

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CERTAIN COATED PAPER SUITED) Investigation Nos.:
FOR HIGH-QUALITY PRINT) 701-TA-470-471 and
GRAPHICS USING SHEET-FED) 731-TA-1169-1170
PRESSES FROM CHINA AND) (Preliminary)
INDONESIA)

REVISED AND CORRECTED COPY

Pages: 1 through 213

Place: Washington, D.C.

Date: October 14, 2009

HERITAGE REPORTING CORPORATION
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INDONESIA)

Wednesday,
October 14, 2009

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, CATHERINE DeFILIPPO, Director of Investigations, presiding.

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On behalf of the International Trade Commission:

Staff:

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APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping and
Countervailing Duties:

On behalf of Appleton Coated, LLC; NewPage Corp.; Sappi Fine Paper North America; and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW):

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NewPage Corp.

STEVE DeVOE, General Manager, Sheets & Caliper,
NewPage Corp.

JENNIFER MILLER, Executive Vice President,
Strategic Marketing and Communications, Sappi Fine Paper North America

ANNE AYER, Vice President, Corporate Development,
and Chief Information Officer, Sappi Fine Paper North America

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DON CREW, President, Clampitt Paper
MIKE GRAFF, President, Sandy Alexander

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Countervailing Duties:

On behalf of Gold East Paper (Jiangsu) Co., Ltd.; Gold
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Mills; and PT Pabrik Kertas Tjimi Kimia Tbk:

TERRY HUNLEY, Global Paper Solutions
DANIEL KLETT, Capital Trade
ANDREW SZAMOSSZEGI, Capital Trade

DANIEL PORTER, Esquire
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Winston & Strawn, LLP
Washington, D.C.

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1 P R O C E E D I N G S

(9:30 a.m.)

3 MS. DeFILIPPO: Good morning and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 antidumping investigation Nos. 701-TA-470-471 and
7 731-TA-1169-1170 concerning imports of Certain Coated
8 Paper Suited for High-Quality Print Graphics Using
9 Sheet-Fed Presses From China and Indonesia.

10 My name is Catherine DeFilippo. I am the
11 Commission's Director of Investigations, and I will
12 preside at today's conference. Among those present
13 from the Commission staff are, from my far right,
14 James McClure, supervisory investigator; Christopher
15 Cassise, the investigator; Gracemary Roth-Roffy, the
16 attorney/advisor; Nancy Bryan, the economist; and
17 Vince Honnold, the industry analyst.

18 I understand the parties are aware of the
19 time allocations. I would remind speakers to not
20 refer in your remarks to business proprietary
21 information and to speak directly into the
22 microphones. We also ask that you state your name and
23 affiliation for the record before beginning your
24 presentation.

I would also ask that if you have cell

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1 phones if you could put them on vibrate or silence
2 them, I would appreciate that. Are there any
3 questions?

4 (No response.)

5 MS. DeFILIPPO: If not, Mr. Stewart, please
6 proceed with your opening statement. Welcome.

7 MR. STEWART: Good morning. For the record,
8 I am Terence Stewart, managing partner of Stewart &
9 Stewart. Together with the firm of King & Spalding,
10 we represent the Petitioners in this case who, along
11 with one other company which supports the petition,
12 account for the vast majority of domestic production
13 of certain coated paper.

14 We are here today because the domestic
15 industry and its workers producing the product which
16 directly competes with the imported sheeted coated
17 paper that is covered by the scope of the
18 investigation are materially injured and threatened
19 with additional material injury by a flood of imports
20 from China and Indonesia that are both heavily dumped
21 and heavily subsidized.

22 We believe the record that is and will be
23 before the Commission demonstrates that all of the
24 statutory criteria for affirmative determinations are
25 met.

1 First, import statistics and domestic
2 industry data show significant volume of imports
3 throughout the period with a more than 40 percent
4 increase in imports in the first half of 2009 during a
5 period of significant demand contraction in the
6 country. Share of apparent consumption, which
7 increased throughout the period covered, nearly
8 doubled, increasing from 16 percent to 30 percent
9 during the first half of 2009.

10 Second, the imports from both countries are
11 highly interchangeable with each other and with
12 domestically produced product such that price is an
13 important decision making criterion for purchasers.
14 Subject imports have aggressively underpriced domestic
15 producers. You will hear testimony this morning from
16 domestic producers and customers about the significant
17 margins by which subject imports undersell domestic
18 producers' products and the resulting significant
19 pricing pressures on domestic mills in a market where
20 demand is already declining.

21 Domestic producers have thus faced the
22 Hobson's choice of holding prices and losing market
23 share to imports or reducing prices in an effort to
24 hold volume in a capital intensive business and suffer
25 reduced margins. Both approaches lead to a weakened

1 domestic industry as reflected in reduced volume and
2 price depression and suppression and weakened
3 financial performance of the domestic industry. As
4 the public data in the petitions and as we believe the
5 questionnaire responses will confirm, domestic
6 producers have both lost market share and suffered
7 price depression and price suppression.

8 Third, the domestic industry's performance
9 throughout the period of investigation shows an
10 industry that is significantly and adversely affected
11 by the dumped and subsidized imports. Production has
12 been reduced, paper making machines have been idled,
13 entire mills have been closed and many workers have
14 lost jobs and seen reduced hours and compensation.

15 The injury continues to mount. For example,
16 Sappi recently announced its plans to close its mill
17 in Muskegon, Michigan, and just this past Monday
18 NewPage announced that it is going to take some
19 160,000 tons of market-related down time in the fourth
20 quarter of this year, due in part to the adverse
21 effects of imports from China and Indonesia.

22 There can be little doubt that increased
23 imports are a cause of the material injury that has
24 been suffered. Much of the market share growth of
25 imports from China and Indonesia has been at the

1 direct expense of domestic producers. Reduced prices
2 are a response to price underselling from the Chinese
3 and Indonesian products. Nonsubject imports are both
4 much higher priced than imports from China and
5 Indonesia and contracting sharply during the period
6 covered by the investigation.

7 Finally, the domestic industry is threatened
8 with further material injury if relief is not provided
9 as the price aggression of imported product from China
10 and Indonesia in the market is intensified. Thus, we
11 ask the Commission to render affirmative preliminary
12 determinations in all four cases. Thank you very
13 much.

14 MS. DeFILIPPO: Thank you, Mr. Stewart. We
15 will now have an opening statement by Mr. James
16 Durling. Welcome.

17 MR. DURLING: Good morning. For the record,
18 my name is James Durling with the law firm Winston &
19 Strawn appearing here today on behalf of the Chinese
20 and Indonesian Respondents. You will hear much more
21 from us later today, but for now I would like to raise
22 a few key issues that I hope the staff will explore
23 with the domestic industry witnesses this morning.

24 First, ask them carefully and in detail
25 about the role of declining demand in explaining

1 virtually all of the key trends in this case. Total
2 consumption fell significantly throughout the period
3 and dropped about 30 percent in the first half of
4 2009. As the Petitioners tried to blame subject
5 imports for every adverse trend in this case, ask them
6 about the role of declining demand in explaining those
7 trends.

8 In the face of declining demand, how could
9 their shipments not drop? If subject imports have
10 been so damaging, why has domestic industry market
11 share been relatively stable over this period with
12 only a small shift in 2009 that has more to do with
13 the timing of adjustments to demand than with any true
14 increase in subject imports? Essentially Petitioners
15 want to blame imports for declining U.S. demand.
16 Rarely does the Commission see a case where declining
17 demand so clearly explains industry trends.

18 Second, ask them about the roll side of
19 their business, which dwarfs the sheet side of their
20 business. Having already lost this case once before
21 because imported sheet do not compete with domestic
22 rolls, Petitioners now want to redefine the case to
23 include only sheets, but regardless of how Petitioners
24 have defined the scope of this case, which is their
25 right, the proper like product is all coated paper in

1 both sheet form and roll form.

2 Like product is fundamentally about the U.S.
3 industry and reflects the judgment the Commission
4 makes based on facts. Like product is not an elastic
5 concept for Petitioners to manipulate as they wish to
6 narrow the domestic industry so as to create the
7 illusion of subject imports having a larger impact
8 than they really do.

9 The Commission has already found the proper
10 like product to be the entire coated paper industry,
11 both rolls and sheets. Petitioners have not pointed
12 to any new facts that would warrant a change in that
13 like product. Ask them what has changed other than
14 their desire to manipulate the outcome of the case.

15 Third, ask them to explain the competitive
16 impact of black liquor subsidies on the market. In
17 2009, those companies that manufacture pulp have
18 started claiming the alternative fuel tax credit for
19 waste product mixed with diesel fuel. NewPage has
20 reported earning \$120 million of these tax credits in
21 the first half of 2009 alone, cash payments from the
22 U.S. Government.

23 This U.S. Government subsidy has driven
24 intense competition among the domestic mills. NewPage
25 has told its investors that this subsidy has caused a

1 drop in prices in 2009 of as much as \$60 per ton as
2 the subsidy was partially passed along to customers.
3 Domestic producers have been chasing volume to earn
4 these subsidies in 2009, a condition of competition
5 far more important than any modest subject imports in
6 the market.

7 And finally, ask them about the surging
8 demand for coated paper in China. RIZI recently
9 reported that between 2008 and 2024 90 percent of
10 worldwide demand growth for coated paper will occur in
11 China. Subject imports have been and will continue to
12 be a small part of the U.S. market, and total Chinese
13 exports have increasingly shifted to other markets
14 because the U.S. market is shrinking and the Chinese
15 market is growing rapidly.

16 Given these trends, it is ludicrous to
17 suggest that an imminent surge of subject imports is
18 going to injure this domestic industry. This case
19 should never have been brought. This case is a rather
20 shameless effort to manipulate the trade laws to
21 produce an outcome that has no basis in fact or in
22 law. The Commission should dismiss this case now.
23 Thank you.

24 MS. DeFILIPPO: Thank you, Mr. Durling. We
25 will now move to testimony for those in support of

1 imposition of antidumping and countervailing duties.
2 Welcome to all of you and in particular company
3 officials. I know it takes time out of your day to
4 come here, and we really appreciate having you here.
5 So with that, Mr. Stewart I will leave it up to you to
6 start.

7 MR. STEWART: Thank you very much. We'd
8 like to begin our panel this morning with a brief
9 overview of the case before witnesses testify. For
10 the record again, I am Terence Stewart, managing
11 partner of Stewart & Stewart. Together with our
12 co-counsel at King & Spalding we're representing the
13 Petitioners, all of whom have witnesses here today.

14 We are also joined by witnesses from a major
15 paper merchant, a converter and two printers that
16 support relief in this case. The size of our witness
17 group is in indication of the severity of injury being
18 caused by the dumped and subsidized imports from China
19 and Indonesia.

20 We start with the product under
21 investigation. The subject merchandise is sheets of
22 coated paper regardless of the weight of mechanical
23 pulp that it contains as long as the paper meets
24 certain brightness and other criteria that make it
25 suitable for production of high-quality print graphics

1 on sheet-fed presses.

2 Imports from China and Indonesia are
3 believed to be primarily coated paper and sheets.
4 Imports in rolls are not covered by the scope of these
5 investigations.

6 Joe Dorn of King & Spalding will now address
7 like product.

8 MR. DORN: Respondents ask what's changed
9 since the last case? Well, I'll tell you what's
10 changed. The scope has changed, and the starting
11 point for the Commission's like product analysis is
12 the scope definition. The statute directs the
13 Commission to determine "which domestic like product
14 is like or, in the absence in the like, most similar
15 in characteristics and uses with the article subject
16 to an investigation."

17 Application of the six like product factors
18 confirms that web rolls are not like the articles
19 subject to investigation, which is certain coated
20 paper, which I'll refer to as CCP. First, physical
21 characteristics and use. Unlike the Commerce
22 Department, which now rejects end use in scope
23 definitions, the Commission is required by statute to
24 consider end use in defining the like product.

25 There is no question that CCP and web rolls

1 have different end uses. CCP is used in sheet-fed
2 presses, and web rolls are used in web-fed presses.
3 Those different end uses dictate substantially
4 different physical characteristics of the two
5 products. To begin with, CCP is in sheet form and web
6 rolls are in roll form. Sheets are sold in cartons or
7 skids with typical orders in the thousands of pounds
8 Web rolls are sold in big, jumbo rolls which can weigh
9 up to five tons each with typical orders in the
10 thousands of tons.

11 The characteristics of the paper also
12 differ. Web rolls have a lower moisture content, a
13 more porous surface and different coatings than CCP in
14 order to withstand the heat set web printing process
15 and prevent blistering of the paper. CCP has a higher
16 moisture content to prevent curl development and the
17 buildup of static charges that can cause paper jams in
18 sheet-fed presses.

19 In addition, CCP is produced to tighter
20 specifications for mechanical condition such as
21 flatness. CCP is produced to accommodate high tack
22 inks that would not be used in web-fed presses. In
23 addition, CCP is used in some higher basis weights not
24 offered in web rolls, and web rolls are used in some
25 lower basis weights not offered in CCP. Finally, CCP

1 is typically used in smaller print runs, and web rolls
2 are typically used in larger print runs.

3 Second, web rolls and CCP are not
4 interchangeable. Web rolls are used on web-fed
5 presses, and CCP is used on sheet-fed presses. The
6 finished form of web rolls is a roll, and the printing
7 is done on the roll. The finished form of CCP is
8 sheet, and the printing is done on the sheet.

9 Producers do not warrant web rolls for sheeting and
10 use on sheet-fed presses, and they do not warrant
11 sheeter rolls to be used on web presses.

12 Third, web rolls and CCP have different
13 manufacturing facilities, production processes and
14 production employees. Obviously web roll production
15 does not involve any sheeting operations. Verso Paper
16 and West Linn Paper are domestic producers of coated
17 free sheet paper in web rolls, but they do not have
18 the sheeting equipment required to produce CCP. They
19 do not make CCP.

20 In addition, Petitioners have some paper
21 mills that only produce web rolls. Even in the mills
22 that produce both products, some paper machines are
23 dedicated to the production of web rolls because they
24 are engineered for lower basis weights not used in
25 sheets or they cannot meet the tighter tolerances for

1 mechanical consistency needed for sheets.

2 Even where both products are produced on the
3 same paper machines, the manufacturing processes
4 differ. The same paper machines will use different
5 recipes -- that is fiber content, moisture content,
6 porosity of paper and coating formulations -- to
7 produce web rolls and CCP.

