the period of investigation due to increasing imports. In addition, due to the impact of subject imports, we were forced to make a significant capital investment to give our Marlboro paper machine the capability to produce less profitable lightweight base stock for thermal paper, in addition to the 20 pound sheeter rolls it was designed to make. That machine is still used in part for sheeter rolls, but we cannot keep it fully utilized making only sheeter rolls.

Respondents have taken great liberties in pointing to statements in Earnings Calls made by Domtar CEO John Williams. **None of these statements, however, specifically pertain to Domtar's U.S. operations for Certain Uncoated Paper.** Moreover, Respondents have failed to note the various statements by Mr. Williams regarding the adverse impact of imports. For example, in the Fourth Quarter 2014 Earnings Call, Mr. Williams stated that "there is no doubt that current market conditions have been challenged by the increase in imports and we had to make some price adjustments in certain channels in the fourth quarter." Posthearing, we will

point out additional statements that Respondents have failed to disclose. The fact is that as early as 2010, Domtar identified the intense competition with imports as the number one risk factor for our Certain Uncoated Paper business. Domtar continued to identify imports as the most important risk factor during 2012-2015.

Respondents also totally mischaracterize the cause and impact of International Paper's September 2013 announcement that it would close its paper mill in Courtland, Alabama. What is most striking about this closure is that IP's mill in Courtland housed one of the newest, largest, and most cost-competitive uncoated freesheet paper machines in the United States. The combination of sharply increasing imports on top of a small but steady decline in demand apparently led IP to conclude that it must close that mill to align its supply with demand for its products. Thus, as the Department of Labor concluded, increasing imports materially contributed to the decision to close the Courtland Mill. That is also the conclusion of RISI, as shown on **Slide 1**.

With an improving economy, increasing raw material costs, and the September 2013 Courtland announcement, Domtar issued price increases in October 2013 and in February 2014. We were able to increase prices modestly in the first half of 2014. It soon became clear, however, that subject imports were not following the price increase and, as result, were rapidly increasing their sales at the expense of Domtar. The imports undercut our prices, took significant sales volume and market share, and stymied the anticipated price recovery. Subject imports increased over 41 percent from 2013 to 2014 and gained over five percentage points of market share in just one year.

Domtar was forced to retreat from most of its price increases in the second half of 2014. We could not afford to continue losing sales volume, because we must have high operating rates

to cover our enormous fixed costs. As a result of the sharp increase in lower priced imports, U.S. prices for cut-sized paper fell to levels prevailing before the Courtland closure was announced.

Domtar had ample excess capacity for producing Certain Uncoated Paper in 2014. We had unused converting capacity of approximately 500,000 tons. We also had ample paper machine capacity that was either unutilized or was being used to produce far less profitable web rolls that could have been diverted to produce sheeter rolls. Domtar expected to increase our sales volume, as well as our prices, in the wake of reduced supply following Courtland's shutdown. Thus, as we began 2014, Domtar had no reason to anticipate that it would have any need to shut down any capacity in the reasonably foreseeable future.

Domtar, however, received virtually no benefit from the Courtland closure, because low-priced subject imports continued to surge. Rather than increasing sales volume in the wake of Courtland's closure, Domtar actually lost sales volume in 2014. By attempting to increase prices, Domtar lost substantial market share to lower priced subject imports. In addition, we had to roll back our announced price increases in the second half of 2014. The price increases we realized in the first half of 2014 did not come close to 2011 prices, but we could not risk any further loss of market share.

Our loss of volume to subject imports and our need to roll back price increases due to subject imports resulted in our December 2014 decision to announce the cessation of production of uncoated freesheet on paper machine A64 and to shut down two converting lines at Ashdown. If Domtar had not lost volume to increasing imports and had achieved sustainable price increases in the wake of Courtland's closure, we would have had no need to plan to shut down production on paper machine A64 or the two converting lines at Ashdown in 2016.

Having lost substantial market share to subject imports in 2014, Domtar had no choice but to lower prices in 2015 to prevent further lost sales. By lowering prices we were able to

regain some lost volume in interim 2015, which we desperately needed to keep our paper machines running. On the other hand, by meeting the import prices, we suffered lower prices and lower profits.

Having decided to reduce paper machine and converting capacity at Ashdown as of 2016, we considered strategies to mitigate the adverse impact on the company. We determined to repurpose Ashdown paper machine A64 to make fluff pulp so that we could preserve some earnings, albeit sharply reduced, from this significant asset. We took a large write down on property, plant, and equipment, and we had other significant closure costs. We also had to make a significant investment to convert the paper machine to make fluff pulp, a product that is less profitable than a fully utilized machine making Certain Uncoated Paper. Thus, as a result of subject imports, we incurred significant capital outlays to achieve lower returns. This is a good example of what I said at the Staff Conference: Whenever you repurpose a paper machine to make some other product, you generally spend a lot of money to make a lower return. And that's the best case scenario resulting from the illegal trade we've experienced. Even worse are closed facilities and more lost jobs.

Thank you.

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**PUBLIC HEARING BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION**

JANUARY 7, 2016

**STATEMENT OF JUDITH M. LASSA
CONSULTANT
BOISE PAPER, A DIVISION OF PACKAGING CORPORATION OF AMERICA**

Good morning. My name is Judy Lassa. I am a consultant to BOISE Paper, a division of Packaging Corporation of America. I served as Senior Vice President of BOISE after its acquisition by PCA in the fall of 2013 through my retirement in October of 2015. I was BOISE's Chief Operating Officer at the time of its acquisition by PCA in 2013. I have worked in the paper business for more than 30 years.

BOISE manufactures certain uncoated paper on four machines in the United States – two at our mill in International Falls, Minnesota and two at the mill in Jackson, Alabama. Both facilities are integrated mills, from pulp production through papermaking and sheeting.

Dumped and subsidized imports have directly harmed our paper business. In the fall of 2013, we had to permanently shut two of our paper machines at International Falls. Those machines produced certain uncoated paper as well as other uncoated paper. The closure reduced our paper production capacity by 115,000 tons, and it forced us to eliminate 265 jobs. While BOISE employed more than 1,400 production workers in our certain uncoated paper business in 2012, today it is less than 900. Unfortunately, it was simply no longer economical to keep those

machines running in current market conditions. The constant pressure on prices from rising imports was part of the reason we had to shut those machines in 2013.

Contrary to what respondents have claimed, these closures were not part of a strategy to repurpose our assets to shift to higher margin products. The two machines we shut at International Falls were not shifted to producing any products at all. These machines were simply shut down, representing a loss of assets and investment for BOISE, for its workers, and for the community of International Falls.

Our facilities that make certain uncoated paper also make uncoated web rolls, which is a different product. Web rolls are sold to be printed or converted in roll form before their final use, unlike certain uncoated paper which is sold in sheets and printed or used in sheet form. In general, as long as the sheeting capacity is available, it is much preferable to produce certain uncoated paper rather than web rolls on a given machine that can produce both. Web rolls are much less efficient to manufacture, because they are produced in smaller runs and require more frequent changeovers. Certain uncoated paper, by contrast, can typically be produced in much longer, more efficient runs, because it is produced in larger volumes to more uniform specifications. There are also constraints in terms of the number of winders available to handle web rolls, which are much narrower than the wide sheeter rolls used to produce certain uncoated paper. A mill can produce more certain uncoated paper than web rolls with the same winder capacity. Finally, certain uncoated paper undergoes the added step of sheeting, which adds value to the product. In short, with our existing papermaking capacity, certain uncoated paper is a much more profitable product to make than web rolls – the only constraint we face in producing higher volumes of certain uncoated paper is our sheeting capacity and demand in the market that isn't captured due to unfairly traded imports.

