

TESTIMONY OF WAYNE HELTON
OF SHURTAPE TECHNOLOGIES
BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION
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Good Morning. My name is Wayne Helton and I am the Vice

President of Manufacturing for Shurtape Technologies, based in Hickory, North Carolina. I have been with Shurtape for over 12 years and have been in the tape business for 23 years. Shurtape employs 900 people in 5 plants in the United States, producing a broad range of adhesive tapes, including pressure sensitive plastic tape. Shurtape entered the packaging tape business in 1998 as a producer of hot-melt pressure sensitive plastic tape in order to fill out our product portfolio. Shurtape considers itself to be an extremely efficient producer of hot-melt and we have been able to increase our efficiency over the last 5-10 years by cutting back on waste in the production process, improving our equipment and operator effectiveness, and by figuring out ways to increase the speed of our machinery. Despite these improvements and a focus on continuously improving, we do not believe that we'd be able to compete against dumped Italian imports if the order were revoked. I agree with everything my colleagues are testifying to this morning. The continuation of this order is necessary to ensure that the U.S. industry is not injured by dumped Italian imports of pressure sensitive plastic tape

Let me start by discussing some of the differences between acrylic and hot-melt adhesives. Hot-melt is a rubber based adhesive that is in solid form, while acrylic adhesives are not rubber based but are water dispersions. As a result of these differences, the production of hot-melt plastic tape requires different storage, pumping and mixing systems, which results in higher capital costs for a hot-melt producer. Hot-melt plastic tapes have better adhesion, tack and shear and can be applied quicker. This makes them suited for the automated closing and bundling systems used by manufacturers that require reliable sealing of boxes with one strip of tape. It might help the Commission to think of the box that a HP or Dell computer would be shipped in and sold in and the tape that seals that box. It is critical that this box not break and a hot melt tape for automated machines would be used. Acrylic tapes, by contrast, would generally be used by consumers or by manufacturers that have hand-sealing operations where the reliability of the seal is less important, or more than one strip of tape can be used. While there is some overlap in the uses of hot-melt and acrylic where substitution is possible, the general distinction between hot-melt for the high-end of the market and acrylic for the low-end remains.

Make no mistake. In the absence of the dumping order, Italian producers will reenter the United States in substantial volumes. Italian producers are very sophisticated and can produce the higher quality products. In fact, not only is Italy a major source of pressure sensitive plastic tape, but it is also the premier source for the equipment used to produce the tape. Much of the machinery at Shurtape's plants, including the coating and slitting machinery, are sourced from Italian companies, such as Guzzetti and Bobst. This is the same machinery used by Italian producers of pressure sensitive plastic tape in the same production process. Italian producers also focus on the hot melt product just like U.S. producers and have excess capacity to increase production and shipments of the hot-melt product.

In fact, given that Italian producers are only at approximately 55-60 percent capacity utilization, it would make perfect sense for them increase production and then sell the product at their total variable costs and even a slight contribution to fixed cost. Without delving into all the details, the 55-60 percent utilization decreases variable cost absorption efficiencies of material and labor. In addition and more significant, they would be severely underabsorbing the high fixed overhead cost component associated with the higher capitalization and operation of hot melt. So they can improve their P&L by selling into the U.S. at less than

total cost and forego a typical gross margin contribution. Italian producers, therefore, have an incentive to sell at low prices in order to increase their capacity utilization and move toward running their machinery continuously 24/7. In the absence of the dumping order, I have no doubt that they will begin shipping substantial volumes of low-priced tape to the United States, deeply motivated by an improved P&L.

Nor will it be difficult for them to reenter the market. Shurtape sells to several of the large distributors mentioned by Rick. These distributors will carry product from a few different manufacturers and they could be from different countries. They have learned the tactic of leveraging their suppliers to increase their margins at the expense of the manufacturers. This has become increasingly true as the distributors have faced competition from large box stores like Costco, Home Depot and WalMart, which have taken some of their traditional customers, based on low pricing. I would also like to say that there are only a limited number of large customers, whether they be distributors or box stores, in the United States. The loss of even one of these customers would have a devastating effect on our business.

Finally, I would also like to address the market in 2009, which was an unusual time for everyone. Like 3M, Shurtape was able to keep prices relatively

stable during the recession even as our units sold declined, simultaneously raw material costs dropped quickly, which helped improve our profitability. Further, I agree with what Rick said about customers focusing on their inventory levels and reliable quick supply during the fast economic shift of 4Q 2008 and 1Q 2009. I also think that a lot of customers simply weren't focused on the price of their sealing tape as they dealt with those more pressing issues and enormous uncertainty. However, we do not believe that 2009 is a good indicator of where we are now or where we will be in the future. Raw material prices in this industry are very volatile and we expect increasing raw material costs for foreseeable future. As the economy stabilized, we are also seeing our customers focus on price again and have faced significant push back on pricing in the fourth quarter of 2009 into 2010, which we also expect to continue.

In short, I have no doubt that adding dumped Italian imports to the U.S. market at this time, would materially injure Shurtape and the rest of the U.S. industry. Many thanks and I will be happy to answer your questions.