8 Fourth, the channels of distribution are not
9 the same. CCP is generally sold to merchants who hold
10 the sheets in inventory for resale and shipping to the
11 printers. In contrast, web rolls are generally
12 shipped directly from the paper mills to the printers,
13 even when the sale is made by the merchant. In
14 addition, web rolls, unlike CCP, are often sold to
15 publishers who contract with printers for printing
16 their paper.

17 Fifth, customers and producers perceive
18 significant differences between CCP and web rolls.
19 Customers buy web rolls to run on web-fed presses, and
20 customers buy CCP to run on sheet-fed presses.
21 Producers do not warrant the product to be used on a
22 press type other than that specified.

23 In addition, customers tend to buy CCP for
24 smaller volume, higher quality print jobs and for
25 higher basis weight applications not available with

1 web-fed presses. In contrast, customers typically buy
2 web rolls for higher volume print jobs and for lower
3 basis weight applications not available from sheet-fed
4 presses. Finally, CCP costs more to make, has a
5 higher value and has higher prices in the market than
6 web rolls. Thank you.

7 MR. STEWART: Next we turn to cumulation.
8 Subject imports and the domestic like product are
9 highly interchangeable with one another. In the ITC's
10 2007 investigation on Coated Free Sheet Paper,
11 purchasers reported imports from China and Indonesia
12 and U.S. product were highly interchangeable, met the
13 same quality standards and have comparable physical
14 characteristics.

15 The same is true here. Subject imports and
16 the domestic like product are also sold in every
17 geographical market at all times of the year and
18 through the same channels of distribution. Finally,
19 one company, APP, owns the only two producers in
20 Indonesia and is the biggest producer in China. For
21 all these reasons, subject imports should be
22 cumulated.

23 The other major condition of competition in
24 the market has been the significant decline in demand
25 since 2006. Public data indicates apparent U.S.

1 consumption of CCP shrank 17 percent from 2006 to 2008
2 and then plummeted by 26 percent in the interim
3 period. The volume of imports in this case, by
4 contrast, has been substantial, remained relatively
5 constant until 2009 and has grown dramatically in the
6 interim period.

7 Imports increased from 2006 to 2007 and in
8 2008 were still above 2006 levels. Then came the
9 first half of 2009 when imports from China and
10 Indonesia soared 41 percent over the same period in
11 the prior year. As a result, China and Indonesia grew
12 their share of the U.S. market in every single year of
13 the period, and in 2009 their market share nearly
14 doubled to 30 percent. By contrast, domestic
15 producers lost some nine percent of the market in 2009
16 alone.

17 Imports from China and Indonesia have used
18 price as their tool for gaining market share. Public
19 sources and witness testimony today will indicate that
20 margins of underselling of 10, 20 and even 30 percent
21 are not uncommon. Domestic producers have had no
22 choice but to cut their own prices in order to hold
23 onto a portion of their market share. Where they have
24 failed to reduce their prices on direct competitive
25 product they have lost volume to the dumped and

1 subsidized imports.

2 Finally, the evidence of injury is striking.

3 Domestic shipments fell by 16 percent from 2006 to
4 2008 and another 38 percent in the interim period.

5 Two mills and one sheeting operation have closed since
6 2006 at the price of 860 jobs. In addition, paper
7 machines have been idled, hours reduced and wages and
8 benefits squeezed. Just this week, NewPage announced
9 more rolling down time for its machines, citing the
10 pressure of low-priced imports from China and
11 Indonesia as one of the causes.

12 The magnitude of the injury is reflected in
13 questionnaire responses and is particularly
14 problematic for a capital intensive industry like
15 coated paper, which must make continued investments to
16 remain competitive.

17 Mr. Dorn will now address threat.

18 MR. DORN: The domestic industry is also
19 threatened with additional material injury that is
20 real and imminent. First, imports are rapidly
21 increasing. They jumped 41 percent from the first
22 half of 2008 to the first half of 2009 at a time when
23 consumption was falling sharply. As a result, they
24 nearly doubled their market share over the same
25 period. These increases in volume and market

1 penetration indicate a strong likelihood of
2 substantially increased imports in the near future.

3 Second, we have alleged over 30 different
4 subsidies to Chinese and Indonesian producers. These
5 subsidies are encouraging the expansion of capacity
6 and increased exports to the United States.

7 Third, the unit values are declining from
8 already low levels. These declining import prices and
9 underselling will facilitate increased imports and
10 will cause further price depression in the U.S.
11 market.

12 Fourth, production capacity in the subject
13 countries is rapidly expanding. According to RIZI,
14 China's capacity to produce coated wood-free paper
15 increased 59 percent from 2005 to 2009 and will
16 increase another 59 percent over the next three years.
17 RIZI forecasts that capacity in Indonesia will grow by
18 20 percent between 2009 and 2012.

19 Fifth, the subject producers have
20 significant unused production capacity that could be
21 diverted to the United States. China particularly
22 only operates at a rate of about 90 percent in 2009,
23 according to RIZI, and this is expected to drop to 84
24 percent by 2012.

25 Sixth, a new distribution company called

1 Eagle Ridge has very recently set up warehousing
2 distribution centers throughout the east coast and the
3 midwest to sell subject imports produced by APP, the
4 largest producer in both China and Indonesia.

5 Finally, the subject producers are very
6 export-oriented and the U.S. is no doubt their largest
7 market. Thank you.

8 MR. STEWART: With that we will turn to our
9 witnesses, and we'll start with Barry.

10 MR. NELSON: Good morning. My name is Barry
11 Nelson, and I'm the Senior Vice President of Sales for
12 NewPage Corporation. I have worked in the paper
13 industry for over 20 years, and I have been with
14 NewPage since its creation. I'm responsible for all
15 the company's paper sales with the exception of some
16 specialty products.

17 NewPage is the largest producer of coated
18 paper in the country. We have the capacity to make
19 the coated paper covered in this case at our mills in
20 Escanaba, Michigan, my home town; Luke, Maryland;
21 Rumford, Maine; Wickliffe, Kentucky; and Wisconsin
22 Rapids, Wisconsin.

23 As you are well aware, NewPage was also a
24 Petitioner in the case on Coated Free Sheet Paper that
25 the Commission considered in 2006 and 2007. The case

1 before you today is a different case. This case
2 focuses on imports of coated sheets that meet certain
3 brightness and other criteria regardless of fiber
4 source. This includes coated paper made with more
5 than 10 percent mechanical pulp. This is the product
6 we focus on because this is the product harming our
7 domestic industry.

8 The market share of Indonesian and Chinese
9 imports in this product segment is substantial, and
10 the harm these imports are causing domestic producers
11 is significant and growing. From 2006 to 2008, China
12 and Indonesia steadily increased their market share as
13 overall demand for certain coated paper in the
14 domestic market dwindled.

15 And then came 2009. In the first half of
16 this year, imports from China and Indonesia soared by
17 41 percent at the same time that domestic demand was
18 contracting sharply. The result was a massive
19 transfer in market share from domestic producers to
20 the Indonesians and Chinese, who nearly doubled their
21 market share.

22 Aggressive dumping and generous subsidies
23 have permitted Chinese and Indonesian producers to
24 sell comparable product at irrationally low prices
25 throughout this period. Our customers have put

1 intense pressure on us to meet these severely
2 distorted prices on our coated sheet products.

3 The small price premium we enjoy due to the
4 superior logistics and supply chain advantages has
5 been shrinking, and it has been completely overwhelmed
6 by the Chinese and Indonesian underselling. While we
7 might enjoy a premium of \$40 to \$60 a ton due to our
8 proximity of the domestic market, we have seen subject
9 imports underselling our product by as much as \$150 to
10 \$160 per ton.

11 In this kind of environment, the only way
12 for us to hold onto market share is to cut our own
13 prices. Since 2008, we have dropped our prices by 20
14 to 25 percent to compete with imports. And the price
15 pressure hasn't been isolated to the economy segment
16 of the market. As imports depressed prices for
17 economy grades, the price margins between the grades
18 broadened, creating pressure on higher grades. When
19 the floor starts to drop, it eventually brings the
20 rest of the market down with it.

21 By 2009, we had already cut our prices so
22 drastically that we were hardly breaking even and were
23 even taking a loss on some of our economy sheet
24 programs. There was simply no way to lower prices any
25 further without selling below our cost of production.

1 Once we stopped lowering prices, we began losing huge
2 volumes of sales to China and Indonesia.

3 Unfairly traded coated paper has put our
4 company in a no-win situation. We either keep cutting
5 prices or keep losing volume. There is no
6 alternative, and there is little hope if relief is not
7 provided. Chinese and Indonesian producers continue
8 to expand capacity, and they have set their sights
9 squarely on our market.

10 APP recently announced it is setting up its
11 own distribution arm in the U.S., called Eagle Ridge,
12 to directly target our customers. With 18 retail
13 locations to date and aggressive outreach to printers,
14 the new distributorship will only intensify the
15 pressure on the domestic industry.

16 The inability to make reasonable returns on
17 our products has deeply injured our company. We have
18 had to idle paper machines in Luke, Maryland, and
19 Rumford, Maine. In 2008, we were forced to close our
20 Kimberly, Wisconsin, mill and Chillicothe, Ohio,
21 sheeting facility, laying off hundreds of loyal and
22 highly skilled workers.

23 It was especially difficult to shut down the
24 Kimberly mill, which had extremely attractive assets
25 and top-of-the-line equipment. No matter how

1 efficient and productive the mill was, it just
2 couldn't keep up with the subsidies and dumping
3 benefitting imported product.

4 This year we've had to impose down time
5 throughout our entire mill system, curtailing
6 production and reducing shifts for our workers.

7 Earlier this week we announced an additional 160,000
8 tons of anticipated down time during the fourth
9 quarter of this year.

10 In short, unfairly traded imports from China
11 and Indonesia are driving down prices, seizing
12 substantial market share and causing severe harm to
13 the domestic industry. For all of these reasons, we
14 ask the Commission to provide relief in this case.
15 Thank you for your time.

16 MS. MILLER: Good morning. My name is
17 Jennifer Miller, and I am the Executive Vice President
18 of Strategic Marketing for Sappi Fine Paper North
19 America. I have been with Sappi since 1996, and I
20 currently manage the profit and loss of the coated
21 paper business for North America, including marketing,
22 product management and pricing.

23 Today I want to explain certain aspects of
24 the coated paper market in the U.S. and how rising
25 imports of coated sheet from China and Indonesia have

1 injured our company. Sappi produces and sells certain
2 coated paper as defined in the petition. That is a
3 sheet product. We also sell coated free sheet paper
4 in web rolls.

5 There are important differences between
6 certain coated paper and web rolls. These differences
7 are dictated by the two very different printing
8 processes, service requirements and end uses for
9 sheet-fed and web products. Indeed, these differences
10 are so distinct that we manage them as separate
11 business lines. I oversee one marketing director for
12 web and another marketing director for sheet products.

13 Web rolls are for use in web presses, which
14 are large printing machines designed to handle high
15 volume runs at high speeds. Typically web printers
16 are larger operations, more like a manufacturing plant
17 than a small print shop. They print magazines,
18 catalogs and other mass market products, which tend to
19 have more regular production schedules and do not
20 demand premium quality photographic reproduction.

21 A single web roll can weigh between one and
22 five tons, and a typical order size from a web
23 customer would be several thousand tons. We ship our
24 rolls directly to the printers, often in rail cars.

25 Certain coated paper is produced and sold

1 for use on sheet-fed presses. A typical sheet-fed
2 printer is a small, independent undertaking. They
3 must adjust press settings, ink, paper and timing to
4 accommodate each job. Sheet-fed presses specialize in
5 very high-end direct mail and brochures, which demand
6 superior photographic reproduction and special
7 varnishing and finishing techniques.

8 A typical order from a sheet-fed printer
9 would be in the tens of thousands of pounds, nowhere
10 near the thousand ton orders we send to web presses.
11 Delivering sheets to these small print shops is more
12 complex than loading web rolls on a rail car. Sheets
13 are delivered in skids or cartons and transported by
14 truck to the many urban and suburban areas across the
15 country where sheet-fed print shops are located.

16 Because of this logistical complexity,
17 Sappi, like other mills, sells its sheet product
18 through paper merchants. The paper merchants serve a
19 vital function in the sheet market. The orders from a
20 single sheet-fed printer will vary from day to day,
21 depending on the print jobs they are running, and
22 meeting those orders in time requires a merchant who
23 can inventory our sheet product and deliver it
24 promptly.

25 Because of their different end uses, web

1 rolls and sheets have different physical properties.
2 One is a roll for use in web presses. The other is a
3 sheet for use in sheet-fed presses. In addition to
4 their different forms and sizes, the paper used to
5 make each product is different. The paper used in web
6 rolls has lower moisture, higher porosity and is
7 generally lighter weight in order to run optimally on
8 web press and not blister in the press' heat set
9 process.

10 The paper used in sheeter rolls, by
11 contrast, has higher moisture levels and different
12 mechanical properties in order to run through a
13 sheet-fed press without curling or losing print and
14 color fidelity.

15 We have different product formulations for
16 web rolls and sheeter rolls to ensure they perform on
17 the different presses they are intended for. We do
18 not warrant our web rolls for use in sheet-fed
19 presses.

20 In our Somerset plant we have two machines
21 dedicated solely to web production. They are
22 engineered to make lower basis weight papers that we
23 do not offer in sheet. While some of our paper
24 machines can produce either web or sheeter rolls, we
25 use different recipes to produce each type of product

1 to achieve the physical characteristics needed for
2 each end use.

3 In our experience, sheeter roll production
4 is generally more expensive than web roll production
5 because of the tighter mechanical specifications
6 required. On average, it costs us about \$200 more per
7 ton to make sheeter rolls versus web rolls. In
8 addition, of course, sheet must go through the
9 additional production process of sheeting to become a
10 finished product while web rolls are finished products
11 in their roll form.

12 Coated sheet imports from China and
13 Indonesia compete directly against our sheets for
14 shelf space in merchant warehouses and in downstream
15 printer markets. Since inventory is one of the
16 biggest costs faced by sheet merchants, even a small
17 difference in price can create a significant incentive
18 to stock imported sheet, particularly when credit is
19 tight.