Our facilities that produce certain uncoated paper are highly capital intensive and require significant investment to maintain. The pricing pressure imports have caused has prevented us from making important capital investments. In 2013, as we were coming to grips with the need to close two of our machines at International Falls, we had proposed to upgrade other equipment that is dedicated to the production of certain uncoated paper. Unfair imports had taken two percentage points of market share from domestic producers from 2012 to 2013. This was on the heels of market share gains already made by imports from 2011 to 2012. And it was accompanied by domestic prices being severely depressed by these imports. The Prehearing report shows that prices for the high-volume, Pricing Product One in the Commission's questionnaires fell by \$54/ton from the first quarter of 2012 to the last quarter of 2013. These facts made it impossible to justify the additional investment at International Falls. Since PCA's acquisition of BOISE in late 2013, any capital investments in the certain uncoated paper business have been focused on efficiency and reducing costs, not on upgrading production capabilities or increasing capacity.

The Prehearing report shows that the domestic industry overall saw its unit cost of goods sold increase over the period, even as prices declined in response to rising volumes of low-priced imports. If orders are not imposed on these imports, this cost/price squeeze will only worsen and more jobs will be lost. Paper mills must operate at high levels of capacity utilization because of their capital intensity and resulting high fixed costs. The willingness of subject foreign producers to flood our market flowed from capacity additions abroad (such as in Portugal, China and Indonesia) and weakening internal demand in other countries (such as Australia and Brazil). It is American plants that have paid the price of plant and machine closures due to increasing

dumped and subsidized imports. These closures have had devastating consequences for the workers, their families and the communities that depend on these facilities.

Thank you.

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**PUBLIC HEARING BEFORE THE
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JANUARY 7, 2016

**STATEMENT OF LEEANN FOSTER
ASSISTANT TO THE INTERNATIONAL PRESIDENT
& ASSOCIATE GENERAL COUNSEL
UNITED STEEL, PAPER AND FORESTRY, MANUFACTURING, ENERGY, ALLIED
INDUSTRIAL AND SERVICE WORKERS INTERNATIONAL UNION**

Good morning. My name is Leeann Foster, and I am an assistant to the International President and associate general counsel at the United Steelworkers. One of my responsibilities is to oversee collective bargaining for USW members in the paper industry. The USW is the largest industrial union in North America, with more than 850,000 members, and the paper industry is our largest sector.

The paper industry has always been a part of my life. My father worked at our local box plant in Cedar Rapids, Iowa for 45 years, and I worked at the plant to put myself through school. I have seen firsthand how generations of families depend on the U.S. paper industry – the industry's good wages and benefits have built and sustained communities across the country for decades.

The USW represents workers at seven of the nine domestic producers identified by the Commission's staff. The flood of unfairly traded imports since 2012 has taken an enormous toll on our domestic industry and its workers. In all, seven uncoated mills have been closed or have shut down machines since 2012, directly destroying thousands of jobs. For each of those jobs

lost, 6 other jobs are lost as well because of the powerful impact of the industry in the economy and local rural communities. Our union had members at seven of these eight mills.

While overall demand for uncoated paper has been declining over the long term, it is the rapid rush of imports into the market and their aggressive price undercutting that has pushed our industry over the brink.

In 2012, Mohawk paper shuttered its mill in Hamilton, Ohio. Wausau Paper closed its mill in Brokaw, Wisconsin. Boise shut a paper machine in St. Helens, Oregon that had previously produced uncoated paper. Hundreds of jobs were lost.

Then came 2013. Imports jumped by a massive 144 thousand short tons in 2013, an increase of more than 27 percent from the previous year. Rampant underselling continued to drive down prices. In February, Harbor Paper, the largest employer in tiny Hoquiam, Washington, closed the mill that was the center of economic life impacting 175 workers. In September, Boise was forced to shut down two paper machines at its International Falls, Minnesota mill, eliminating 265 jobs. The mill is the lifeblood of a town of less than 6,500 people.

In November 2013, International Paper started to close down its largest uncoated mill in Courtland, Alabama. More than 1,100 workers lost their jobs. As with most U.S. paper mills, the mill had been the largest employer in the county. That same month, Georgia-Pacific closed an uncoated paper machine at its Crossett, Arkansas facility, cutting twenty more jobs.

Despite the massive reductions in capacity that imports had already caused, at the end of 2014, Domtar announced that another machine at its Ashdown, Arkansas mill would cease producing uncoated paper in 2016 – a loss of 125 more jobs.

These machines and mills have been forced to close because of the surge in unfairly traded imports. Most of these mills applied for and received trade adjustment assistance (“TAA”). As you know, to qualify, it is not enough for jobs to be lost while imports increase – the Department must also find that increased imports “contributed importantly” to the job loss. Thus, a simple correlation between imports and job loss does not suffice for certification. In fact, the Department has denied petitions where imports have increased.

The Department also conducts its own research of the domestic industry, import trends, and other market factors. The TAA certification at Courtland is a case in point. The certification cites information in the company’s response, its survey of IP’s customers, and its own market research as all confirming that imports “contributed importantly” to the closure.

The uncoated paper industry and its workers have suffered from unfairly traded imports for too long. We urge the Commission to give U.S. paper industry workers the lifeline they so desperately need by making an affirmative determination. Thank you.

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TESTIMONY OF JACK BRAY

January 7, 2016

Good morning. My name is Jack Bray. I am the Vice President, Manufacturing Operations, for Domtar Corporation. I supervise eleven Domtar production facilities that are part of our Pulp and Paper Division. I have worked for Domtar and its predecessor company for 16 years. I have over 35 years of experience in the pulp and paper industry and have held a variety of manufacturing positions for four different paper companies.

The production of Certain Uncoated Paper is highly capital intensive. A greenfield pulp and paper facility, such as Domtar's Kingsport Mill shown on **Slide 2**, would cost approximately \$1.2 billion today. As shown on **Slide 3**, paper machines are massive, football-field sized pieces of equipment that run continuously, day and night. The run rates of the machines cannot be reduced significantly, or the paper will not form correctly. Moreover, the number of shifts cannot be reduced in response to poor market conditions, because the machines cannot be turned on and off without incurring significant costs and risking damage to the equipment. As a result, maintaining high capacity utilization rates and maximizing the efficiency of the paper machines are critical to our bottom line.

At the end of the paper machine, the paper is collected on spools in large reels which can reach weights exceeding 30 tons. The reels are then cut into narrower rolls of paper that are either in widths and diameters required for our sheeting operations or are shipped as web rolls directly to customers. The sheeter rolls are processed on a sheeter and packaging line in separate facilities that are located either at the paper mill or off-site. Sheeter lines, like those shown on **Slides 4 and 5**, can simultaneously slit up to six rolls at a time to the desired width (typically 8.5 inches) and length. The sheeter lines cut the sheets to length and package the sheets in 500-sheet ream quantities, place the packed reams in cartons, and stack the cartons on pallets ready for shipment.

Domtar's U.S. paper mills are designed to produce Certain Uncoated Paper. We maximize efficiency by producing high volume runs of sheeter rolls to make copy paper. The long run times of sheeter rolls reduce downtime on our paper machines. Shorter runs to produce lower volumes of alternative paper products reduce operating efficiency and increase costs.

A lack of orders forces us to take temporary paper machine downtime resulting in significant added costs. When lost sales volume is consistent and significant, we are forced to take extended downtime on our paper machines and either reduce the run time of our sheeters or close them temporarily. If the lost volume persists, we must make permanent capacity reductions by closing down paper machines and sheeters.

During the period of investigation, the increase in subject imports in the context of declining U.S. demand forced Domtar to make less efficient and less profitable use of its papermaking assets. We increased production of less profitable products, such as web rolls, because we could not fully utilize our papermaking capacity for sheeter rolls. In addition, we utilized a program for exports that led to spot sales when domestic demand was lost due to imports. Finally, we took unscheduled market-related down time across the system when there

was a lack of orders. From 2013 to 2014, as subject imports increased over 40 percent, the market-related downtime of Domtar's paper machines increased three-fold, from 40,000 tons to 123,000 tons.

