

TESTIMONY OF RICK ANDERSON  
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BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION  
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Good Morning. I am Rick Anderson of 3M Company. I am the Global Business Manager for the Packaging Business Unit in the Industrial Adhesives and Tapes Division of 3M. I am here today to provide our perspective on the need for the continuation of this dumping order on Italy. For the reasons that I will discuss we believe that the continuation of this order is necessary to prevent the recurrence of injury to the domestic industry.

I have a bachelor's degree from the University of St. Thomas in St. Paul, Minnesota and an M.B.A. from the University of Minnesota, and have been with 3M over the past 16 years, with 8 years in this industrial business sector of tapes, and before that, in the consumer sector of tapes. During the time that I have been in this business, there have been changes that I would like to discuss today.

Let me begin my discussion with what our lawyers describe as the "like product" in this case. In our view this industry has different segments, such as acrylic, hot melt, and natural rubber, but there is a great deal of overlap in competition among the products. Particularly on the consumer side of the business we have found in recent years that people are increasingly willing to

substitute less expensive acrylic tape for hot melt tape. As I will discuss a bit later, this substitution has come mostly from Asian suppliers over the past few years. While the production processes and some of the properties of acrylic and hot melt tapes are different, consumers are often quite willing to trade off some of the better qualities of hot melt for a lower price for acrylics. From a distribution point of view, all of the products generally go through the same distribution channels.

For many years, 3M has not been a significant producer of acrylic tapes. Instead, because the Asian competitors from China, Indonesia, and Taiwan had such low prices we concluded that competition was not feasible. So, for that generally low end of the market, all domestic companies have been hit hard by Asian competition. However, we have been able to keep profits margins up by keeping the hot melt end of the market, which is the segment of the market where Italy is strongest. We believe that we have been able to maintain that market segment largely because the Italian producers, which have significant overcapacity, have not been able to sell into the U.S. market in significant quantities due to the dumping order.

In 2009 several things happened that made the year better for 3M for the subject products than we had anticipated. First, the fall in oil prices substantially

reduced our raw material costs, which helped our profitability. As you know, this is an industry that is very vulnerable to swings in raw material costs, and in 2009 we got a break in terms of such costs, particularly compared to the situation in 2008. Second, we were able to maintain our price levels despite the recession. This was largely because the customers were very sensitive to having low inventory levels because of the recession. Thus, they were less price sensitive as long as they had ready availability to product when needed.

Finally, we decided to bring some of the production of acrylic product back to the United States from Asia. We did so despite the fact that the cost of producing the products in the United States is actually higher than purchasing from Asia. However, by bringing some acrylic products back to the U.S. we are able to use excess coating capacity with its high fixed costs as well as using excess capacity for converting at our plant in Kentucky. U.S. production also allowed us to be closer to customers who are very sensitive to not having excessive inventory levels during the recession.

But the Asian producers still remain a major factor in the acrylic end of the market. The U.S. industry has been largely driven out of this segment of the market, and we do not see the Asians going away. Instead, we think that this side

of the market will continue to be very competitive and we will have to fight hard to maintain our production in the United States.

The absence of a dumping order will not lead Italian imports to substitute for the Asian imports, because Italian production is primarily in hot melt and natural rubber, not in acrylic. Thus, a surge in Italian imports is the worst of all possible worlds for us. We see ourselves having continued pressure on the acrylic side from the Asians while at the same time facing low-priced and dumped Italian imports on the high end. If this happens, as we think that it will, we will see the profitability gains that the industry enjoyed because of the unique circumstances of 2009 quickly disappear.

It will be quite easy for the Italian producers to get back into the U.S. market. These companies are not going to have to spend their time knocking on the lot of doors to get back in. Over the last several years we have seen a consolidation on the purchasing side that makes re-entry easier than it has ever been. In addition, the Italian companies generally are sophisticated and experienced in selling to export markets worldwide.

Over the last few years several large distributors, such as Horizon and ATP, as well as Xpedx and Uline, have emerged as major players in the U.S. market. These companies purchase worldwide and are a natural way for the Italian

producers to get back into the U.S. market quickly. In addition, the emergence of Big Box stores and private label sales create a market for Italian products based on price, which can be taken advantage of rapidly. Until now, there has been very little competition from unfairly traded hot melt product in the United States market. But if the Italian imports are permitted in the market without the discipline of a dumping order, this will change quickly.

We are convinced that the Italian producers will sell in substantial quantities to the United States in the absence of a dumping order because economic logic leads to this. Just as 3M has brought back some acrylic production to the United States to help cover its high fixed costs, the Italian producers will try to cover their high fixed costs in Italy by selling to the United States at very low prices, even if they only are able to cover their variable costs and make some contribution to fixed costs. Even though the euro now is high against the dollar they will do so since this strategy is not about maximizing per unit profitability, but rather about making contributions to fixed costs that are not being covered now because of lower production.