20 Once lower priced subject imports are
21 stocked in the merchant warehouse, they have a lead
22 time comparable to a domestic product and can meet the
23 service requirements of even small, commercial
24 printers. Because of these dynamics, rising imports
25 from China and Indonesia have dramatically increased

1 their share of the U.S. market even as demand
2 contracted.

3 This wave of imports has put intense price
4 pressure on our products. Since 2006, sheet from
5 China and Indonesia sold in the economy grade has been
6 priced well below our comparable economy grade. By
7 March of this year they were undercutting prices for
8 our comparable product by 20 to 30 percent or more.

9 Even though our merchants and downstream
10 printers told us that our product offerings were
11 attractive due to overall strong product quality, high
12 environmental standards and advertising support for
13 our brands, the economic incentive for merchants to
14 stock imported product and for printers to buy product
15 at prices 20 to 30 percent lower than ours was very
16 powerful in the fragile business and credit
17 environment existing in 2009.

18 Even if a merchant or a printer preferred to
19 buy our product, it was difficult for them to ignore
20 the competitive threat of other merchants and/or
21 printers accessing such low-priced products. Given
22 the fact that Chinese and Indonesian sheet is made on
23 world class machines, performs consistently on press
24 and is made to world class specifications, purchasing
25 decisions are largely made on the basis of price.

1 In response, we concluded that we had no
2 alternative but to cut the price of our economy sheet
3 product, although we could not match the lowest prices
4 offered by the Chinese and the Indonesians. While
5 these new price levels are necessary to protect our
6 current order book, we do not earn margins making
7 these products at either Cloquet or Somerset that will
8 attract investment.

9 This has injured our business prospects for
10 future expansion and growth as Ms. Ayer will testify.
11 In addition, these low prices did not allow us to make
12 positive margins at Muskegon, leading to the closure
13 of the Muskegon mill.

14 Finally, it's important to understand that
15 low priced imports from China and Indonesia are eating
16 into the entire sheet market and not just the lower
17 grades. For example, the steep price cut we made on
18 our economy sheets to compete with imports created a
19 huge price differential with our higher quality
20 sheets. This posed a cannibalization risk that
21 eventually forced us to reduce pricing for our other
22 sheets to maintain a more traditional spread with the
23 already lowered economy sheet prices.

24 In short, Chinese and Indonesian sheet
25 imports are forcing us to cut prices below sustainable

1 levels throughout the sheet market. Without relief
2 from these imports, the current market environment is
3 unsustainable for domestic coated paper products like
4 Sappi. Thank you for your time.

5 MS. AYER: Good morning. I'm Anne Ayer,
6 Vice President for Corporate Development and Chief
7 Information Officer for Sappi Fine Paper North
8 America. I joined Sappi in 1996, and I oversee our
9 corporate development work, special projects and
10 industry tracking.

11 The price cuts we have had to implement in
12 an attempt to compete with sheet from China and
13 Indonesia are, as Ms. Miller said, truly unsustainable
14 for our business. They have resulted in both the
15 closure of domestic mills and inability to invest in
16 new paper machines or expansions with an acceptable
17 rate of return on investment.

18 The mill Sappi owns in Muskegon, Michigan,
19 is a case in point. The Muskegon mill, largely a
20 sheet mill, has been a pillar of the local economy on
21 the eastern shore of Lake Michigan for more than 100
22 years. Sappi purchased the mill in 1994, and we've
23 invested over \$100 million in capital over the last 10
24 years. As late as 2005, the mill employed more than
25 550 workers, but imports of coated paper from China

1 and Indonesia were taking their toll.

2 In 2005, we were forced to close the mill's
3 pulp plant, cease production on one of the mill's two
4 machines and eventually lay off 365 workers. The mill
5 struggled to compete with low-priced imports from
6 China and Indonesia. The dramatic jump in imports in
7 2009 right when demand was falling was the final death
8 blow for the mill. We idled the facility in March and
9 were forced to put the workers on furlough.

10 When it became clear this summer that we
11 were not going to be able to sell Muskegon product at
12 sustainable margins we had to make the very painful
13 decision to close the mill. We announced the closure
14 of Muskegon on August 26 of this year. One hundred
15 and ninety workers, many of whom had worked for
16 decades at the mill, lost their jobs.

17 While we are working closely with the union
18 to ease the burden on these workers and their
19 families, including through obtaining a certification
20 for trade adjustment assistance, the damage the
21 closure will close is undeniable.

22 If relief is not provided, it is unclear how
23 we can justify the kinds of investments that are
24 necessary to keep the facilities competitive. Over
25 the past year, we have seriously pursued the viability

1 of a new paper machine at our plant in Cloquet,
2 Minnesota. We went so far as to get the environmental
3 assessment and permits for the project.

4 The project was an exciting one for us as it
5 would allow us more sheet production from the mill
6 without requiring a new pulping operation. The new
7 machine would run on clean natural gas and help lower
8 our carbon footprint per ton.

9 Unfortunately, the market does not support
10 this important new investment and that is because of
11 the deep distortions in the market caused by imports
12 from China and Indonesia. Prices are being depressed
13 so sharply by imports that it makes little economic
14 sense to invest in even the most advanced and
15 efficient new equipment.

16 In addition, to assess the viability of the
17 new project we had to review the extent of new
18 investments abroad, especially in China and Indonesia.
19 The announced planned tonnage of new paper machines
20 being installed and the Chinese projects that
21 equipment vendors indicated were under consideration
22 was daunting. In light of all this new capacity
23 coming on line overseas, the numbers simply did not
24 add up to justify the new investment we hoped to make.

25 I'm afraid we will not be able to reevaluate

1 that determination and make an affirmative decision to
2 invest in new equipment until there is effective
3 relief from unfairly priced imports in this market.
4 Thank you for your time.

5 MR. SAVAGE: Good morning. My name is Greg
6 Savage, and I'm the Vice President for Commercial
7 Sales at Appleton Coated. Appleton Coated produces
8 coated paper at our facility in Combined Locks,
9 Wisconsin. The facility is state-of-the-art, and all
10 of our manufacturing equipment is new or has been
11 rebuilt in the past 15 years. Imports from China and
12 Indonesia have had a direct negative impact on our
13 business, and we believe that injury will continue
14 unless relief is provided in this case.

15 Appleton Coated produces both web rolls and
16 sheets, and most of our product includes at least some
17 BCTMP pulp. As has already been discussed, web rolls
18 on the one hand and sheet on the other are two
19 distinct products with two distinct end uses. Even
20 when we offer the same type of product in both web and
21 sheet form, the paper will be manufactured differently
22 in web than it is in sheet.

23 Paper produced for web rolls has different
24 moisture content and other properties to provide heat
25 resistance in the web-fed presses. Paper produced in

1 sheets will have more moisture to avoid paper curl and
2 static charges in sheet-fed presses. For this reason,
3 we do not guarantee our product for use in a printer
4 for which it is not intended. In short, we view
5 sheets and web rolls as distinct markets.

6 Our mill is not an integrated mill, which
7 means we buy pulp on the open market, including BCTMP
8 pulp. BCTMP is a lower cost fiber that can impart
9 important physical attributes to paper such as bulk.
10 In our experience, it is possible to make coated paper
11 with more than 10 percent BCTMP pulp that will meet
12 all of the specifications typically associated with
13 coated free sheet in terms of brightness and other
14 qualities demanded by the printer.

15 As long as the right recipe is used, BCTMP
16 will not compromise the quality of the final paper
17 product. For all of these reasons, imported product
18 from China and Indonesia made with BCTMP pulp is
19 highly interchangeable with domestic coated product.

20 We have encountered direct competition from
21 Chinese and Indonesian coated sheets, and this
22 competition has grown more intense in the past year.
23 We sell nationwide, and we see the competition from
24 subject imports from coast to coast. With demand
25 down, prices are more important than ever, and we are

1 forced to fight every day with low-priced Indonesian
2 and Chinese product for the attention of our
3 distributors and our commercial printers.

4 In some cases, our distributors will discuss
5 with us imported product and the prices at which it is
6 offered. We have seen distributors and printers fill
7 more and more of their inventory with low-priced
8 Chinese and Indonesian product, reducing the floor
9 space and working capital available for our product.

10 In some cases, the printers who use Appleton
11 Coated paper have told us that they are losing
12 projects to printers that use Chinese and Indonesian
13 sheets instead of domestic products. We have tried to
14 sell our product on quality and service, but this has
15 not always been enough to prevent lost sales to
16 low-priced imports. We understand that the Chinese
17 and Indonesian producers also offer warranties on
18 their product that are comparable to ours.

19 While we stock paper in regional warehouses
20 to back up our distributors and use this service as a
21 selling point, APP now appears to be setting up their
22 own warehouses across the country as part of its Eagle
23 Ridge undertaking. Depending on the grade and the
24 product, we have seen imported sheets being marketed
25 at \$200 to \$240 a ton lower than our product. We have

1 had to try to close the gap, but we simply cannot cut
2 prices all the way down to meet the Chinese and
3 Indonesian imports.

4 In addition, while reductions we have made
5 in our economy grade have stemmed the tide of lost
6 volume to some extent, those price reductions are now
7 eroding sales of our higher end grades.

8 The harm that subject imports are causing
9 has been very painful for our company. We had to
10 reduce our workforce by 10 percent in May of last year
11 before the recession hit. We had an additional
12 workforce reduction earlier this year, which resulted
13 in the loss of nearly 70 additional positions. A TAA
14 petition for those workers is now pending before the
15 Department of labor.

16 Loss of sales and revenue due to imports
17 from China and Indonesia have also hampered our
18 ability to keep up with capital investment needs. As
19 I mentioned, Appleton Coated prides itself on its
20 state-of-the-art facility, but staying on the cutting
21 edge in a capital intensive industry like ours
22 requires constant upgrades and steady investment.

23 When imports undermine profitability and
24 funds for capital investment dry up, the damage to the
25 industry is deep and long lasting. In short, the

1 future of our industry depends on relief being
2 provided in this case. Thank you.

3 MR. GEENEN: Good morning. My name is Jon
4 Geenen, and I'm an International Vice President of the
5 United Steel Workers Union. At the USW I oversee
6 collective bargaining for our 130,000 members that
7 work in the pulp, paper and forest products sector.
8 Since 2002, we've lost more than 60,000 family
9 sustaining jobs in the sector.

10 I've been in the paper industry for more
11 than 30 years. I started on the shop floor in a mill
12 near my hometown in Wisconsin and worked my way up
13 through the union. My family, like many others in the
14 Fox River Valley, is a paper family. My wife worked
15 at Appleton Papers for nearly 25 years. Two of my
16 daughters worked in the same plant to earn money for
17 college, and my brother worked at the Kimberly,
18 Wisconsin, NewPage plant until he lost his job last
19 year when dumped and subsidized imports from China and
20 Indonesia forced the plant to shut down.

21 If you've ever visited the Fox River Valley,
22 you would have seen how central the paper industry is
23 to the region's economy, history and culture.
24 Kimberly has had a paper mill operating in the town
25 for over 100 years. The town's logo features a paper

1 mill's smokestacks, and the high school football team
2 is called the Papermakers.

3 When a plant like Kimberly shuts down, the
4 damage extends beyond the hundreds of direct jobs that
5 are lost. With few other jobs in the community that
6 can offer comparable wages and benefits, families
7 struggle to make ends meet. Health insurance runs
8 out, contributions to college savings accounts and
9 retirement funds dry up.

10 Families that have been forced to sell their
11 homes had difficulty finding buyers even before the
12 market crashed, and now foreclosure signs are a far
13 too common feature of the landscape. Surrounding
14 communities have also taken a hit, as have state and
15 local governments, who relied on the mill for a big
16 part of their tax base. The many companies that have
17 supplied the mill have been hurt as well, and even
18 area churches have suffered as a result of the
19 closure.

20 What really stings about the Kimberly
21 closure is that it did not have to happen. Unfair
22 imports closed the plant, just like they closed
23 Sappi's plant in Muskegon, Michigan and idled paper
24 machines in Rumford, Maine, and Luke, Maryland, and
25 forced workers everywhere to reduce wages, give up

1 wage gains and sacrifice benefits across the country.

2 The Kimberly closure cost 475 paper workers
3 their jobs, and 190 more are now losing their jobs in
4 Muskegon. The DOL has certified Kimberly and Muskegon
5 workers for trade adjustment assistance, as well as
6 coated paper workers in Rumford, Maine, and Allentown,
7 Pennsylvania, that have also lost their job due to
8 increased imports.

9 In each of these instances we have had open
10 and direct conversations with management about what
11 caused the plants to close, machines to idle or hours
12 to dry up. In every case the culprit was clear:
13 Imports from China and Indonesia. Coated paper from
14 these countries is being sold at such low prices that
15 it is simply not possible for the domestic industry to
16 compete.

17 In order to meet their prices, we have to
18 run our plants at a loss, and this is simply not a
19 sustainable strategy for any industry, much less a
20 capital intensive and technology driven industry like
21 paper. Our plants aren't closing down because they're
22 run down or inefficient. They're closing because even
23 the most advanced technology and the most productive
24 workers cannot compete against imports sold below the
25 cost of production.

1 I cannot convey to you how shocked I was
2 when the NewPage facility in Kimberly was announced
3 for closure. This was not an older mill with
4 antiquated equipment. The Kimberly mill had extremely
5 high quality assets and some of the top machines in
6 the company's entire operation, but it couldn't keep
7 up with dumped and subsidized imports.

8 Sappi's Muskegon mill was also operating
9 very well. In fact, in 2008 it set new records for
10 productivity and safety performance, but record
11 performance alone could not save the mill from the
12 onslaught of unfairly traded imports.

13 Our union has made enormous sacrifices to
14 try to help our industry withstand the cut throat
15 competition from China and Indonesia. Our members
16 have foregone wage increases and seen their health
17 care benefits cut repeatedly in successive rounds of
18 bargaining. One of the most painful concessions came
19 recently when NewPage eliminated more retiree health
20 care benefits at its central Wisconsin facility.
21 Hundreds of retirees and their spouses were affected.

22 Today our industry stands at the brink. We
23 have the potential to continue our development as a
24 green industry and to lead the way for other
25 manufacturers in addressing global climate change.

1 Our paper mills' energy portfolio consists of more
2 renewable energy than any other industry, and we
3 recycle large amounts of post consumer waste as well.