We also had to reduce the run rates in all of our sheeting operations, in response to increasing subject imports. The capacity utilization of our sheeters fell sharply from 2012 to 2014, to levels that are not sustainable. For example, at our Ashdown facility, we were forced to reduce sheeting operations in 2013 from a 5 day schedule to a 3.5 day schedule. Even after shutting down two of our five sheeters at Ashdown in 2014, we were forced to return to a 3.5 day schedule by September 2014. Not one of the remaining 12 sheeters in the Domtar system ran at full capacity in 2014.

Respondents argue that the domestic industry's papermaking machines operated at maximum practical capacity throughout the POI, making the industry incapable of producing more certain uncoated paper. That is not true for Domtar, and based on the Prehearing Report, it is not true for the industry as a whole. As shown in the Prehearing Report, the domestic industry had 672,000 tons of excess papermaking capacity in 2014. In addition, papermaking capacity can be redirected from the production of web rolls and other paper products towards the production of Certain Uncoated Paper. According to the Prehearing Report, the industry produced 3.6 million tons of out of scope products in 2014, virtually all of which could have been used to make sheeter rolls. Thus, the domestic industry had significant amounts of available capacity.

Thank you.

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TESTIMONY OF ROBERT MELTON

January 7, 2016

Good morning. My name is Rob Melton. I have been with Domtar for 21 years, and am currently the Vice President of Business Papers, a position I have held since 2012. I am responsible for sales and marketing of the company's business paper products.

Certain Uncoated Paper is primarily sold as office paper that comes in standard sizes, weights, and brightness levels. Although I wish it were otherwise, sales of this product are based primarily on price because office paper is essentially a commodity product. Paper from any of the subject countries is interchangeable with each other and with that from Domtar or other U.S. producers.

This fungibility is driven by the fact that the product characteristics are highly standardized and brands of copy paper are largely the same. Any minor physical differences between the domestic like product and subject imports are irrelevant to a substantial majority of purchasers. Accordingly, sales at all levels of trade are extremely price-sensitive. Domestic producers compete head-to-head against subject imports from every country in all geographic markets, channels of distribution, and at all grades and price points. Lead time considerations are not an important factor given that domestic producers and importers of subject merchandise

have warehouses in all regions of the country. Moreover, end users do not distinguish between paper produced by one producer and another. As a result, price is the primary consideration in purchasing decisions.

I want to address Portucel's claims that they produce a special high-quality paper used in high-end applications which they sell through different channels of distribution. This is simply not true. We compete with Portucel in every supply chain across all our product offerings. For example, as shown on **Slide 6**, a U.S. wholesaler recently issued a promotional flyer advertising Portucel 8.5 x 11, 20 lb., 96 bright copy paper – the same promotional flyer that this company regularly publishes to advertise papers made in the USA, Brazil, and Portugal. The product being advertised is not Portucel's "branded" Navigator product, but rather a white box version called Soporcel Office Paper. This brand, and another white box brand called "Copy Paper," are Portucel's vehicles for moving higher volumes of copy paper into the U.S. market. Most disturbing for us is that this is a 96 bright paper which is selling well below the prevailing price point for 92 bright paper.

Portucel sells copy paper to a paper merchant or wholesaler who in turn sells to office supply retailers, both big and small. In fact, you will find Portucel paper offered for sale on all the major retailer websites. Portucel competes with domestic manufacturers head to head, every day, across a wide variety of channels to market, as shown in **Slide 7**.

The next two slides (**8 and 9**) show flyers offering U.S. product and paper imported from Brazil. As you can see, these products from the USA, Portugal, and Brazil are competing head-to-head in the same channel of distribution.

We also see a high level of competition from subject imports in our sales to big box stores. I have here three reams of 20 lb. 92 bright copy paper, all with identical packaging. One is identified as made in the USA, one in China, and one in Indonesia. I also have two packages

of 20 lb. 96 bright paper, again identically packaged, but one is from the U.S. and the other is from Brazil.

While folio paper is a smaller portion of the overall market for Certain Uncoated Paper, it is an extremely important part of our business. Folio paper is a branded business for us, and we have three grades -- Husky, Lynx, and Cougar -- which are sold to merchants and commercial printers. We have historically earned a solid return on these products, but that return deteriorated significantly during the period of investigation. Portucel and Suzano, in particular, targeted this market segment and became extremely aggressive with their pricing. As discussed in Exhibit 8 to our Prehearing Brief, we have lost business to imports from Portugal and Brazil with large and small merchants in the Northeast.

Respondents are claiming that there were widespread shortages caused by IP's closure of the Courtland mill and that subject imports were pulled into the market in 2014 to supply customers that could not get paper. Those claims are not true. While some paper brokers and distributors who represent foreign manufacturers speculated that shortages might occur, they did not and would not. In fact, Domtar alone had sufficient paper-making and sheeting capacity to fill any "gap" left as a result of the Courtland closure. Thus, there was no need for additional imports. The imports, however, continued to increase and took market share with low pricing. There were no non-price reasons why imports gained market share during the period of investigation: It was all about price.

Domtar lost so much business to subject imports that we were forced to lower our prices significantly in late 2014 and 2015 to regain market share. As shown in Exhibit 16 of our prehearing brief, Domtar considered different pricing scenarios for 2015. We could either try to maintain pricing and forego significant volume and market share, or drop our prices to regain

volume and market share. We chose the latter course as a last resort, and our profitability took a significant hit.

Finally, but for the flood of subject imports, Domtar would have made more profitable sales in the U.S. market, as opposed to less profitable sales in export markets. As noted in your Prehearing Report, the domestic industry shifted more production toward exports over the period of investigation, from 6.2% of production in 2012 to 8.3% of production in 2014. In the wake of the Courtland closure and what should have been a vastly improved supply/demand balance, the export volumes should have been sold in the higher-priced U.S. market. Increasing subject imports prevented us from making this shift.

Thank you.

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JANUARY 7, 2016

**STATEMENT OF PAUL LEBLANC
VICE PRESIDENT
BOISE PAPER, A DIVISION OF PACKAGING CORPORATION OF AMERICA**

Good morning. My name is Paul LeBlanc. I am the Vice President of BOISE Paper, a division of Packaging Corporation of America. I oversee PCA's sales of certain uncoated paper, as well as all other uncoated products, throughout the U.S. market. I have been with PCA, and BOISE before that, for over ten years.

PCA produces and sells a wide range of certain uncoated paper, including 8.5 x 11 inch white copy paper and colored papers. We sell to paper merchants, wholesalers, and well-known retailers of office paper.

The market for certain uncoated paper is extremely competitive, and, while we work hard to provide differentiated value to our customers, competition is largely based on price. Certain uncoated paper is treated mostly like a commodity product – the basic specifications in terms of size, weight, brightness, and smoothness are nearly the same for the vast majority of products in the market. We face price competition from imports whether directly or indirectly, every day and at nearly every one of our customers. All of our customers source from more than one supplier, and they can and do switch suppliers. Since certain uncoated paper from different producers is very similar and interchangeable, it is fairly easy for purchasers to switch suppliers

with fairly short lead time and no supply disruption. Large customers will often have different suppliers producing the exact same private label product, with no perceptible differences to the consumer.

The margins by which imports undersell our product are significant. For example, as detailed in my declaration in our pre-hearing brief, PCA has encountered persistent underselling of our high bright products by Portucel since 2012. In fact, one of our major customers is offering a Portucel product that has essentially identical features and benefits to one of our own at prices that are 19 to 41 percent below the prices at which they offer our product.

The rising volume of low-priced imports accelerated in 2014. The timing of the surge was particularly harmful to the domestic industry. For BOISE Paper, for example, having shut down two machines in 2013 and having suffered significant price erosion since 2012, we worked to reduce the price depression we had experienced through announced price increases in 2014. When International Paper decided to close its mill in Courtland, Alabama in September of 2013, we were hopeful that the supply/demand balance would improve and prices would recover. However, the additional 230,000 tons of aggressively priced imports that flooded the market in 2014 prevented the company from achieving the rebound in prices we had sought.

