BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

Certain Uncoated Groundwood Paper from Canada	Inv. Nos. 701-TA-584 and 731-TA-1382 (Preliminary)

Testimony of Russ Lowder
Senior Vice President Sales, White Birch Paper Company

1. Good afternoon. I am Russ Lowder, Senior Vice President of White Birch Paper Company. I have been in this business for 24 years and with White Birch for 9 years. Before that, I worked for Gannett for 15 years. My primary responsibility at White Birch is global sales and marketing. While I was at Gannett my primary responsibility was directing global paper procurement.

2. White Birch is a longtime producer of uncoated groundwood paper in the United States and Canada. Our corporate headquarters are located in Greenwich, Connecticut. White Birch built our Bear Island Paper facility located in Ashland, Virginia in 1979 and has operated it continuously until June of this year, when the economics of that mill forced us to close it. I will discuss this later in my testimony. We continue to operate plants in Canada – FF Soucy, Papier Masson, and Stadacona, each of which import their own products into the United States. Our U.S. facility does not and never has imported newsprint or other uncoated groundwood paper from those Canadian mills.

3. In our Canadian facilities, roughly 95 percent of our production consists of uncoated groundwood paper – primarily newsprint, high bright/book paper, and directory paper. In 2016, we exported approximately 45 percent of our production to the United States and roughly 40 percent to other export markets such as India, Asia, Europe and Central and South America.

4. All participants in the industry agree that the paper industry has been experiencing a long term structural decline in demand for its products for years. The drop in demand has been particularly precipitous since 2014, with demand declines in the neighborhood of 10 percent a year. This is due primarily to the decline in readership of newspapers generally and a decline in demand for printed newspapers and books as digital media gains greater market share. This observation is not new, but it is a fact of life in our industry and the dominant condition of competition. This structural decline in demand is not limited to North America – it is a world-wide phenomenon that has impacted the uncoated groundwood paper industry globally. As a result, there have been reductions in uncoated groundwood paper capacity in Canada, the United States, Asia, and Europe as the industry deals with demand declines. In recent years, the shutdown of capacity in uncoated groundwood paper has been greater in Canada than in the United States.

5. Efficient producers attempt to operate at 100 percent capacity on any existing production line. That means that the only way to reduce capacity is to take market-related down time, shut down paper machines or even close entire facilities. Since demand is not going to increase, the only means to maintain efficient capacity utilization and reasonable pricing is to reduce capacity.

6. Each producer understands that it must maintain a careful balance between demand and supply in order to maintain prices. For instance, we track the ratio of shipments to capacity as reported by the Pulp and Paper Products Council. The North American industry right now is composed of only a few players. Price levels are increasing now because so much capacity has been taken out of the market with the recent closures in Canada, the United States, and the rest of the world.

7. At White Birch, we have reduced our North American capacity by over 20 percent by closing our Bear Island facility in June of this year. While NORPAC points to the closure of Bear Island as an indication of injury from Canadian imports, nothing could be farther from the truth. In fact, just the opposite is true: without the ability to supplement our production from our Canadian mills, we would have had to close Bear Island much sooner than we did.

8. Our decision to close Bear Island is part of a worldwide trend to reduce capacity as demand declines. By taking out higher cost, less efficient

capacity, it strengthens the industry in both the United States and Canada. The decision to close Bear Island had nothing to do with import competition. Rather it was one company's decision to rationalize its operations by eliminating the highest cost paper machine.

9. In looking to maintain balance between supply and demand in a condition of steeply declining demand, we made our decision based on our evaluation of the cost and quality of production among our mills. Bear Island was closed for several reasons:

- As Petitioner noted, Bear Island was a relatively high cost mill. It was, by far, White Birch's highest cost mill. Bear Island consisted of a single paper machine that was designed to operate using roughly 80 percent virgin southern yellow pine ("SYP") wood chips and roughly 20 percent recycled fiber from old newspapers ("ONP"). SYP fiber is not as strong as white wood fiber available in Canada and in the U.S. Pacific Northwest. ONP adds strength, but compromises the optical qualities of the paper – brightness and good ink adhesion. In addition, ONP, which was considered a low-cost input at the time that Bear Island was constructed, today is actually a relatively high-cost input because most recycling operations no longer sort newspapers well from glass and plastic, and because reduced newspaper consumption has reduced the supply of ONP for recycling.

- The bottom line is that the paper coming out of Bear Island was more prone to breaking during the printing process than that of most of our competitors due to the SYP and ONP input. Bear Island could not make the higher value high bright quality. Thus Bear Island was confined to production of newsprint because the maximum brightness it could achieve was 57.
- The quality disadvantages at Bear Island were compounded by the recent trend toward lower basis weight papers. Given the fiber supply available, we could not produce quality paper at a basis weight below 45 gram, and even our 45 gram basis weight paper was increasingly rejected by our customers. We will provide additional details and documentation of these quality issues in our post hearing brief. The combination of declining demand, quality issues, and relatively high costs made the production of newsprint at Bear Island unsustainable, and we made the difficult decision to close that facility.
- The decision to close Bear Island had nothing do with imports from Canada. To the contrary, we were able to prolong the life of the Bear Island facility by supplementing Bear Island's output with paper made

in one of our Canadian facilities when Bear Island's quality problems threatened to disrupt our supply to major customers. If we hadn't had those imports, Bear Island would have been closed much earlier than it was.

- So White Birch's response to the structural decline in demand was to reduce capacity, and Bear Island was the mill selected for closure because it was the poorest performing mill and no reasonable amount of investment would have reversed the quality problems and limitations resulting from the pulp quality sufficiently to make it competitive.

10. Let me talk a little bit about why the vast majority of the Bear Island sales were limited to the southern region of the United States. I have already explained the problem with SYP chips. But the other issue is that freight costs limit the ability of producers to sell in markets of greater distance. Freight is a particularly important issue with newsprint given the low value of the product, so regional markets for newsprint dominate. However, even for high bright paper and book paper, freight is a significant component of total cost.

11. Finally, I would like to say a few words about NORPAC. We looked at buying NORPAC in 2016, before it was sold to the current ownership. So I have some familiarity with their operations. Our assessment at that time was that

NORPAC's operations faced a number of challenges that had nothing to do with imports. First, NORPAC's operations are dependent on third party service contracts to be able to operate their mill. For example, they share their chip pile with other facilities, they do not own their boiler, and they are dependent on an outside supplier for at least some of their steam and for waste water treatment. NORPAC experienced the downside of that arrangement this past spring when it was forced to shut down its paper operations over a waste water issue experienced by one of those third party providers. Second, NORPAC's business plan at the time depended on shifting substantial capacity from newsprint to uncoated freesheet – copier paper, where they believed they would be able to get higher margins. But it does not appear that this strategy has been fully executed. Third, the company had what appeared to us very low prices on its exports, particularly to India, and they seemed to have an unusually high volume of off-grade "transition" paper generated when switching from one product to another, which has to be sold at discounted prices. Since we at White Birch are very experienced in the newsprint business, we understood the significant challenges that facility would face going forward, and it had nothing to do with Canadian imports.

12. Thank you.