4 But leveraging these advantages requires a
5 market that will generate returns on a company's
6 investment. Far from being able to jump at tomorrow's
7 opportunities, our industry is struggling just to
8 survive today. The coated market is being strangled
9 by unfair imports.

10 Our union is fighting tooth and nail just to
11 get companies to invest enough to keep up with the
12 cost of depreciation, much less to invest in the
13 future. If relief is not provided, we may very well
14 lose that fight and with it new opportunity and an
15 industry that has sustained communities all across our
16 nation for generations. Thank you.

17 MR. HEDERICK: Good morning. I'm Jeff
18 Hederick, Vice President of Strategic Development and
19 Sourcing, Unisource Worldwide, Inc. Unisource is a
20 leading independent marketer and distributor of
21 commercial printing papers and related supplies and
22 equipment in North America.

23 We have dozens of locations across the
24 country, thousands of employees and relationships with
25 nearly every type of coated paper supplier and

1 customer in the marketplace. Unisource has been in
2 this business for nearly 50 years, and I joined the
3 company three years ago after more than 16 years of
4 experience in the paper industry.

5 First, I want to confirm what others have
6 said regarding the differences between web rolls and
7 sheets. As one of the nation's largest distributors,
8 it is our experience that sheet printers typically
9 only purchase sheet product and web printers purchase
10 web rolls. I estimate that about 90 percent of our
11 customers do only one or the other with only a small
12 minority having dual capabilities.

13 The two products are not used
14 interchangeably, and they have very different physical
15 properties such as moisture content dictated by their
16 different end uses. Unisource also handles a small
17 volume of sheeter rolls, but these are held mainly as
18 safety stock for when we do not have a certain size of
19 sheet available.

20 In addition, I want to confirm that subject
21 imports made with BCTMP pulp are interchangeable with
22 domestic coated free sheet. You could have Chinese
23 product with up to 20 percent BCTMP and it would be
24 largely indistinguishable from domestic coated
25 products.

1 As a distributor of paper from many
2 different mills and sources, I have seen firsthand how
3 Chinese producers are using aggressive pricing tactics
4 to gain market share. Low pricing has enabled them to
5 nearly double their market share as overall demand has
6 declined, particularly in the last year. In my view,
7 these producers are not interested in simply
8 participating in the U.S. market. They seem to want
9 to be the biggest players in our market, and they will
10 price product aggressively to achieve that position.

11 We are now seeing imported product competing
12 with domestic sheets across the United States. While
13 traditionally these imports tended to enter on the
14 west coast, these days you see them in all areas of
15 the country. Direct competition between imported and
16 domestic product is widespread, and it is a major
17 feature of the coated sheet-fed market in every region
18 of the country.

19 Brokerages handling Chinese product have
20 dramatically stepped up their presence in the market
21 by offering exceptionally low prices. They are
22 generally offering product below the prevailing market
23 rates. At Unisource, like other distributors, much of
24 our cost is tied up in inventory, and the price of
25 that inventory has a big impact on our operations.

1 Domestic mills have lowered their prices for coated
2 sheet to confront the aggressive pricing by Chinese
3 producers. The price effects of these imports are not
4 limited to economy grades or higher volume products.

5 Chinese producers are making a concerted
6 effort to continue expanding their presence in the
7 market, and this is the goal of APP's recently
8 announced Eagle Ridge endeavor. Eagle Ridge will be a
9 direct distributor of APP coated sheet in the United
10 States and as such a direct competitor of Unisource.

11 They have announced plans to move large
12 volumes of their product into the United States in the
13 fourth quarter of this year. They are actively
14 soliciting customers, including Unisource customers.
15 Chinese producers are aggressively seeking to further
16 increase their market share with high volumes and low
17 prices. Thank you for your time.

18 MR. CREW: Good morning. My name is Don
19 Crew, and I'm the President of Clampitt Paper.
20 Clampitt is an independent paper distributor with six
21 warehouses and 12 stores throughout the states of
22 Texas and Oklahoma. I've been in the paper industry
23 business close to 40 years, both on the mill side and
24 in distribution.

25 In addition to selling sheets and web from

1 mills to printers, we also convert sheeter rolls into
2 sheets for our customers. About 25 percent of our
3 business is converting. We operate seven sheeters
4 with sheeters located in each of our markets. The
5 sheeters are designed to provide customers just-in-
6 time service of custom sizes.

7 Our converting business does not compete
8 with the sheet conversion that occurs at the mills.
9 Our sheeters are much smaller than the mill sheeters
10 and handle much lower volume. There's a certain
11 amount of waste that results from converting rolls to
12 custom sizes which does not occur at the mill. This
13 means prices for our converted product are higher than
14 prices for sheets direct from the mill. Our customers
15 are willing to pay this price when they need custom
16 sizes with a quick turn and cannot find those sizes
17 already in stock.

18 We do sell web rolls. There are important
19 differences between web and sheets. While we take
20 title to the web rolls to make the sale, almost all
21 web rolls ship direct from the mill to the printer.
22 The vast majority of sheet products, by contrast, is
23 bought in bulk by us, stocked on our floor and sold
24 and shipped in small quantities from our warehouse to
25 the customers.

1 Most importantly, we do not convert any web
2 rolls into sheets. We only sheet sheeter rolls. If
3 we were to try to convert web rolls to sheets, we
4 would expose our customers to printing difficulties
5 due to the different moisture levels and other
6 physical differences between web and sheet. Mills
7 only warrant web rolls for web presses, and they only
8 warrant sheet and sheeter rolls for sheet-fed presses.

9 Import competition from China and Indonesia
10 has hurt our sheet business, both the sheets we sell
11 from the mills and the sheets we convert for our
12 customers. The Chinese and Indonesian product is
13 priced very aggressively. We've worked hard to
14 compete against it. We try to sell our customers on
15 our service, our converting capability and the
16 environmental profile of our paper. The imported
17 paper performs well, and being priced lower it
18 invariably hurts our sales.

19 The service advantage we provide has simply
20 not been sufficient to shield us from the unfair
21 competition from dumped and subsidized imports, and
22 we've had to reduce prices to compete. Even though
23 the majority of imports are in the economy grade, we
24 are seeing the negative effects across the spectrum of
25 coated papers. When economy grade papers are set so

1 low it reduces the demand for the higher grades.

2 The underselling by China and Indonesia has
3 gotten worse in the last year, and we've lost volume
4 in our sales of sheets from the mill and our
5 converting business. We were forced to lay off
6 workers this year with a 20 percent reduction in our
7 converting department.

8 Clampitt Paper is proud to stock and
9 distribute domestic products, and we have developed a
10 regional niche with our converting business, but all
11 of the advantages we provide to our customers have not
12 immunized us from the injury low-priced imports are
13 causing.

14 Aggressive underselling by Chinese and
15 Indonesian producers is eroding prices, seizing market
16 share and causing harm to our company and our workers.
17 For these reasons, we hope the Commission will support
18 relief in this case. Thank you.

19 MR. GRAFF: Good morning. My name is
20 Michael Graff. I'm the President and CEO of Sandy
21 Alexander, a national printer headquartered in
22 Clifton, New Jersey. I have a Bachelor of Science
23 degree in Printing Technology, and I've worked in the
24 printing industry for 30 years.

25 Sandy Alexander is one of the nation's most

1 respected printers. We provide both web printing and
2 sheet-fed printing, and we service many Fortune 500
3 companies in a broad array of industries. We have
4 three printing facilities, and we have sales offices
5 throughout the country.

6 Our company prides itself on its
7 environmental profile. Our chain of custody is
8 certified by the Forest Stewardship Council and the
9 Sustainable Forestry Initiative. Our facilities are
10 100 percent wind powered. We are ISO 14000 certified,
11 and we participate in Climate Leaders and we have won
12 several awards from the EPA for our environmental
13 stewardship.

14 As the only printer here that runs both web
15 and sheet-fed, I would like to address some of the
16 differences between the two. We tend to use our web
17 presses for higher volume printing jobs as they run
18 much more quickly than sheet-fed presses and can print
19 both sides of the paper at once. The web press is
20 also more expensive to start up and requires more
21 material to run. For us, it is not worth absorbing
22 these start-up costs for a job that will print fewer
23 than 50,000 copies.

24 While our sheet-fed presses can also handle
25 some high volume runs, they are well suited for

1 smaller jobs. This is because of their lower start-up
2 cost, slower speed and a wider range of sheet sizes
3 and calipers that they can accommodate and the fact
4 that they generally only print one side of the sheet
5 at a time.

6 Because web presses have a fixed cutoff for
7 the web size, jobs run on web presses are usually in a
8 standard size range that will not result in excessive
9 waste once the job is printed and finished. Sheet-fed
10 presses, by contrast, can accommodate a wider range of
11 sheet sizes. Web presses also tend to use paper
12 within a lighter caliper or thickness to ensure
13 runnability. We do not run paper with a thickness of
14 over nine points on our web presses. Our sheet-fed
15 presses, by contrast, can run paper up to 40 caliper
16 points, depending on the press.

17 To perform optimally, paper used in the web
18 printing process and the sheet-fed printing process
19 must have different physical properties. We use only
20 web rolls on our web presses, and we use only sheets
21 on our sheet-fed presses. While web rolls could
22 theoretically be sheeted and put through a sheet-fed
23 press, the differences in the paper would severely
24 compromise the final quality of the product. That is
25 why the mills only warrant the paper for the intended

1 application.

2 One of the most important differences
3 between web rolls and sheet is moisture content. A
4 web roll has to be able to withstand the heat setting
5 of ink in the web press, which requires a low moisture
6 level in the paper to avoid blistering. Sheets, by
7 contrast, must have enough moisture to withstand the
8 greater exposure to ambient humidity without hurting
9 the final print quality. In short, the two types of
10 papers are not interchangeable.

11 The channels of distribution for web and
12 sheet are also different. While we buy both types of
13 papers from merchants, approximately 90 to 95 percent
14 of the web rolls we purchase are shipped directly from
15 the mill. By contrast, the sheet we buy is generally
16 stocked by the merchants and is shipped by those
17 merchants to our facilities.

18 The merchants carry a wide range and
19 assortment of coated paper, most domestic and foreign.
20 We have run performance tests on sheets from China and
21 Indonesia in our printing facility, and many perform
22 comparably to domestic product. Because of the
23 premium that we put on the environmental
24 sustainability in our supply chain, we do not purchase
25 subject imports, but we see the enormous impact that

1 imports are having on the market every day.

2 We get offers of imported coated paper on a
3 daily basis, and the prices of these offers are
4 substantially below what we pay for domestic product.
5 We might pay 76 to 80 cents a pound for a Grade 2
6 domestic, and we get offered prices of 50 to 51 cents
7 a pound for technically comparable product from China
8 and Indonesia. Our domestic mills have to bend over
9 backwards to compete with the pricing being offered on
10 subject imports, giving us every financial incentive
11 they can afford to to stay with their product.

12 We see imported sheets from China and
13 Indonesia in every part of the country, and the level
14 of competition from these producers has increased
15 dramatically over the last year. An Eagle Ridge
16 representative has already tried to sell us their APP
17 product. It is a good looking sheet being offered at
18 a price that is substantially below the market. While
19 we did not take the offer, many other printers will be
20 tempted to do so.

21 The distribution structure Eagle Ridge is
22 aiming to create will have a multiplier effect on the
23 already low prices available for APP product. The
24 incentive for printers to shift from domestic to
25 Chinese and Indonesian sheet will only intensify as

1 Eagle Ridge expands its operation.

2 As one of the nation's premiere printers, we
3 have seen firsthand the damage that imports from China
4 and Indonesia have caused our valued domestic
5 suppliers. The future of our country's coated paper
6 industry is important to us, and we believe that
7 future depends on effective relief being provided in
8 this case. Thank you.

9 MR. SANDSTROM: Good morning. My name is
10 Jim Sandstrom, and I am President of HM Graphics, a
11 sheet-fed printer located in Milwaukee, Wisconsin. HM
12 Graphics is one of the top sheet-fed printers in the
13 country. We have won numerous industry awards for our
14 superior quality and service, and we serve many
15 Fortune 100 companies.

16 Our print shop is one of the largest
17 consumers of high-grade coated sheet in the country.
18 My father, John Sandstrom, founded HM Graphics 40
19 years ago, and I am proud to carry on the tradition of
20 excellence he instilled in the company.

21 The sheet-fed printing business is
22 fundamentally different than the web offset business
23 that prints on web rolls. As Mr. Graff explained, web
24 printers generally print high volume jobs where the
25 web provides important economics of scale. A web

1 press can print 30,000 to 50,000 sheets an hour
2 printed on both sides. Our top-of-the-line sheet-fed
3 presses can print a maximum of about 7,000 an hour
4 printed on one side.

5 In addition, we can achieve a much higher
6 quality finish and final image on a sheet-fed press
7 than is generally available on web presses. We have
8 much more flexibility in terms of coatings and special
9 treatments we can apply in a sheet-fed press. Because
10 the web printing process is so fast, printers
11 generally cannot lay down a lot of ink on a web press.
12 On a sheet-fed press we have the time to build deeper
13 images with more ink application one side at a time.

14 Web rolls and sheets also have distinct
15 characteristics that make them suitable for their
16 different end uses. Sheets have to have the right
17 moisture level to print properly. Dry sheets create a
18 lot of problems in the production process. If a
19 merchant sold me a web cut into sheet for use on my
20 sheet-fed presses and I had a quality claim on that
21 paper, the mill would not honor that claim. Web and
22 sheet are simply too different to be used in similar
23 applications. In addition, sheet-fed projects tend to
24 have a much faster job turnaround than do web print
25 projects.

1 We have seen firsthand how imports from
2 China and Indonesia have hammered down the prices
3 offered by our domestic sheet suppliers. Even where
4 imported products undersell domestic by only five to
5 eight percent, this can mean all the difference to a
6 printer. With paper being our highest input cost,
7 these kinds of margins will determine whether we win
8 or lose a job.

9 We buy from paper merchants who inventory
10 their product and deliver it in trucks to our shop
11 twice a day. Prices for the sheets we buy are set on
12 the spot market and bid competitively. Our merchants
13 have repeatedly pushed us to buy their low-priced
14 imports. Sometimes our customers will also push to
15 use imported sheet to save cost.