Respondents claim that they have gained market share at our expense not because of widespread price undercutting but because of other competitive advantages they enjoy. They claim they can satisfy demand for high bright paper. But BOISE and other domestic producers also offer high bright paper. The only problem is that we cannot achieve reasonable pricing on these products due to aggressive import competition. Respondents claim they can serve customers on the west coast with shorter lead times than domestic mills. But we also have a substantial portion of our sales devoted to customers in the west coast, and we have warehouses

there to serve those customers. The vast majority of our sales are from inventory, and the average lead time for our sales is just a few days.

Conversely, respondents claim we are shielded from import competition due to certain competitive advantages we enjoy. We do everything we can to explain the value of our product to our customers – our best in class service, our full line of products, our direct marketing to end users. But these benefits, as important as they are, cannot immunize us from import competition. A number of foreign producers have also developed their own brands and ranges of products. While we offer environmentally-certified paper to customers that demand it, paper with the same environmental certifications is also available from many of the subject foreign producers. And while certain uncoated paper is available in a range of brightness levels, with different opacities, shades, and other characteristics, this does not differentiate domestic product from subject imports. More importantly, when they price their products as aggressively as they have over the period of this investigation, it creates pricing pressure throughout the market, for all types of customers, all types of products, and from unbranded product to private labels and branded products.

Finally, respondents have claimed that the domestic industry has been unable to supply its customers, and that these shortages drew in needed import volumes. Nothing could be further from the truth. We did not voluntarily close our machines at International Falls in 2013 in order to deprive our customers of paper. Subject imports increased by 144 thousand short tons from 2012 to 2013, despite a decline in demand of nearly 100 thousand short tons. And these imports were priced so low they drove down the prices we were able to charge. It was these unfairly traded imports that drove industry capacity closures, not the other way around.

Thank you.

**Before the
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Washington, D.C.**

IN THE MATTER OF)

CERTAIN UNCOATED PAPER FROM)
AUSTRALIA, BRAZIL, THE PEOPLE'S)
REPUBLIC OF CHINA, INDONESIA,)
AND PORTUGAL)

) ITC Inv. Nos. 701-TA-528-529 and
) 731-TA-1264-1268 (Final)

TESTIMONY OF DAVID MCGEHEE

January 7, 2016

Good morning. My name is David McGehee. I am the President of Mac Papers. Our company's headquarters are located in Jacksonville, Florida and we are the largest merchant-distributor of fine papers, envelopes and graphic supplies in nine southeastern states. I have worked in the paper business for over 40 years.

We currently employ 975 full-time employees. Our sales total about \$590 million a year and we ship more than 275,000 tons of paper annually. Our company has 22 branch/office warehouse locations as well as 19 Mini Macs which are paper stores for walk-in customers. Uncoated paper is an essential part of our business, accounting for approximately 30 percent of our annual fine paper shipments by volume. We sell both cut-size copy paper and folio sheets. Most of the uncoated sheet that we sell is shipped direct from our warehouses to our customers, who consist primarily of commercial and non-commercial printers, educational institutions, government entities, and other businesses.

Imports from subject countries are interchangeable with what we buy from domestic producers, and our customers are mostly indifferent about whether they buy imported or

domestic product. In my experience, all domestic and imported paper meets the industry's quality requirements. Thus, for a merchant company like ours, the most important consideration is the price. I have never heard from any customer asking for product made from eucalyptus pulp. Nor do they demand paper with more of a blue/white shade, high brightness paper for standard office or home applications, or paper with an environmental certification.

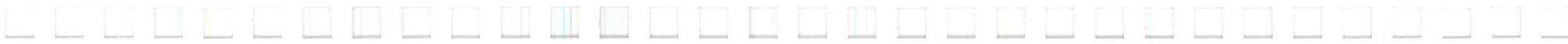
I understand that Portucel and Suzano claim to produce paper that is brighter, smoother, stiffer, and with greater opacity than domestically-produced paper. That is not correct. At Mac Papers, we buy Certain Uncoated Paper from a variety of U.S. suppliers that have exactly the same brightness levels and other characteristics as copy and folio paper from Portugal and Brazil. Imports from Brazil and Portugal are sold at much lower prices than domestically-produced product. For example, the Soporset opaque product sold by Portucel is priced in the mid to low \$50s/cwt, while the comparable Lynx product from Domtar is priced in the mid-\$60s/cwt.

Our customers are mostly indifferent about having access to matching cover stock when buying folio offset paper. First, many jobs don't require cover stock. Second, this only applies to opaque paper, and not regular offset paper. Third, if a cover stock is needed, it can be purchased from another supplier. Moreover, Portucel offers a wide array of cover stock to match its Soporset folio offerings.

Imports have disrupted the market for certain uncoated paper and have caused uncertainty and volatility in our business. Our preference is to buy from U.S. paper producers when we can. But imports from the subject countries are routinely priced below the prices charged by U.S. producers. In a market where price is paramount, the margins of underselling by subject imports have been too significant to ignore. As a result, Mac Papers has required our U.S. suppliers to

reduce their prices for both cut-size and folio paper to keep us competitive with other merchants
supplying subject imports.

Thank you.



The Courtland Closure

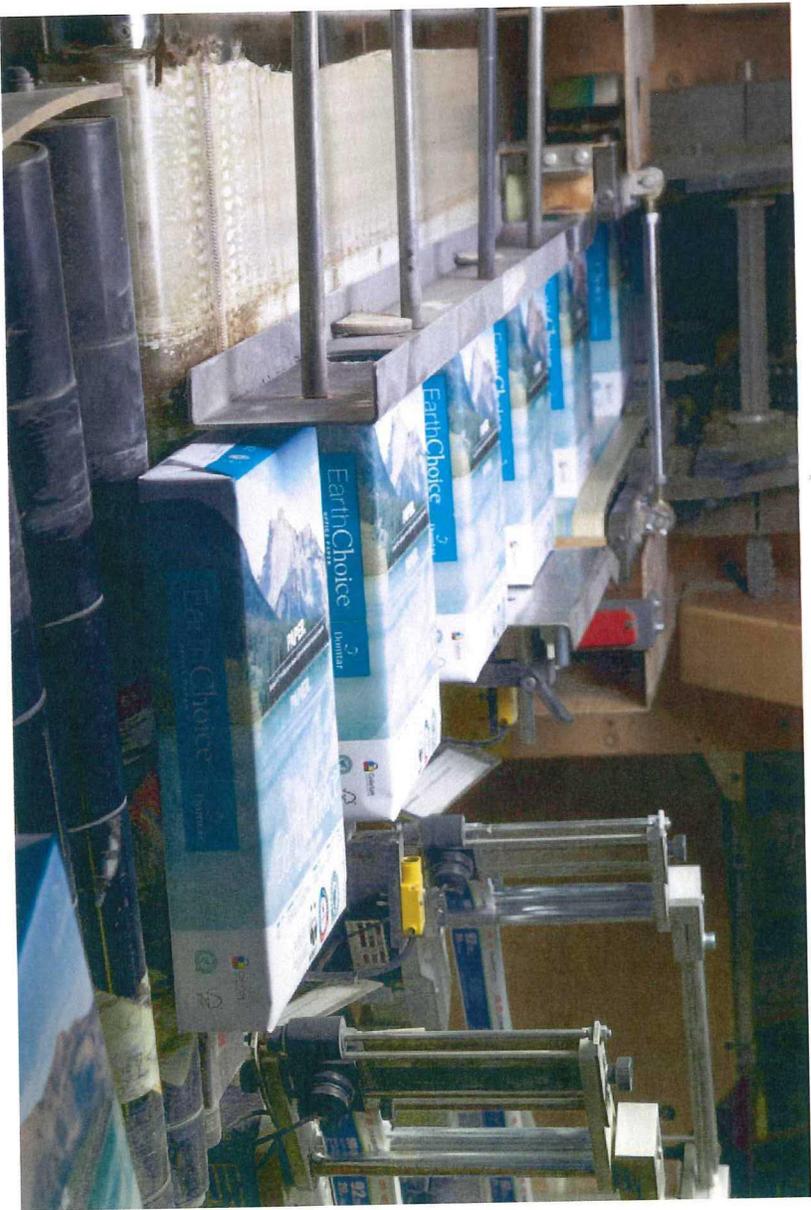
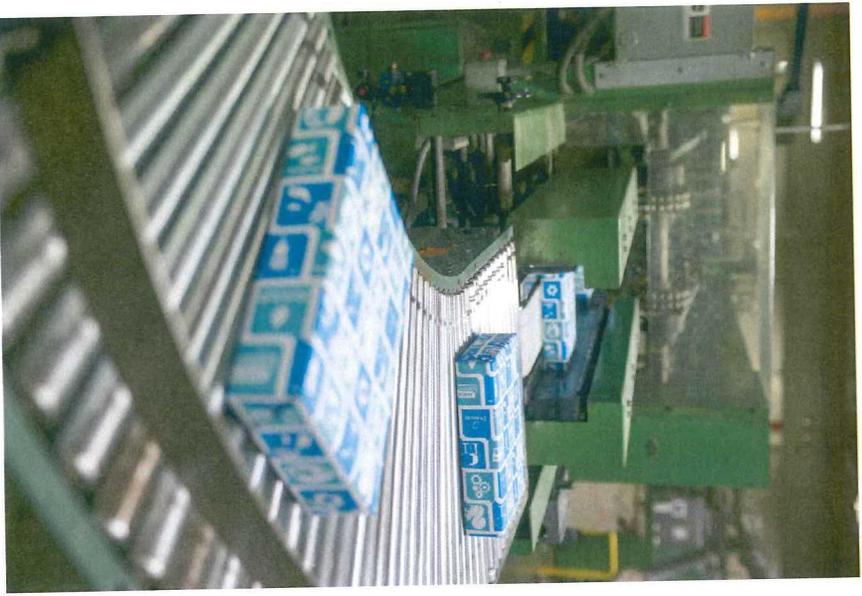
“The rise in offshore imports was also a major factor contributing to the drop in demand for shipments from US domestic mills that led to the decision to shut Courtland.”