There are no other new markets that the Italian producers can sell to that are anywhere nearly as attractive as the U.S. market. For example, the Eastern European market, which includes Russia, some EU countries such as Poland, and

other former Soviet satellite countries, accounts for less than 6% of all world demand, according to studies that we have reviewed. Even if we assume very optimistic growth rates for those countries, of 7.5% per year, which we think is very much on the high side given the volatility of those economies, we would see only 80 million square meters in growth per year from those countries. However, on the supply side we see that the Eastern European countries are putting in their own capacity for pressure sensitive tape, that there is competition from German and French producers of tape at the high end of the market, and that the Chinese and other Asians are selling more and more product at the low end of the market. The Asians are particularly aggressive in those countries, which generally are not as concerned with high quality as is Western Europe. Thus, the Eastern European market simply does not present a viable alternative to the United States as a growth market for the Italian producers.

Unlike Eastern Europe, the United States is a unified market with a fairly simple distribution system. The United States is a market with few barriers to entry, a common language, and almost no issues of corruption that present problems for importing into the market. It also is significantly a hot melt market, which is the strength of the Italian producers. Other markets, such as Russia and Eastern Europe, are much more focused on the acrylic side of the market and on

price. Thus, the United States remains much more attractive than those alternative markets for the products that Italy produces.

We have told the Commission that our estimate of the size of Italian capacity to produce subject merchandise is about 5 billion square meters per year. We believe that this figure is conservative and have derived the figure in two different ways. One way is extrapolating down from published Europe-wide capacity figures, and the other way is building up from our estimates of individual companies' converting capacities, which are known to 3M Italia.

We are presenting to the Commission two tables that show our calculations. We will be glad to put these on the record in our post-hearing brief. The first document shows our calculations from an Exxon Mobil study on European capacity. Exxon Mobil periodically conducts such studies because it is a major supplier of the raw material inputs to the industry. Based on the calculations that we show, the Exxon Mobil figures will result in about 5.2 billion square meters of capacity for Italy.

The second table shows a buildup of capacity from our knowledge of individual company's known machinery. This table results in a capacity of about 5.4 billion square meters. Thus we think that our estimate of 5 billion square meters in capacity for Italy is conservative.

In addition, as we have noted, the annual production of subject merchandise in Italy is about 3 billion square meters. The result is that there are about 2 billion square meters in capacity available to be sent to the U.S. market in the absence of an order. Thus, we think that our estimate of at least 500 million square meters per year coming to the U.S. in the absence of an order is conservative.

In reviewing the capacity figures in Italy I also want to address an issue that was raised in the Second Sunset Review of this order, the revocation of dumping orders on Boston Tapes , S.p. A. and Autodevisi. After filing our brief I had the chance to talk to 3M Italia about this issue in more detail when the personnel there returned from their New Year's holiday. In doing so I found out that Boston Tapes is primarily a producer of protective tapes and has very little capacity or production in the subject merchandise. In addition, Autodevisi now is part of 3M Italia, and has been for several years. I think that these facts explain why these companies have not been selling to the United States in the absence of an order. Their experience is in no way typical of that of other Italian producers which we have listed in our capacity figures.

In conclusion, I just want to assure the Commission that we would not be spending our time and money on this issue if we did not seriously believe that the

Italian products sold at dumped prices will again quickly become a problem if this dumping order is revoked. But we see the vast overcapacity in Italy, its history in exporting and the other vulnerabilities that the U.S. industry faces, and we believe strongly that in the absence of a continuation of this order, we again will be faced in a very short time with dumped imports of pressure sensitive tape that will cause material injury to the U.S. industry.

Thank you for your attention. I will be glad to answer any questions that you may have. Before I finish, however, I would like to hand out some samples and explain a bit about each of them to end my testimony.....

## ITALY PSA TAPE MANUFACTURERS

(3M Estimates)

COMPANY	TOTAL CAPACITY (millions sq. meters)
NAR	1,050
Sicad	980
Evotape	800
Vibac	800
Syrom	600
MAGRI	500
FABO	400
Irplastnastri	300
TESA	Unknown
+3 additional small mfrs	Unknown
TOTALS	5,430+

## Exxon/Mobil 2007 Market Study

	<b>Europe</b>	<b>%</b>	<b>Italy</b>	<b>%</b>
PSA Capacity (billions sq. meters)	11.9		7.3	
PSA Production (billions sq. meters)	6.4		3.9	61%
% Capacity Used	54%		54%	
Pkg Tape Capacity (billions sq. meters)	8.7		5.3	
Pkg Tape Production (billions sq. meters)	4.7	73%	2.9	73%
% Capacity Used	54%		54%	

1. Boxes shaded from Exxon/Mobil 2007 Study
2. Italian capacity based on using same ratio of Italian production to European production - 61%
3. Packaging tape capacity and production for Italy is based on European percentage.