16 While the largest volume of Chinese and
17 Indonesian imports have been in the economy grade,
18 these imports have also eaten into domestic mills'
19 pricing across the spectrum. The erosion of pricing
20 has been dramatic. I am paying less for coated sheet
21 now than I was paying in the late '80s, not even
22 accounting for inflation.

23 Our suppliers have desperately chased the
24 low import price to try to stay in business, but the
25 strategy is simply not sustainable. We've already

1 lost too many paper mills and paper jobs in Wisconsin
2 over the years. If the hemorrhaging continues, there
3 won't be a domestic paper industry left for me to buy
4 from.

5 I intend to keep the business my father
6 founded excelling at the highest level for many years
7 to come. A healthy and vibrant domestic sheet
8 industry is an important part of that strategy. That
9 is why I'm here today to support relief in this case.
10 Thank you.

11 MR. STEWART: That concludes the direct
12 presentation of the Petitioners.

13 MS. DeFILIPPO: Thank you very much to all
14 of you for your helpful presentations. We will start
15 with staff questions first with Mr. Cassise.

16 MR. CASSISE: Good morning to you all.
17 Thank you for providing us with all of the
18 information. I have a few questions for counsel. One
19 thing that wasn't mentioned is that the scope changed
20 on Friday.

21 Just for the record, as far as I understand
22 the difference from the scope in the petition and the
23 scope now is that the sheeter rolls are now out of the
24 scope of the investigation. Is that correct?

25 MR. STEWART: That is correct.

1 MR. CASSISE: Could you go into how that
2 affects the data that you provided in the petition or
3 possibly the data that will be provided in our
4 questionnaires?

5 MR. STEWART: We don't believe that it has
6 an effect on the information in the questionnaire
7 because of the semi-finished product analysis that the
8 Commission can do and often does do.

9 In terms of the imports that were contained
10 in the petition and apparent consumption, the slides
11 that are contained in the presentation today provide
12 modifications to those data, so we believe that you
13 have modified import data from public sources from us
14 that reflect the extraction of our estimates of
15 sheeter rolls, and it doesn't affect the domestic data
16 because of the inclusion of both sheet and sheeter
17 rolls from a semi-finished product analysis.

18 MR. CASSISE: In Exhibit 24 of the petition
19 you had provided all of the HTS numbers with the
20 adjustments that you have done to them. If you could
21 in a postconference revise that to reflect the new
22 scope that would be helpful.

23 MR. STEWART: We'd be pleased to do that.
24 Thank you.

25 MR. CASSISE: And I guess just to continue

1 on the import volume data, I mean, would you consider
2 it reasonable that the Respondents that are here and
3 any other questionnaire responses that were received
4 from China and Indonesia, that that would be the best
5 measure of imports from China and Indonesia?

6 MR. STEWART: Well, I'm not sure I
7 understand the question. Historically the Commission
8 looks to U.S. import statistics, and depending on the
9 degree of responsiveness from the Respondents we'll
10 use information that comes in from the import
11 community if there's a high coverage ratio or from the
12 foreign producers if there's a high coverage ratio.

13 Since we don't know yet what the coverage
14 ratio will be in terms of the questionnaire responses,
15 I'm not in a position to say that we would accept
16 their data as the best information at this point.

17 MR. CASSISE: So what you're saying is that
18 the Respondents that are here today in and of
19 themselves are not a reasonable coverage rate for you?

20 MR. STEWART: As I understand who is here
21 today, it is a representative for APP. APP should be
22 100 percent of Indonesia as we understand it, and they
23 are the largest producer in China, but they are by no
24 means the only producer in China.

25 MR. CASSISE: Just to continue with the

1 import data, in the 2007 investigation there appeared
2 to be widespread misclassifications in the HTS
3 numbers, in the official Commerce statistics, which
4 affected the usefulness of official import statistics.
5 Are these misclassification issues taken care of or
6 are they still prevalent in our period of
7 investigation?

8 MR. STEWART: Well, the issue in the 2006-
9 2007 case, as I understand it, certainly by the time
10 of the final was whether or not the product that
11 competed in the market was properly classified as
12 coated free sheet or as coated ground wood since there
13 are separate HTS categories for that.

14 This case, as you know, is not segmented on
15 the basis of whether it's coated free sheet or coated
16 ground wood. Rather, it is done by brightness level.
17 It is the Petitioners' understanding that the vast
18 majority, if not all, of the product coming in from
19 Indonesia and China in the categories that we have
20 listed in fact should be covered.

21 So there may be misclassifications within
22 the categories. Of course, we would have no way of
23 knowing that, but we believe from the coverage that we
24 should have a fairly high degree of correlation
25 between the imports, the statistics, and what one

1 should find if one had 100 percent coverage of the
2 questionnaire responses.

3 MR. CASSISE: So in the '07 investigation,
4 the misclassification issues were entirely based on
5 that coated ground wood issue and that issue no longer
6 exists in this case because you've added those HTS
7 numbers. Is that a fair statement?

8 MR. STEWART: That's my understanding. Let
9 me just ask Joe if that is correct.

10 MR. DORN: That's my understanding. It was
11 basically the BCTMP product that was coming from China
12 and Indonesia that had been misclassified.

13 MR. CASSISE: Okay.

14 MR. DORN: And we've taken care of that with
15 the new scope.

16 MR. CASSISE: Mr. Dorn, I guess I'll ask you
17 some questions about like product since you spent so
18 much time talking about it. I know you also addressed
19 the issue at Commerce in your October 2 submission,
20 and you argued that the Commission is not bound to
21 prior like product determinations, especially when the
22 scope language is different, and also you make the
23 observation that the Commission found that there was
24 limited competition between web rolls and sheet.

25 But all of that being said, just from a

1 factual standpoint, and I guess I'm asking one of the
2 questions that Respondents wanted me to ask, which is
3 is there anything different factually since 2006 in
4 the web roll versus sheet market?

5 MR. DORN: I think that if you look at what
6 the Commission just said recently in the Retail
7 Carrier Bags case from Indonesia and Taiwan and
8 Vietnam it said that, "Even with respect to
9 investigations involving precisely the same scope, the
10 Commission makes its determinations based on the
11 record of each investigation, including the argument
12 of the parties."

13 In the prior investigation in 2006 and 2007,
14 Petitioners filed a petition where they had a scope
15 and they said that the like product should be
16 commensurate with the scope. Nobody disagreed with
17 it. There was really very little argument about it.
18 It really wasn't an issue.

19 Here we've defined the scope entirely
20 differently. We've excluded rolls, so the starting
21 point for the analysis is night and day from what we
22 had in 2006 and 2007, plus we provided a plethora of
23 factual information in our presentation today
24 addressing all the six factors that the Commission
25 considers, which clearly show that certain coated

1 paper is different from web rolls.

2 And I would also say that we were, you know,
3 in effect invited down this road by the Commission's
4 determination in 2007 when it accepted the arguments
5 of the Respondents, who said that web rolls are not
6 interchangeable with sheets. They said they're
7 entirely separate markets. So we listened to the
8 Commission. We refiled the case in order to target
9 the precise products that are causing damage to this
10 industry.

11 As you know, the legislative history
12 provides that the Commission should not dicker with
13 like product in a way to create an industry that masks
14 the harm being caused by the imports. We think we've
15 got it right this time in defining the scope so it
16 matches up with the products that are causing harm.

17 MR. STEWART: If I could just add a comment
18 from a different perspective on a different set of
19 cases?

20 Over my career there have been a number of
21 tapered roller bearing investigations. The first one
22 was viewed as covering tapered roller bearings zero to
23 four inches in outside diameter, a second case covered
24 just tapered roller bearings used in railroad
25 applications, and the third case covered all tapered

1 roller bearings that weren't covered by outstanding
2 orders, which became known as the over four inch size.
3 There were no changes in the products in those cases,
4 but there were different concerns that the domestic
5 producers who brought those cases had.

6 This is a situation where, as far as we
7 know, 100 percent of the problem being faced in the
8 market is with sheets and so the domestic industry has
9 done what international trade agreements and domestic
10 law envision, which is we have brought a case against
11 the product that is causing the harm, and we've
12 identified the domestic industry that is being harmed.

13 As the statute says and as Joe reviewed, the
14 starting point in like product is product which is
15 like that which is subject to investigation.

16 MR. CASSISE: And I understand all that, but
17 that wasn't my question. It was more of a factual
18 question. I'll just give you an example.

19 There was testimony in the hearing in the
20 final phase of the 2007 investigation where you had
21 industry witnesses stating that there was an
22 increasing interchangeability between web rolls and
23 sheet. Has there been an increase in
24 interchangeability since 2006 or hasn't there?

25 MR. STEWART: Would you like to hear from

1 the industry folks?

2 MR. CASSISE: Sure.

3 MS. DeFILIPPO: Can you turn on your
4 microphone, please? Thank you.

5 MS. MILLER: I apologize. I think Mike
6 spoke to it briefly in his testimony, but Sappi
7 certainly hasn't seen a significant or noticeable
8 increase in the interchangeability of web and sheet in
9 print jobs, but, Mike, I think maybe if you want to
10 reiterate what you had said in your testimony, which
11 is there might be a very small sliver.

12 MR. GRAFF: I mean, there is a distinct
13 difference between the two. I mean, there is no
14 meaningful interchangeability.

15 MR. CASSISE: And you don't see a shift in
16 the market?

17 MR. GRAFF: I have not seen a shift at all,
18 no.

19 MR. CASSISE: Again, in the final phase
20 hearing there was testimony by another witness that
21 many printers, and we have some printers here that
22 could answer this question. Many printers were
23 adopting this dual capability of sheet and web
24 printing. Has that significantly shifted in the last
25 three years?

1 MR. GRAFF: Just so I define the question,
2 do printers provide both services or is the paper
3 interchangeable between the two processes?

4 MR. CASSISE: You as a printer. Do you have
5 both web and sheet presses?

6 MR. GRAFF: Yes.

7 MR. CASSISE: And do you see more and more
8 firms adopting this dual capability?

9 MR. GRAFF: No.

10 MR. CASSISE: I guess do you have more
11 competitors than you did three years ago that could
12 provide --

13 MR. GRAFF: Just the contrary. It's ever
14 more segregated, as the cost of entry into the web
15 market is significant. You could be talking just for
16 the machine it's \$7 to \$10 million just for a single
17 web press, plus all the support material behind it,
18 whereas a comparable sheet-fed press is -- you can get
19 into a sheet-fed press for \$1 million, \$1.5 million.

20 MS. MILLER: But subject to check, and we do
21 do relatively sophisticated market segmentation, but
22 looking at the AF Lewis list of printers in the U.S.,
23 I think less than eight percent of commercial printers
24 have dual web and sheet capability.

25 MR. CASSISE: Okay. Thank you.

1 MR. NELSON: If I think back on that
2 testimony, there was a concern during that time that a
3 new technology that was starting called CutStar
4 technology where the sheet-fed process had a roll
5 loaded on the front end could very well take off,
6 which has not happened. It is still a very, very
7 small, fringe part of the marketplace.

8 MR. CASSISE: Okay.

9 MR. DORN: Mr. Cassise, I might also mention
10 that the Commission in its final determination said
11 that the Commission found that there was "limited
12 competition between web roll and sheet products and
13 that the limitations on competition show no signs of
14 disappearing," which I think is confirmed here today.

15 And the Commission also found to the extent
16 that there was any evidence of use of web rolls in
17 sheet-fed presses or vice versa, such examples "would
18 not be indicative of overall conditions in the U.S.
19 coated free sheet market."

20 So while there might have been some fringe,
21 you know, switching back and forth, that's certainly
22 by far the exception to the rule, and when that
23 happens the practice is not even covered by warranties
24 from the mills.

25 I would emphasize that, you know, there were

1 no arguments to create separate like products in the
2 prior case. I mean, the Petitioners came in and said
3 we had a scope and what product is like the products
4 in the scope. Well, starting from that basis point it
5 was logical to say that it's all one like product, but
6 now we have a totally different playing field.

7 MR. CASSISE: All right. And Chairman
8 Aranoff asked that question at the hearing whether
9 there should be two like products, and Respondents
10 argued no.

11 MR. DORN: Correct.

12 MR. CASSISE: A question to the paper mills,
13 and again in the '07 investigation there was testimony
14 about U.S. distributorships kind of handed out by
15 geographic region and that some merchants or printers
16 that had testified that they were unable to get
17 domestic product because they fell within a certain
18 geographic region that the mills already had
19 distributors. Can you comment on that? Is that a
20 reality of the marketplace?

21 MR. NELSON: Barry Nelson with NewPage. I
22 think in the previous case the issue was one of
23 Unisource being a national distributor not having
24 access to domestic manufactured product. That is, and
25 Jeff can answer this, that's no longer the case with

1 respect to Unisource. NewPage has a footprint
2 nationally with multiple distributors in each market.
3 We don't have every distributor in every market, but
4 there should be no printer in any part of the country
5 that cannot get NewPage product.

6 MR. CASSISE: So if I am a small printer and
7 I call you up and I want paper next week, I can get
8 that paper, I mean there is a spot market for sheet?

9 MR. NELSON: That's correct, and you can get
10 it from any of our authorized distributors in any part
11 of the United States.

12 MR. CASSISE: So I have to get it from one
13 of your authorized distributors, not from you?

14 MR. NELSON: That's correct. As Jennifer
15 pointed out in the sheet market, the demands of the
16 sheet market are small orders, very quick turnaround
17 time, and the value that a merchant distributor
18 provides is having inventory locally that can be
19 shipped quickly and more cost-effectively than trying
20 to sell or ship 5,000 and 7,000 pounds from a mill in
21 central Wisconsin.

22 MR. CASSISE: But if I wanted to become a
23 large paper distributor, I might not necessarily get
24 paper from NewPage because they already have a large
25 distributor in a certain geographic region?

1 MR. NELSON: That's correct, but I think
2 there is adequate supply of other domestic
3 manufacturers as well as manufacturers from Europe as
4 well as Korea and Japan. So the ability to get
5 product is not an issue. The ability to get NewPage
6 product or Sappi product may be an issue, but you
7 should not have a problem being able to get it.

8 MR. CASSISE: So what criteria do you use to
9 determine what firm gets to be the large NewPage
10 distributor in a given geographic region?

11 MR. NELSON: We look at it predominantly on
12 a performance basis. That performance is based on
13 sales volumes, our respective market share, estimated
14 market share in a given market, as well as stock
15 levels and stock support. And we've looked at those
16 agreements annually, and refine and continue to revise
17 our distributor footprint based on performance.