RISI Paper Trader, Sept. 2013









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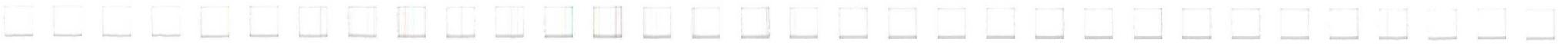
Certain Uncoated Paper Is Highly Interchangeable Regardless Of Source

- The product at issue is used by everyone in this hearing room on almost a daily basis in office and home copiers and printers.
- 8.5 x 11 inch, 20 pound, multi-purpose copy paper from all sources at issue is perfectly interchangeable for use in office copiers and printers.
- Purchasers and importers overwhelmingly reported that subject imports and the domestic like product are always or frequently interchangeable.
- “Staff believes that there is a high degree of substitutability between domestically produced uncoated paper and paper imported from subject countries.” Prehearing Report at II-17.



Purchasing Decisions Are Based On Price

- Responses to the Purchasers' Questionnaire:
 - Price is the most often cited top 3 purchase factor.
 - Quality and availability also make the top 3, but all suppliers at issue here offer a quality product that is readily available in the U.S. market.
 - Most reported that U.S. and subject imports were comparable or that the U.S. is superior on all 30 purchase factors other than price, where the U.S. is inferior (i.e., higher priced).
 - Made from eucalyptus fibers is unimportant.

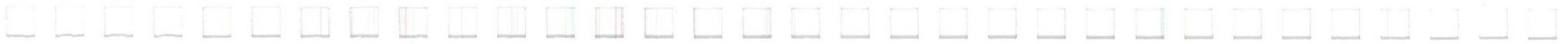


Production Is Capital Intensive

- A new pulp and paper mill would cost over \$1 billion.
- Paper machines must be run continuously.
- Both U.S. and subject foreign producers are highly motivated to maintain high capacity utilization.
- Respondents offer no economic or legal support for their suggestion that this industry is not capital intensive.

Paper Machine Capacity Is Flexible

- Virtually all of the domestic industry's paper making capacity can be used to make sheeter rolls.
- The domestic industry's paper making capacity far exceeds its sheeting capacity.
- Thus, sheeting equipment is the limitation on the domestic industry's capacity to produce Certain Uncoated Paper.



Demand Is Declining

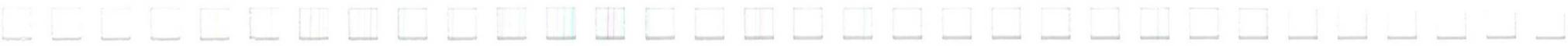
- U.S. demand for all printing papers has been declining for at least a decade.
- U.S. demand for Certain Uncoated Paper is declining at a slower rate than for uncoated paper products made from web rolls, such as books, envelopes, and brochures.
- Demand is also declining in other developed countries.
- Demand growth has slowed in developing countries.

Repurposing Is A Sign Of Injury

- When it becomes uneconomic to continue operating a paper machine, a producer can (1) shutter the machine and write off the entire asset or (2) mitigate the loss to the corporation by converting the asset to another use.
- Either option evidences harm to the domestic industry's assets, capacity, and workforce by reason of subject imports
- Mitigation of the harm to the corporation does not mitigate the harm to the industry making the domestic like product.
- Moreover, as testified by Mr. Thomas, repurposing entails substantial capital investment, only to achieve a lower return than available from the asset's original design.

The Statute Requires Cumulation In These Investigations

- Only a “reasonable overlap” in competition is required.
- Subject imports from each country and the domestic like product are:
 - Highly fungible. All U.S. and subject producers focus their production and sales on cut-size paper sold in standard letter sizes that are used in office copiers/printers.
 - Sold simultaneously in all geographic regions throughout the United States.
 - Sold in the same channels of trade – office superstores, wholesalers, retailers, paper merchants/distributors, and end users.
- Only Portugal has contested cumulation for material injury, but the record clearly shows a reasonable overlap in competition between Portugal, all other subject imports, and the domestic like product.

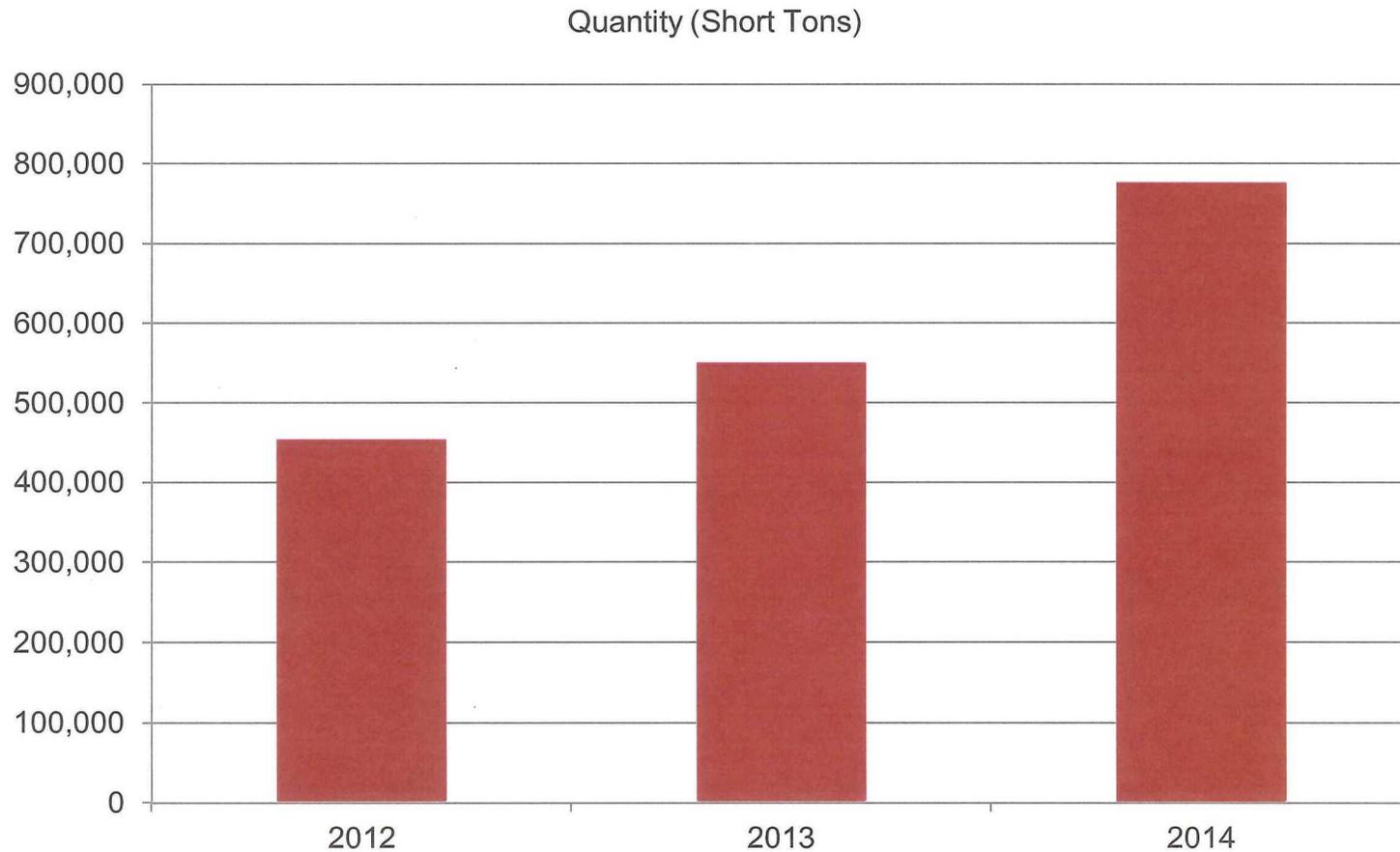


The Volume Of Subject Imports Is Significant

- Subject imports were equal to 83.1% of total imports in 2014.
- Subject imports were equal to 17.4% of apparent U.S. consumption in 2014.
- Subject imports were also equal to a significant share of U.S. production in 2014.

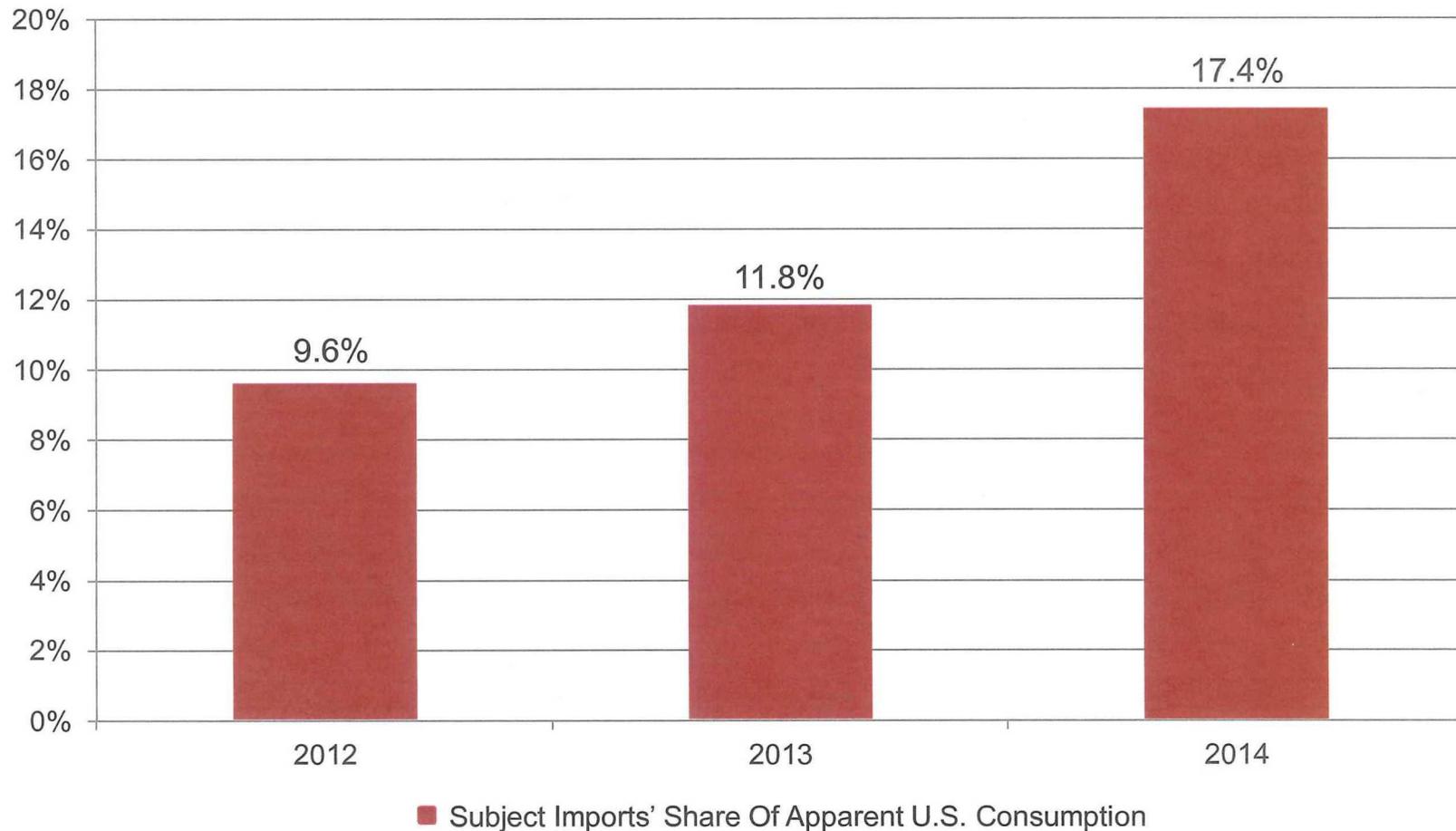
Source: Prehearing Report at IV-28 and C-3 – C-4 (Tables IV-10 and C-1).