18 MR. CASSISE: Is it fair to say that those
19 firms rarely change?

20 MR. NELSON: No. When we went through the
21 recent acquisition of Stora Enso North America, we had
22 a significant change in the distributor lineup for
23 NewPage product.

24 MR. CASSISE: And so when a firm that was a
25 distributor of yours is no longer, and this is maybe

1 speculative on your part, but where do they get their
2 product then? I mean do they go to those other
3 sources that you mentioned?

4 MR. NELSON: They have options to go to
5 Appleton, they have options to go to Sappi, they have
6 options to go to Korea, they have options to go to any
7 of the manufacturers based in Europe or Japan as well
8 as China and Indonesia.

9 MR. STEWART: Would you like to hear from
10 the other domestic mills on the same issue or is that
11 sufficient?

12 MR. CASSISE: No, sure, if you would like to
13 comment.

14 MS. MILLER: Jennifer Miller with Sappi. We
15 are unique among U.S. paper mills in that we sell 100
16 percent of our product through paper merchants. And
17 so just to support some of the general points that
18 were made by Barry Nelson, Sappi would have at least
19 two and often as many as four merchants in a
20 particular geographic market. We have at least two
21 merchants in every geographic market in the U.S.
22 Sappi often adjusts its merchant representation by
23 market based on very similar criteria that Barry
24 mentioned, everything from financial strength, our
25 assessment of the strength of their sales force, their

1 willingness to invest in our inventory, and their
2 performance against their peers. It's a robust
3 competitive channel for us.

4 MR. SAVAGE: I'm Greg Savage with Appleton
5 Coated. Very similar. Appleton Coated on a volume
6 level is quite a bit less tons than a Sappi or
7 NewPage, but we have national coverage with at least
8 two in every market, some markets we have five
9 distributors, and those distributors do change, and
10 there are some areas where we're the only domestic
11 mill they have, there are some areas where they have
12 two or three domestic mills. But it's very similar to
13 the other two with a lot less volume but with as many
14 distributors around the country.

15 MR. CASSISE: Mr. Hederick, your firm,
16 Unisource, in the '07 investigation was on the other
17 side of the isle in this case. I was wondering if you
18 could comment publicly on why your firm decided to
19 support the petition this time.

20 MR. HEDERICK: Well I'm glad you asked that
21 question, frankly one I would have expected you to
22 ask. And I think it goes to the topic we were just
23 talking about vis-a-vis distribution access. In 2007
24 the case was very different for us at Unisource in
25 that we did not have access to domestic products on a

1 national basis. For us as a company we feel, and as a
2 national distributor we think it's critically
3 important for us to be able to source product
4 nationally from a manufacturer.

5 And so our inability to source domestic
6 sheeted product on a national basis caused us to look
7 offshore for that, and in this case we were using
8 product from APP out of China. The situation today is
9 very different in that we have access to domestic
10 product from domestic manufacturers, and I might add
11 it's a more reliable product and at a much better
12 supply chain.

13 MR. CASSISE: Is it fair to say that the
14 Eagle Ridge distribution center for APP had some
15 effect on your position or your access to Chinese
16 product?

17 MR. HEDERICK: Well at this point Eagle
18 Ridge is not moving a lot of paper into the market.
19 Eagle Ridge is new really in the last two to three
20 months only. So the business itself is really just
21 starting to ramp up. I would frankly expect most of
22 the product to show up in their U.S. distribution
23 centers starting in the fourth quarter of this year,
24 there has not been a lot thus far.

25 MR. CASSISE: But do you still have access

1 to Chinese or Indonesian product if you so desire?

2 MR. HEDERICK: There's certainly APP, there
3 is Chenming, there is Sun Paper, there are other
4 Chinese manufacturers that are out there that are
5 looking for merchants to purchase product from them,
6 so yeah I would believe that we would have access to
7 those products if we wanted to, but it's been our
8 business rationale not to pursue those at this time.

9 MR. CASSISE: So the creation of Eagle Ridge
10 hasn't forced you out of the distribution or potential
11 distribution of Chinese and Indonesian product?

12 MR. HEDERICK: No, it's not forced us out,
13 it's merely created an additional competitor for us in
14 the marketplace.

15 MR. CASSISE: And so what allowed you in the
16 last three years to gain access to domestic product?

17 MR. HEDERICK: Well, as I think Barry Nelson
18 from NewPage indicated and I know Jennifer and Greg
19 would echo, I mean our feeling is that in some cases
20 you earn your stripes by performance for your domestic
21 manufacturers, and I think in this case Unisource has
22 proven to the domestic manufacturers that we've been
23 able to perform for them, we've invested in their
24 inventory, we've stocked it, we've become a valuable
25 supplier to the print community, and as such I think

1 they believe there has been value in now giving us the
2 franchise to sell their products on a national basis.

3 MR. CASSISE: I mean did you have to effect
4 any changes at your firm in order to gain access to
5 domestic product?

6 MR. HEDERICK: I would answer that by saying
7 that like any company, you know, inventory is working
8 capital, which is cash sitting in a paper block in
9 your warehouse, so you have to make decisions about
10 how much you can stock, how many of the various price
11 points that exist in the marketplace you can carry
12 inventory for. So, you know, do we constantly look at
13 what we're selling, how much product we need to carry
14 to support the marketplace? Yes we do that, and we
15 invest our capital appropriately to provide products
16 that we think the printing community is most
17 interested in purchasing.

18 MR. CASSISE: Okay, I'm going to shift
19 questioning here. On slide 19 you have a list of all
20 the closures. I was wondering if those, is that idle
21 capacity or were these liquidations?

22 MR. STEWART: We have the Kimberly, Ohio
23 mill. Barry, you want to talk about that?

24 MR. NELSON: Barry Nelson with NewPage. The
25 Kimberly, Wisconsin mill is idled, it is not

1 permanently closed at this point. We continue to have
2 the ability to restart that mill should we need to
3 support the marketplace in order to do that. The
4 Chillicothe converting center has been closed and that
5 is a permanent closure. We've moved all the sheeting
6 operations to either our Luke, Maryland facility or
7 the Wisconsin Rapids facility.

8 MR. CASSISE: So that was a conversion
9 center that converted sheeter rolls into sheet?

10 MR. NELSON: Right, and it was because of
11 the drop in sales due to the imports' gain in market
12 share we didn't need as much capacity for sheeting as
13 we had between Luke, Maryland, Chillicothe, Ohio, and
14 Wisconsin Rapids, so we shut down our highest cost
15 facility, which was Chillicothe, Ohio.

16 MR. CASSISE: And what happened to those
17 sheeting machines?

18 MR. NELSON: They're still sitting there.

19 MS. AYER: And the Muskegon mill, the
20 Muskegon mill was permanently shut and is on offer for
21 sale. We're currently trying to find a buyer.

22 MR. CASSISE: I have one more question for
23 counsel, and that's regarding the negligibility
24 calculation. And again in the '07 investigation for
25 the negligibility calculation for Indonesia the

1 Commission looked at questionnaire export data
2 monthly, which I believe was lagged by one month to
3 account for the shipping times, and then for China and
4 nonsubject countries used unadjusted official
5 statistics. I would like to hear whether or not you
6 think that is a reasonable methodology for this
7 investigation.

8 MR. STEWART: Well my understanding is that
9 it was done in the 2006 case exactly because
10 Petitioner's counsel had concerns about whether the
11 U.S. import statistics accurately reflected the full
12 level of import volume. We have not raised an issue
13 with regard to full level of import volume, and the
14 U.S. import statistics for the most recent 12 months
15 which are laid out in the petition at Exhibit 16 show
16 imports from Indonesia accounting for 6.6 percent I
17 think of total imports. So we have not been close to
18 the break point in terms of negligibility and so have
19 not checked to see if there are dramatically higher
20 exports from Indonesia based on the export stats. So
21 we haven't presented that, we'd be happy to look at it
22 and comment on it in postconference if that would be
23 helpful.

24 MR. CASSISE: Yes, it would be helpful if
25 you present what you deem to be the most reasonable

1 negligibility calculation in your postconference
2 brief.

3 MR. STEWART: Sure.

4 MR. CASSISE: Then one last question to
5 counsel, and this is about antidumping and
6 countervailing duty orders in other markets. As far
7 as I can tell the only other order on this product is
8 the Chinese have an order against Japan and Korea on
9 this product, is that your understanding?

10 MR. STEWART: We'll confirm in the
11 postconference. I believe that that's correct. There
12 is some question whether or not there may be an
13 investigation pending in the E.U., but we didn't have
14 any specific information that we put in the petition,
15 but we'll look at that for the postconference.

16 MR. CASSISE: Okay, great. I have no other
17 questions at this time.

18 MS. DEFILIPPO: Thank you, Chris. Next
19 we'll have questions from Ms. Roth-Roffy.

20 MS. ROTH-ROFFY: Good morning, and thank you
21 for your testimony. And thank you, Chris, for asking
22 a number of my questions for me as well. First of
23 all, Mr. Dorn and Mr. Stewart, given the change in the
24 scope and that you're advocating that the Commission
25 expand the like product beyond the scope to include

1 free sheet rolls, would you please address it in your
2 briefs and, you know, addressing any new information
3 we may have collected in the questionnaires?

4 MR. STEWART: I'm sorry, the scope is
5 limited to sheet.

6 MS. ROTH-ROFFY: Right, but you're
7 advocating now the like product.

8 MR. STEWART: In terms of the domestic
9 industry, like product. And you'd like us to address
10 that in postconference?

11 MS. ROTH-ROFFY: Yes.

12 MR. STEWART: Yes.

13 MS. ROTH-ROFFY: Now I have a number of
14 questions related to the coated paper and web rolls.
15 Now I understand that each type of paper is designed
16 to meet the requirements of the different presses, but
17 what I don't understand exactly is actually what the
18 paper goes through when it goes through the different
19 printing processes. I'm hearing about heat sets, and
20 then I'm also hearing with the sheet press is static,
21 it sounds like there's different types of drying
22 processes. Would you explain the differences to me,
23 Mr. Graff?

24 MR. GRAFF: Michael Graff, Sandy Alexander.
25 There are very distinct differences. If you can

1 imagine a heat set web press of continuous rolls
2 feeding the press running approximately, as we stated
3 earlier, 40,000 to 50,000 rotations an hour. The ink
4 is put down, the ink is more solvent based, it's a
5 much softer ink, you can pour it. It goes into the
6 printing press and it's applied to the paper as this
7 paper's traveling approximately 1,500 feet a minute
8 into a drier.

9 So it is a heat-set, that's the reference
10 that we use, the heat-set ink, meaning the ink
11 responds to heat to set on the sheet. And then it
12 goes into a chill station with refrigerated, very cold
13 water, that takes what now is like a wax on the paper
14 and hardens it. So the temperatures are in the 300
15 plus degree range going into this oven, so it's very
16 very hot, and it's shocking to the paper because it's
17 flying through the press at a high speed.

18 So if there's excess moisture within that
19 sheet or more moisture than tolerance, that moisture
20 will try to escape the sheet in a very fast fashion as
21 you would expect, it's heated very quickly. That
22 would cause the paper to explode and blister. The
23 steam can't escape at a controlled rate so it'll
24 damage the sheet, ultimately severing the web most
25 likely, and causing a complete failure of the sheet,

1 causing a paper claim. So that's the basics of the
2 printing process for web.

3 The process for sheet-fed is very very
4 different. It goes into the press as an individual
5 cut piece of paper, if there is an imbalance in the
6 moisture content between the ambient moisture, as I
7 stated, and that actual sheet, everyone knows that if
8 you wet a piece of paper it immediately curls up.
9 Well it's going to do the same thing upon being
10 subjected to the conditional moisture in a room, and
11 we won't be able to take that piece of paper and
12 submit it to the printing press, it'll end up curling
13 and creating all sorts of handling problems.

14 Albeit slower, to watch a sheet-fed press
15 run, nowadays our presses are running 15,000, 18,000
16 sheets an hour, so that cycle time is very very fast
17 and any imperfection in that sheet will cease
18 production, hence create a paper claim because of
19 curling and it can't handle the sheet. The actual
20 printing process as it's a much tackier ink as earlier
21 described, it's much more viscous ink.

22 The process of applying it is similar, but
23 when it gets to the sheet the actual process of curing
24 the ink on the sheet is done through what's called
25 oxidation and absorption. So it's actually drying by

1 the exposure to air. So the tolerances and drying
2 apparatus are a little bit different, considerably
3 different. It's not subjected to the high heat, it
4 just sits in the room and dries like paint on a wall.

5 MS. ROTH-ROFFY: Thank you, that was very
6 helpful.

7 MR. GRAFF: Okay.

8 MR. SANDSTROM: Excuse me. Jim Sandstrom
9 from HM Graphics. I'd like to add in the sheet
10 process also why the stability of the sheets are
11 important. In the web process it's printing both
12 sides at the same time. In the sheet process, the
13 high majority of the time that sheet has to go through
14 the press a second time to print the back side of the
15 sheet. So stability of the sheet is exceptionally
16 important.

17 And why the relative humidity of the sheet
18 is very important is because the sheet can actually
19 change sizes if it does not maintain the proper
20 humidity. So there's a whole set of other issues that
21 happen on the sheet side of it if you don't have the
22 right humidity, and that is why it's so important to
23 have a stable sheet of paper. You'd never print the
24 back side of the sheet properly and have print
25 registration the way you'd like to have it.

1 MS. ROTH-ROFFY: Thank you. Are there
2 standard moisture levels for web rolls versus free
3 sheets or does that vary according to the printers?

4 MR. STEWART: Why don't we let the mills do
5 that, but our understanding is that this is kind of
6 like your grandmother's special recipe, she knows it,
7 no one else knows it. Each of the companies have
8 their own way of doing what they do to get the product
9 to perform, and those tend to be carefully guarded
10 secrets just like grandma's roast beef or whatever it
11 is they make.

12 MR. NELSON: Barry Nelson, NewPage. I think
13 it's important to note that it's target related, and
14 those targets can change based on time of year. So if
15 you think of the moisture during the winter months in
16 northern Wisconsin or upper Michigan versus the summer
17 months, you may run to different targets during the
18 course of the year as well. So the important part to
19 Jim's point is dimensional stability and relative
20 humidity balance for sheets. For rolls you run a bit
21 drier and you run to more porous coating formulations
22 so that moisture in the sheet as it goes through that
23 web offset heater, that drying oven, can escape
24 without blistering the sheet.