The Absolute Increase In Subject Imports Is Significant



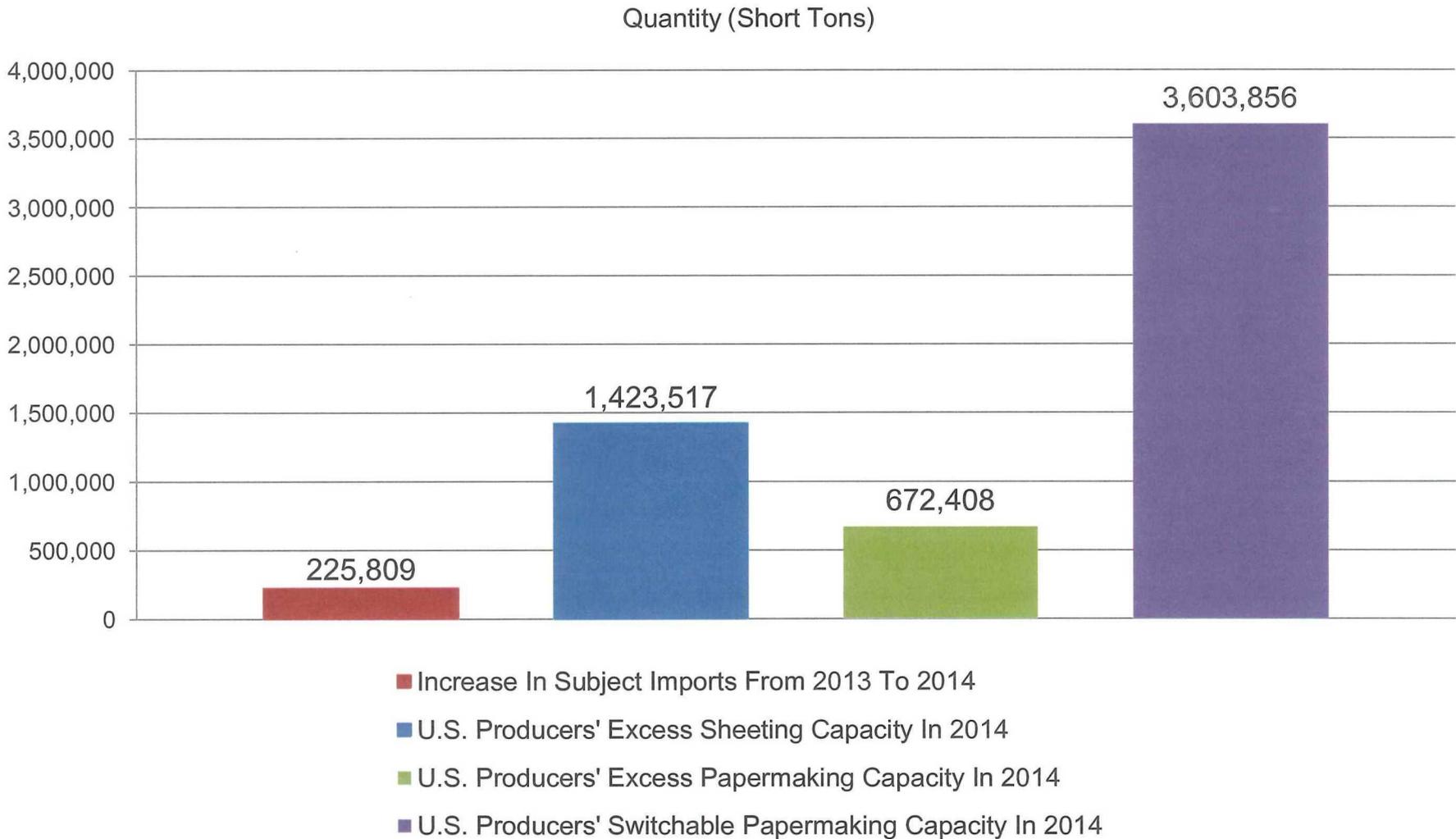
Source: Prehearing Report at IV-28 (Table IV-10).

The Increase In Subject Imports Is Significant Relative To Consumption



Source: Prehearing Report at C-3 (Table C-1).

Subject Imports Had No Gap To Fill In 2014



Source: Prehearing Report at III-7, IV-29, and C-4 (Tables III-5, IV-10, and C-1).

Subject Imports Had Negative Price Effects

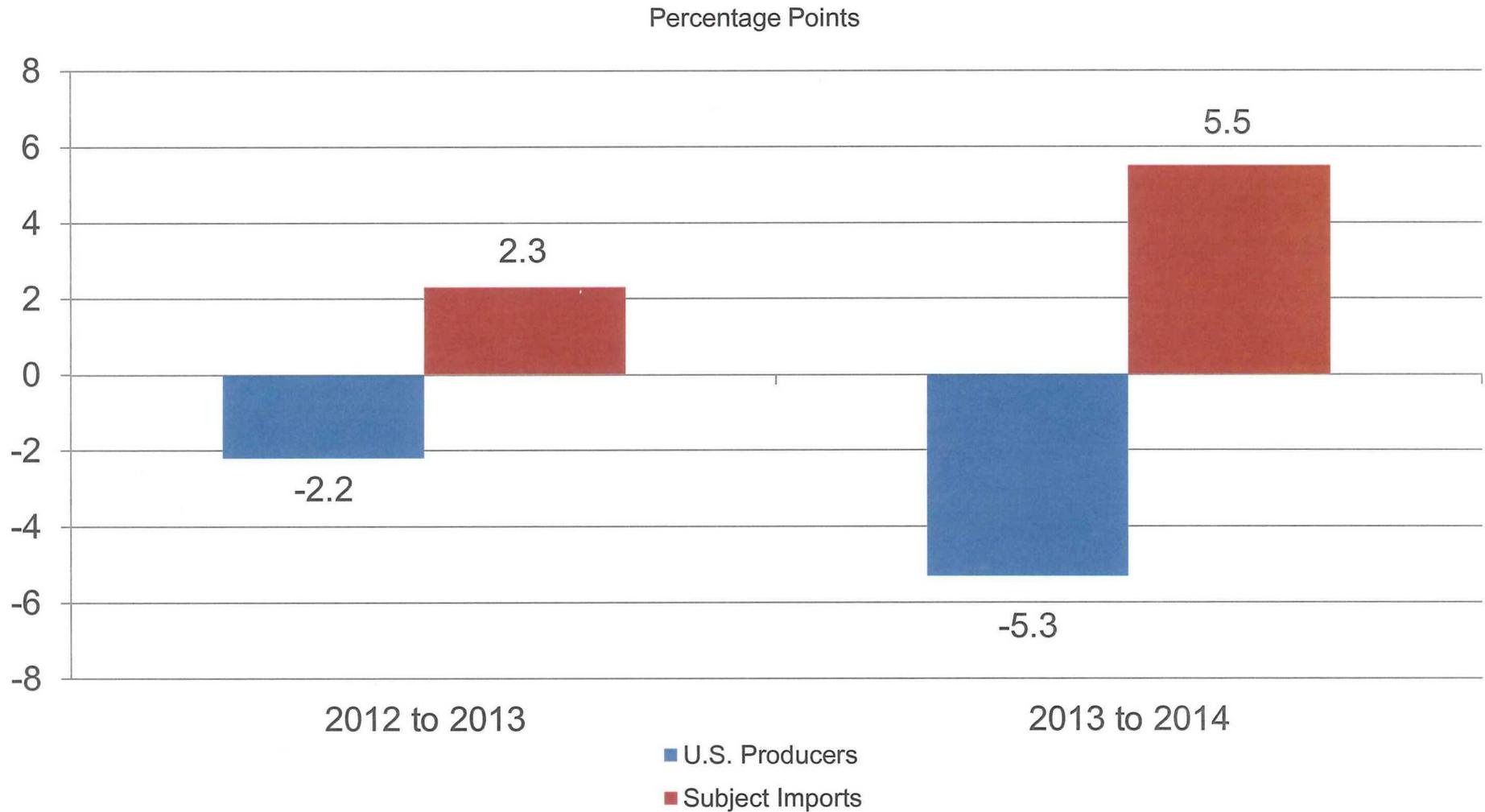
- Subject imports undersold the domestic like product in 90 of 144 possible comparisons (62.5% of the time).
- All nine U.S. producers certified that they reduced prices to avoid losing sales to subject imports.
- The purchasers identified U.S. producers as the upward price leaders and subject importers as the downward price leaders.
- 17 of 25 purchasers said that “competition from subject imports” substantially or moderately lowered the prices they paid for Certain Uncoated Paper.

Source: Prehearing Report at V-5, V-6, V-20, and V-21 (Tables V-3 and V-9).

Subject Imports Depressed And Suppressed U.S. Producers' Prices

- From Q1 2012 to Q3 2015, the domestic industry's prices declined:
 - 8.4% for Pricing Product 1
 - 9.5% for Pricing Product 2
- Prices were also suppressed:
 - The domestic industry's ratio of COGS to sales revenue increased from 79.6% in 2012 to 83.8% in 2014, and to 84.8% in interim 2015.
 - The 41.3% increase in subject imports from 2013 to 2014 suppressed prices far below where they should have been in the wake of Courtland's closure.

Changes In Market Shares Of U.S. Producers And Subject Imports



Source: Prehearing Report at C-3 (Table C-1).