25 MS. MILLER: Jennifer Miller for Sappi. And

1 I can confirm that Sappi has very distinct moisture
2 targets depending on whether we're making web rolls or
3 sheets as well as different product formulations, as I
4 said, different recipes that you use when you're
5 making web rolls as opposed to sheets. And as I
6 testified earlier, in general given the greater
7 demands on our sheet product that Jim and Mike have
8 described, it costs us roughly \$200 a ton more to make
9 sheet product than web product.

10 MS. ROTH-ROFFY: In the petition it's stated
11 that coated paper and sheets is sold both to merchants
12 and printers, while web rolls are more often directly
13 sold to printers. My question is, would you consider
14 free sheet a more commodity like product rather than
15 web rolls more specialized giving sizes of printers,
16 or is it really each one is a special recipe?

17 MR. NELSON: Barry Nelson with NewPage. I
18 think the point we were making on distribution was the
19 shipment of paper, not necessarily the sale, was
20 different. So web rolls can very well be sold to a
21 merchant, who then in turn sells it to a printer. The
22 distribution goes directly from the mill to the
23 printer, not by way of the merchant's warehouse. So I
24 think that answers your question?

25 MS. ROTH-ROFFY: It does, thank you. And

1 basically one last question which has nothing to do
2 with like product. You indicate that converters
3 should be part of the domestic industry. Would you
4 please address this in your brief? Thank you.

5 MS. DEFILIPPO: Thank you, Gracemary. Next
6 we'll turn to our economist.

7 MR. DORN: Excuse me, could I ask, are you
8 asking about what is sufficient production?

9 MS. ROTH-ROFFY: Factors of -- the factors
10 that Commission usually looks at and including.

11 MR. DORN: First let me finish product
12 analysis.

13 MS. ROTH-ROFFY: Okay.

14 MR. DORN: Thank you.

15 MS. DEFILIPPO: Ms. Bryan.

16 MS. BRYAN: Thank you. I'm Nancy Bryan from
17 the office of economics. I've heard a few of you
18 mention this morning economy sheets as opposed to
19 higher grade sheets. Can you explain the
20 characteristics of what you mean by an economy sheet?

21 MS. MILLER: We would consider an economy
22 sheet one that was typically a GE brightness of around
23 82 to 87. That said, that market has been becoming
24 increasingly fuzzy where you can see economy sheet
25 offerings at higher brightness, so it's really

1 migrated more to a price point more than a brightness
2 concept. So we've migrated away from using the word
3 "number 3 sheets" to "economy sheets." And we do find
4 that printers and merchants managing their inventory
5 on a very careful basis will have what they call good,
6 better, best offerings, and it almost has a price
7 tier, and the good would be the economy and the better
8 and best would be what we are calling higher quality
9 sheets.

10 MS. BRYAN: Okay, so when you say "good,
11 better, best," do you think generally it corresponds
12 to price and brightness, a combination of the two?
13 Okay, thank you. So are the lower brightness levels
14 physically interchangeable with the higher brightness
15 levels when you're actually doing the printing?

16 MS. MILLER: I'll speak high-level, and
17 Jennifer Miller from Sappi again. Sorry, I don't
18 press this button strongly enough. In general, higher
19 brightness levels will provide sharper contrast ink to
20 paper, and therefore the replication of the
21 photographic image will be better the higher bright
22 that you are. But, can there be blurring and
23 interchangeability and a 88 bright sheet competing for
24 the same job against a 90 bright sheet, yes. And
25 again maybe Mike or Jim want to elaborate.

1 MR. GRAFF: I mean when it comes to the
2 technical aspect of it, there is a difference how we
3 treat the imagery. I don't know if that answers the
4 specific question.

5 MS. BRYAN: Yeah, no, it does. I mean I
6 guess I'm kind of trying to drive at, have you seen a
7 demand shift from the higher brightness levels to the
8 lower brightness levels because of the price
9 difference?

10 MR. GRAFF: Yes.

11 MS. BRYAN: Okay, thank you.

12 MR. SANDSTROM: Jim Sandstrom, HM Graphics.
13 To that point, because of the pricing pressure on the
14 market and how low these products have gone,
15 traditionally, five years ago I'd never have run a
16 foreign sheet in my plant. Now because of the
17 competitive pressures in the market, I'm going to say
18 the market is forcing us to run those sheets just to
19 remain competitive because there is such a huge
20 disparity, and in my shop paper is 25 percent of the
21 cost of the job and, you know, you start moving to a
22 point where I lose my competitive advantage or give my
23 competitive advantage away.

24 MS. BRYAN: Okay. Great, and that actually
25 leads me to my next question which was for you, Mr.

1 Sandstrom, about your conversion operations. So might
2 you use both foreign sourced sheeter rolls and U.S.
3 produced sheeter rolls?

4 MR. CREW: I think that's me.

5 MS. BRYAN: Oh, was it? Okay, sorry.

6 MR. CREW: For Clampitt Paper, Don Crew.

7 MS. BRYAN: Okay, so in your conversion
8 procedures -- thank you -- do you use both foreign
9 sourced rolls and U.S. produced rolls?

10 MR. CREW: No, we only sheet domestic rolls.

11 MS. BRYAN: Okay, but do you know of
12 converters possibly out there that do use both?

13 MR. CREW: There could be. Could be some
14 out there, as a matter of fact I think Manchester
15 probably has used some imported rolls.

16 MS. BRYAN: Okay, and to your knowledge,
17 after they've been converted from the different
18 sources, do they sell at the same price regardless of
19 what country the sheeter rolls came from, if you know?

20 MR. CREW: If they are converting paper from
21 China and Indonesia it's pretty low price.

22 MS. BRYAN: Okay, but if there's a mixture
23 of both U.S. rolls being used and foreign sourced
24 rolls, the end product, is there a separate price for
25 sheets converted from U.S. rolls versus?

1 MR. CREW: We only convert paper from U.S.
2 rolls, so that would be our price pool would be a
3 domestic U.S. roll conversion.

4 MS. BRYAN: Okay.

5 MR. CREW: And what we see in the
6 marketplace would be, what my competitor may do when
7 sheeting rolls, if he's sheeting foreign rolls, and
8 they would be priced below our product.

9 MS. BRYAN: Okay, thank you. Okay, I guess
10 also I've heard from Mr. Graff, and I think some other
11 people touched on it, this issue of environmental
12 sustainability. Can you just touch on how the subject
13 imports perform on their environmental standards?

14 MR. GRAFF: Well it is an extremely
15 important part industrywide and specifically to my
16 company. We have clients coming from all over the
17 country to use us based on our statement of
18 environmental stewardship, and we are audited by top
19 Fortune 100 companies to maintain that position. As a
20 result, we haven't gone to the imported sheets because
21 we have been unable, even after asking certain
22 questions, to be able to get verified answers that we
23 would be able to in turn substantiate without a shadow
24 of a doubt. So that has been a concern, and that's
25 one of the reasons we have not pursued that.

1 MS. BRYAN: Okay, thank you. And does
2 anyone else have a comment on that?

3 MR. STEWART: Just to comment, I believe
4 that in discussions with Mike earlier he would
5 indicate that he is a top tier producer, and as a
6 result of being a top tier producer with an
7 environmental facility and selling aspect, he may be a
8 lot different than your average commercial printer.
9 My understanding is that the vast majority of
10 commercial printers, they may look to get
11 environmental product but they may not go to the same
12 extent or the same level and may not have the same
13 certifications that an operation like Mike's may have.

14 MR. DORN: They probably don't use wind
15 power either.

16 MR. GRAFF: That's correct.

17 MR. SANDSTROM: Jim Sandstrom again. We
18 have a lot of customers that pride themselves on their
19 environmental standards until money starts to speak.
20 And as this economy has softened, it's amazing how
21 buying low price is significantly more important than
22 their carbon footprint or their impact on the economy.
23 So price has trumped that issue at least in this
24 market that we're in right now.

25 MR. KAPLAN: Seth Kaplan, Brattle Group. I

1 just want to make a clarification that the vast
2 majority of the imports are sheet, not sheeter roll.
3 And the vast majority of the imports beat the vast
4 majority of the domestic product. And I think, I want
5 to clarify that, sometimes you're hearing the
6 exceptions here or producers that are talking about
7 niches at the high end, but be very clear, the foreign
8 product is sold as meeting environmental standard,
9 it's accepted by the industry at large with few
10 exceptions.

11 The product is sold to keep head to head in
12 the marketplace at the distributor level and at the
13 printer level, and that's understood in the industry,
14 and that's why prices have moved uniformly on all
15 products downward. There are many different types of
16 products, the producers try to differentiate their
17 products, they have special formulas, there are
18 different levels and grade. These are competing head
19 to head, their prices have come down. Evidence of
20 this by the increase in import penetration speaks to
21 the fact that these products are accepted in the
22 marketplace and that there are no significant niches
23 where prices are untouched by the increasing imports.

24 Dramatic increase in share, especially over
25 a short period of time, during this year when demand

is falling and yet imports are increasing, speaks to once again the acceptance of the product. So while I think it's important in these cases to understand the distinction, the major points of the statutory factors speak to the economics of that the products are commodities, they're highly interchangeable, that they're sold on price, and that they're having significant effects on the market.

1 I mean I'm talking about 80, 70 some odd cents a pound
2 and we're getting offers in the low 50s for a
3 comparable product.

4 MS. MILLER: Jennifer Miller from Sappi Fine
5 Paper, and I really do want to talk about
6 environmental performance and sustainability because
7 it's quite important to me personally and to Sappi as
8 a whole. Sappi has invested a tremendous amount of
9 time, energy, and money in strengthening our corporate
10 governance around sustainability. We have third party
11 auditors on all of our sustainable forest management
12 practices. We publish a sustainability report
13 contemporaneous with our financial annual report.

14 We are doing the right thing. We are
15 getting the third party audits, we are creating
16 transparency across the board, not just forestry but
17 what is emitted into the air and put in the land, it's
18 very comprehensive. If you were to ask me why my
19 company did not participate in this case two years
20 ago, it is because we thought that the investments
21 that we were making and that the value that we were
22 creating in that transparency and reporting would make
23 a difference in the marketplace.

24 And I will say that the very good customers
25 that I have here in the room applaud us and give us

1 very constructive feedback on how to even do better.
2 But frankly at the end of the day, when they're
3 competing against these low price imports that may in
4 fact have environmental badges and labels on them, it
5 doesn't matter that Sappi has taken the extra step and
6 created reporting beyond any legal requirement.

7 MS. BRYAN: Okay, thank you, I really
8 appreciate those answers. I just had a quick question
9 about the custom sizes. Are custom sizes available
10 from the subject import sources or if they're already
11 coming in in sheets does that mean that they can't be
12 made into custom sizes?

13 MR. CREW: Generally not. Generally the
14 imported paper coming in is standard sizes. Not that
15 they couldn't make special sizes, but the lead time
16 would be significant. Custom size is our niche, it's
17 small equipment, quick turn, generally small orders.
18 Our orders average a couple of thousand pounds, up to
19 5,000 pounds. A big order for us would be 10,000
20 pounds of a special size, and that's someone who wants
21 it in a day or two.

22 Not that the Chinese and Indonesian imports
23 couldn't make special sizes, they couldn't get them
24 here that quickly. And so you'd have to have huge
25 inventories of that. So that's one of the ways, but

1 what they're doing and how they're impacting us, the
2 price of their standard size is so low that it gives
3 away the advantage of the custom size. So they take
4 the low price standard size, and most printers have a
5 cutter that they have to cut off an extra inch or two,
6 and so they're able to sell the standard size at such
7 a low price that it does away with the advantage of
8 buying a custom size for quick turn.

9 MS. BRYAN: Yes?

10 MR. KAPLAN: I'm going to put that in
11 economicsese because that was way too clear. But
12 there's no segment that's unaffected by the imports.
13 So the question, it could be looked at, well they
14 don't import these custom sizes so therefore the U.S.
15 industry has an advantage. And we actually talked
16 about this exact issue yesterday internally, and I
17 learned that in fact the printers themselves can do
18 the cutting and if they purchase a standard size from
19 the imports that the price differential is so large
20 that the cutting is done at the printing shop.

21 And so therefore it does not insulate Mr.
22 Crew because they leap over him doing the custom size
23 and that in fact the printers themselves will
24 customize the product. It's more costly for them than
25 for someone dedicated to it, but the price

1 differential and underselling is so large that in fact
2 it becomes profitable to buy a standard import and
3 trim it yourself rather than using a facility designed
4 to make the custom product.

5 MR. SANDSTROM: I agree wholeheartedly.
6 There is such a price disparity right there that I can
7 throw 20 percent of a sheet of paper away, take the
8 labor to cut it, and it still is less expensive for me
9 than to buy a domestically produced sheet. And, yeah
10 the turn time you're buying something that's readily
11 available instead of waiting for the converting
12 process. So that price disparity defies logic in that
13 arena.

14 MR. GRAFF: Mike Graff, Sandy Alexander.
15 Just to add for clarification is that the differences
16 between standard and custom, there are many many many
17 standard sheet sizes, the 25x38 to 23x35, those are
18 two stocking sizes, so you're talking small inches of
19 paper. And also remember that we've clarified that
20 this is the shorter run, smaller run business where
21 it's not as significant.

22 MS. BRYAN: Okay, thank you. And so you
23 would say it's your understanding that most printers
24 have their own cutting capability or all?

25 MR. GRAFF: Yes.

1 MS. BRYAN: All? Okay.

2 MR. GRAFF: That doesn't differentiate the
3 product much at all, is my point.

4 MS. BRYAN: Okay.

5 MR. NELSON: Barry Nelson with NewPage. I
6 think it's worth noting that the mills also have the
7 capability to make special size sheets. And when you
8 look at the vast majority of sheet sales in the
9 country today, especially in the economy sheet grade
10 area, it's predominantly in stock sizes.

11 MS. BRYAN: Okay, thank you. Okay, I
12 believe this was Mr. Hederick, you mentioned that the
13 U.S. paper mills have pretty good supply chain. I was
14 just wondering if you could kind of elaborate on that
15 more about what you mean or describe it?