Subject Imports Adversely Impacted The Domestic Industry's Operations

Subject Imports'	Change From 2012 To 2014	
Volume		71.5%
Market Share		9.6% to 17.4%
U.S. Producers'		
Market Share		86.6% to 79.1%
AUV Of U.S. Shipments		0.6%
Paper Making Capacity		10.2%
Sheeting Capacity		7.1%
Production		12.7%
Paper Making Capacity Utilization		94.2% to 91.8%
Sheeting Capacity Utilization		77.1% to 72.4%

Source: Prehearing Report at III-7, IV-28, and C-3 (Tables III-5, IV-10 and C-1).

Subject Imports Adversely Impacted U.S. Workers

Subject Imports'	Change From 2012 To 2014
Volume	 71.5%
Market Share	 9.6% to 17.4%
U.S. Producers'	
PRWs	 17.9%
Hours Worked	 16.0%
Wages	 14.4%

- Workers separated at 7 establishments were certified for TAA benefits.

Sources: Prehearing Report at IV-28 and C-3 (Tables IV-10 and C-1); Petitioners' Prehearing Brief at Exhibit 14.

Subject Imports Adversely Impacted The Domestic Industry's Financial Results

Subject Imports'	Change From 2012 To 2014
Volume	 71.5%
Market Share	 9.6% to 17.4%
U.S. Producers'	
Net Sales Value	 13.0%
Gross Profit	 30.9%
Operating Income	 39.2%
Capital Expenditures	 5.3%
Total Assets	 10.4%

Source: Prehearing Report at IV-28, VI-3, VI-20, VI-23, and C-3 (Tables IV-10, VI-1, VI-5a, VI-6, and C-1).



The Commission Should Exercise Its Discretion To Cumulate All Subject Imports For Threat

- All subject countries:
 - are export-oriented and have increased exports to the United States;
 - export a significant portion of their production to the United States (and are likely to do so in the future);
 - export a comparable mix of fungible products that compete head-to-head;
 - sell the subject merchandise at comparable prices;
 - exhibit the same trends in volume, market share, and price from 2012 to 2014; and
 - sell the subject merchandise through the same channels of distribution.

Imports From All Subject Countries Exhibited The Same Trends From 2012 To 2014

	<u>Volume</u>	<u>Market Share</u>	<u>Avg. Unit Value</u>
Australia	↑	↑	↓
Brazil	↑	↑	↓
China	↑	↑	↓
Indonesia	↑	↑	↓
Portugal	↑	↑	↓

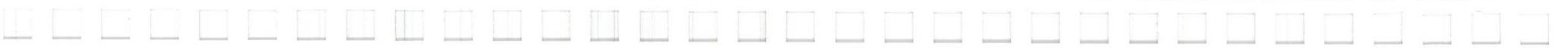


Portucel's Decumulation Arguments Should Be Rejected

- A minority of purchasers reported that other subject imports were “superior” to imports from Portugal with respect to price.
- The pricing trends for Portugal are comparable to all other subject imports.
- The volume trends for Portugal are comparable to all other subject imports.
- A substantial majority of importers and purchasers reported that Portucel's paper is always or frequently interchangeable with other subject imports.
- Eucalyptus pulp is not important to purchasers.
- Extensive overlap exists for customers and channels of distribution.

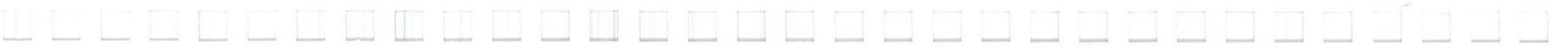
Suzano's Decumulation Arguments Should Be Rejected

- Purchasers reported that imports from Brazil are comparable with all other subject imports with respect to price.
- The pricing trends for Brazil are comparable to all other subject imports.
- The volume trends for Brazil are comparable to all other subject imports.
- There are no differences that are meaningful to purchasers with respect to type of pulp or environmental certification.
- A substantial majority of importers and purchasers reported that imports from Brazil are always or frequently interchangeable with other subject imports.
- Imports from Brazil are not distinguishable from other subject imports with respect to channels of distribution.



U.S. Producers Are Threatened With Material Injury

- Subject imports are significant and are increasing rapidly.
- Capacity to produce uncoated paper in subject countries is significant and growing.
- Subject producers have significant unused capacity, and could easily switch production from non-subject merchandise to the production of Certain Uncoated Paper.
- Subject imports are entering the U.S. at increasingly lower prices that will increase demand for such imports.
- Many of the largest subject producers have established their own U.S. importation, sales, and distribution networks.
- Chinese and Indonesian producers benefit from numerous subsidy programs aimed at increasing production and exports.
- Subject producers are export oriented.
- Prices in the United States are higher than in Asia and Europe, making the U.S. an attractive market.
- Subject imports face trade measures in third countries.



The Largest Exporters In China And Indonesia Failed To Provide Data

- Large exporters in China and Indonesia did not submit questionnaire responses, including:
 - APP Indonesia
 - APP China (Gold Huasheng)
 - Sun Paper
 - Shandong Chenming
- Capacity increases and unused capacity are understated as a result.

Subject Producers Have Excess Capacity That Is Rapidly Increasing

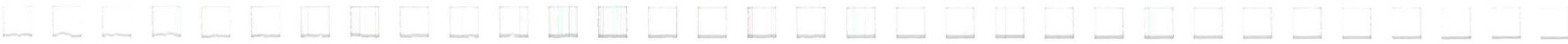
- Capacity utilization declined from 89.1% in 2012 to 85.6% in 2015.
- Excess capacity in 2014 was 634,890 tons, equal to 82% of subject imports in 2014.
- Excess capacity is growing
 - 2012-2014 → 96,794 ton increase (18%)
 - Interim 2014-15 → 132,979 ton increase (29%)
- Production of non-subject web rolls easily could be switched to subject merchandise.

Source: Prehearing Report at VII-53 (Table VII-42).

Certain Uncoated Paper Capacity Expansions In China And Indonesia

Country	Company	Location	Annual Capacity Expansion	Timing
China	APRIL	Xinhui	450,000 metric tons	2014
	Shandong Tralin	Liaocheng City	350,000 metric tons	2015-16
	Shandong Tianhe	Ningyang County	100,000 metric tons	2013
	Shandong Chenming	Zhanjiang City	190,000 metric tons	2015
	UPM	Changshu	180,000 metric tons	2015
	Sun Paper	Shandong	300,000 metric tons	2015
	Shandong Huatai	Dongying	250,000 metric tons	2015
	Wuhan Chenming	Wuhan City	200,000 metric tons	2014
Indonesia	Indah Kiat Pulp & Paper (APP)	South Sumatra	2,000,000 metric tons (pulp)	2015-16
		Perawang	500,000 metric tons	2013
	APRIL	Riau Province	330,000 metric tons	2016

Source: Pulp and Paper Products Council, "Printing and Writing Supply and Demand," Appendix II, contained in Petitioners' Prehearing Brief at Exhibit 19.



Demand Outside The United States Cannot Absorb New Capacity From Subject Countries

- China and Indonesia alone will increase capacity by 1.6 million MT in 2015-2016 – 100 times the projected increase in global demand.
- Increased exports from China and Indonesia will force other subject foreign producers to increase exports to the higher-priced U.S. market.

Subject Producers' Established U.S. Importers

Subject Producer

Established U.S. Importer(s)

Australia

- Australia Paper → Paper Products Marketing (USA)

Brazil

- Suzano → Suzano Pulp & Paper America Inc.

China

- APP → Eagle Ridge Paper Ltd.
Global Paper Solutions
Papermax Inc.
- APRIL → Shinsei Pulp & Paper Co., Ltd.
- Chenming → International Forest Products
- UPM → UPM Kymmene, Inc.

Indonesia

- APP → Eagle Ridge Paper Ltd.
Global Paper Solutions
Papermax Inc.
- APRIL → Shinsei Pulp & Paper Co., Ltd.

Portugal

- Portucel → Soporcel North America