16 MR. HEDERICK: Well we have historically
17 been large importers of paper. We're purchasing paper
18 today from Japan, Germany, Finland, Korea, Indonesia,
19 China. The lead times on those products from offshore
20 vary from six weeks to four months. Whereas I can
21 call a domestic manufacturer up and get paper in days
22 if it's going to come out of one of their warehousing
23 locations. I can get paper in a couple of weeks or as
24 short as a week potentially if it's a making size or
25 an order that has to come off of their paper machine.

1 So for us, and to put real dollars around
2 it, in one of our brands, in order to, you know,
3 compete in the marketplace and have enough inventory
4 to support, you know, our printing customers, we were
5 carrying upwards of \$40 million worth of inventory in
6 one particular brand because of the lead time and the
7 sales requirements that the printing community had.

8 If I purchased that same product with the
9 same price point from a domestic manufacturer, I can
10 cut my working capital by more than 55 percent and
11 still have the same level of service to our customers
12 in terms of the turnaround time that they need. So
13 that lead time between six weeks, we'll call it
14 between a week to six weeks to four months, is very
15 substantial from our perspective.

16 MS. BRYAN: Okay, great, thank you.

17 MS. MILLER: Jennifer Miller from Sappi. If
18 I could perhaps share the perspective from a mill's
19 perspective and how we once again tried to monetize,
20 and in fact did monetize, the benefits to our
21 merchants of the shorter lead time if a product is
22 made in Muskegon, Michigan or Cloquet, Minnesota as
23 opposed to Indonesia and China. In that interim
24 period where we idled Muskegon and made the final
25 determination to close that mill, we had lots of

1 discussions with merchants in the U.S.

2 And again, as I said in my testimony, we
3 compete in merchant warehouses for shelf space against
4 the imports from Asia and China. Without getting into
5 business proprietary information, I can tell you that
6 we sat down with those merchants and actually had
7 discussions about how they should be willing to
8 purchase economy product from Sappi at a slightly
9 higher price because of that lower working capital
10 involved.

11 That strategy in discussions failed not
12 because the merchants are bad partners, they're
13 exceptionally good partners, but the prices that they
14 were offered by the Asians and Chinese were so much
15 lower, lower even than the benefit of the shorter lead
16 times coming from Minnesota or Michigan, that we were
17 not able to recreate merchant programs for economy
18 sheet programs that would have allowed us to keep
19 Muskegon open and running so that we could have
20 actually attracted the investment for the new paper
21 machine at Cloquet, Minnesota and grown our company.
22 And so that's really the situation that Sappi faced in
23 the early spring and summer of this year.

24 MR. KAPLAN: I'd like to talk about briefly
25 the economic implications of the statements made about

1 lag time. The extra costs you'd think would show up
2 in having to recoup them by charging a higher price to
3 the printers. That's key. Plus there's costs they
4 have to be paid somehow. So I scratch my head and
5 wonder how they could come in at such a price so below
6 to the final customer and still make a profit from the
7 import distributor in that situation.

8 And that speaks to the massive amount of
9 dumping and subsidization. So there's no excuse of,
10 oh we have to charge lower prices because people have
11 to carry stuff. Well, that should make the
12 distributor costs higher and talk about a very small
13 advantage for the domestic producer. The price
14 differentials are so large they're dragging the whole
15 market down. And in any case the investment of a
16 distribution system in the United States by the
17 Indonesians at this point make that whole point moot.

18 They'll have the product on the ground in
19 the United States in a warehouse benefitting from the
20 dumping and subsidization making matters even worse.
21 So while it might put a small wedge that was spoken to
22 earlier by Mr. Nelson in terms of what they think
23 their distribution in the United States could bring,
24 it's overwhelmed by the price differential because
25 it's brought prices down and will soon disappear

1 because of the warehousing and distribution situation
2 entering the United States from the Indonesians.

3 MS. BRYAN: Okay, thank you. I don't want
4 to get into business proprietary information so you're
5 free to comment on this in a postconference brief, but
6 I kind of wanted to just hit on your bidding process
7 or your contract negotiation process if it's sort of,
8 you give your bid and then you hear competing offer
9 and then you have a couple chances to change your
10 price or is it more sort of you kind of know what the
11 general going rate is and they ask for that and you
12 can either meet it or not. If any of the paper mills
13 want to comment.

14 MR. NELSON: Let me try to do this in a way
15 that doesn't get into the confidential proprietary.
16 There's a range depending on the situation, depending
17 on the print customer and who in turn their print
18 customers are. Sometimes those customers want to have
19 a contract with the printer and the printer will
20 subsequently go and try to line up a source of supply,
21 sometimes it's a spot job. So there is truly a range
22 that we as manufacturers as well as the merchant
23 partners here today have to deal with. I think the
24 intel gathering part is a range as well that goes from
25 people within the end customer as well as

1 understanding from print sales people, the procurement
2 department at printers, and then using intel from
3 previous quotes. So I think it's a combination.

4 MS. MILLER: Jennifer Miller with Sappi. I
5 think there are two areas where we would be facing
6 competitive pricing situations, and again as I've
7 mentioned before Sappi sells only through merchants
8 but we do respond to price pressures in the downstream
9 printer market in a way I'll describe in just a
10 minute. But at the very first level, we frequently
11 find ourselves in a situation where we are in arm's
12 length negotiations with our merchant partners where
13 we're competing against either other domestic
14 producers or import programs from Indonesia, China,
15 Europe, Korea.

16 And there those are like many different
17 business negotiations. You know that you're competing
18 against some price points and generally you either go
19 as low as the merchant says they need to go to get to
20 what their alternatives are or you choose not to go
21 that low because it would create negative margins at
22 one of your mills.

23 Secondly, there are many times where our
24 merchants will come to us and say that in order to
25 support a particular printer customer of theirs they

1 are needing us to lower our price on a program basis
2 to that printer, and again the dynamics are very
3 similar where we would either choose to grant that
4 price concession or price point to the merchant to
5 offer the printer so that we can keep the business
6 collectively together or we would choose not to go
7 there.

Because the majority of what we buy is on the spot market. I mean our prices change depending on what it is we're buying, when we're buying it for, and then we go back and there's a very sophisticated series of people and people you pick up the phone, and for instance I've actually even called Barry myself and said, hey help me out here, and stuff sometimes

1 happens. I suppose I shouldn't have said that in
2 public, but, you know, they have the flexibility on
3 that. So the printer knows exactly where the market
4 is because we're getting the prices and sometimes the
5 merchant/mill help us or can't help us depending on
6 how ridiculous the price is.

7 MS. BRYAN: Okay, thank you. Okay, I think
8 I just had one last question, hopefully it's easy. If
9 any of you know about the industry in China, the
10 actual printing industry whether they're using the
11 sheets, the sheeter rolls, or web rolls? Or you can
12 respond later.

13 MR. GRAFF: Michael Graff, Sandy Alexander.
14 I can only tell you my limited experience with it.
15 We've made a couple of trips over to explore the
16 industry. It seems to be predominantly a sheet market
17 at this particular juncture. When we've seen
18 competition where the jobs should be produced web,
19 we've lost it and seen it produced sheet fed in China.
20 So I'm just going on my limited experience.

21 MS. BRYAN: Okay, thanks, I appreciate that.
22 I think that's all the questions I have for now, thank
23 you.

24 MS. DEFILIPPO: Thank you, Nancy. Vince,
25 any questions? Mr. McClure.

1 MR. MCCLURE: Jim McClure, Office of
2 Investigations. Briefly, on the trade adjustment
3 assistance I believe we had five plants mentioned that
4 either had received or have applications, Rumford,
5 Allentown, Kimberly, Chillicothe, and Muskegan. Are
6 there any other outstanding applications for trade
7 adjustment assistance?

8 MR. SAVAGE: Appleton Coated has one that's
9 outstanding.

10 MR. MCCLURE: And that's for which facility?

11 MR. SAVAGE: The Combined Locks, Wisconsin
12 facility. There's 70 people involved, there are close
13 to 70.

14 MR. MCCLURE: Okay.

15 MR. GEENEN: And it's outstanding because
16 the announcement was just made recently to reduce the
17 capacity.

18 MR. MCCLURE: Okay, and the Muskegan plant
19 that was closed in August and the application was
20 made, that's already been certified?

21 MR. GEENEN: Muskegon has been certified.

22 MS. AYER: Yes.

23 MR. GEENEN: There had been a layoff
24 previously and I think we made the application several
25 months ago before the formal announcement was made.

1 MS. AYER: This is Anne Ayer. It has been
2 certified.

3 MR. MCCLURE: Thank you. In his opening
4 remarks, Mr. Durling mentioned what seemed to sound
5 like, let's see it was the Alternative Energy Tax
6 Credit, and it sounded like the government was just
7 giving you guys money, you know, and -- well, the
8 government does that a lot, but anyway -- would any of
9 you care to comment on Mr. Durling's remarks? Or if
10 it involves BPI you can put it in your posthearing
11 submission.

12 MR. NELSON: Barry Nelson with NewPage. The
13 comments I'd like to make on the alternative fuel
14 credit is that it is truly temporary in nature. I
15 believe it started in the end of the first quarter of
16 this year, it goes through the balance of this year.
17 The expectation is that that will end at that point in
18 time. It is not a subsidy that's trying to incent
19 exports. It's actually a green energy incentive or
20 green energy credit. And I would point to the other
21 testimony that we laid out earlier that the damage to
22 this industry was significant prior to the start of
23 that alternative credit.

24 MR. SAVAGE: From Appleton Coated's
25 perspective, we do not receive that credit and are

1 having a very very tough time competing with the
2 prices coming in from China and Indonesia on our end,
3 and we are not getting the credit.

4 MS. AYER: And the Muskegon mill also did
5 not benefit, being a nonintegrated facility.

6 MR. STEWART: Implicit in the opening
7 statement was that somehow the pricing from our
8 friends in China and Indonesia is reacting as opposed
9 to leading. I was just wondering if Mr. Hederick
10 might provide some comments as to when the prices from
11 China in particular started to come down similar to
12 comments we had from you yesterday.

13 MR. HEDERICK: Jeff Hederick from Unisource.
14 Well, we started to see prices from China falling
15 precipitously at the end of last year. So to Barry
16 Nelson's point, before this black liquor tax credit
17 was in force -- November, December last year -- we
18 were really seeing product pricing moving down.

19 MR. MCCLURE: Okay, thank you. Mr. Crew,
20 one last question, and it's particularly important in
21 your part of the country, who wins on Saturday,
22 Longhorns or Sooners?

23 MR. CREW: Longhorns.

24 MR. MCCLURE: Wrong answer.

25 MR. CREW: I blew the case.

1 MR. MCCLURE: I have no further questions.

2 MS. DEFILIPPO: I believe Mr. Cassise has at
3 least one additional question.

4 MR. CASSISE: Yeah, I wanted to stay with
5 Mr. Crew. Just to clarify the converting business,
6 it's my understanding that you buy both sheet and
7 sheeter rolls from the mills.

8 MR. CREW: That's correct.

9 MR. CASSISE: And when you sell standard
10 sizes you sell the sheet that you buy from the mills,
11 and when you sell custom sizes you cut that yourself
12 from the sheeter rolls and sell that?

13 MR. CREW: That's correct.

14 MR. CASSISE: Now is that the way all of the
15 converters usually operate or don't you know?

16 MR. CREW: No, I would suspect -- we have
17 occasions where we will run when we are slow, we'll
18 run standard sizes just put in the inventory. But our
19 system is designed to do custom sizes, and custom size
20 orders take preference from a customer. But we have
21 run standard sizes when we have nothing else to run.
22 I would suspect my competitors do the same thing.

23 MR. CASSISE: Okay. And the representatives
24 from the mills, you say you have the capability to
25 produce the custom sizes, but in reality do you or do

1 you rely on the converters to take that niche of the
2 market?

3 MR. NELSON: Barry Nelson with NewPage. I
4 think Mr. Crew is a bit of a unique merchant in that
5 he has both merchant capabilities as well as
6 converting capabilities. Not all merchants have that.
7 I would say the predominance of merchants do not have
8 that. So in situations where a merchant that does not
9 have converting capabilities needs a special making
10 size, they would come to us. The other times that a
11 merchant would come to us even if they have converting
12 capabilities is when it's a very large job for a
13 special size, where if they have the time and they
14 have the ability not to run across his smaller less
15 efficient equipment, to use the larger equipment at
16 facilities at the mills, to run those larger special
17 size sheets.

18 MR. CASSISE: So in reality you do run those
19 custom sizes?

20 MR. NELSON: Absolutely.

21 MR. CASSISE: And now the majority of the
22 firms that you sell sheeter rolls to, would you say
23 the majority of those firms are only producing custom
24 sizes or do they also produce standard sizes?

25 MR. NELSON: It would be different. There

1 are some like Mr. Crew that the predominance would be
2 custom sizes. There are a few situations where we
3 sell sheeter rolls for a private label program that a
4 merchant may have that does both special sizes and
5 stock sizes.

6 MR. CASSISE: So it's fair to say that
7 converters do both.

8 MR. NELSON: Correct.

9 MR. CASSISE: There's no segmentation there.

10 MR. NELSON: That's correct.

11 MR. CASSISE: Okay, thank you. Just one
12 last question. And anyone who wants to comment on
13 this, is there a perception in the market that there
14 are different quality issues between either U.S. and
15 the Chinese and Indonesian products and are there any
16 quality perceptions between the Indonesian and the
17 Chinese, or is it all the same?

18 MR. NELSON: Barry Nelson with NewPage. I
19 think over the last five to seven years, the quality
20 levels of the Indonesian and the Chinese have
21 significantly improved to the point today where they
22 are absolutely comparable to our products.

23 MR. CASSISE: Okay, no difference between
24 the Chinese and the Indonesian?

25 MR. NELSON: Not that I'm aware of.

1 MR. CASSISE: Anyone else wish to comment?

2 MS. MILLER: Jennifer Miller from Sappi Fine
3 Paper. Again I would agree with Barry that we are
4 regularly informed by our merchants and our downstream
5 printer customers that the quality of the Indonesian
6 and Chinese papers are comparable to our grades of
7 paper.

8 MR. GRAFF: Michael Graff, Sandy Alexander.
9 We went one step further and we tested numerous of
10 these sheets, and there really was no discernible
11 difference in our testing of the sheets.

12 MR. CASSISE: Okay, thank you. That's all I
13 have.

14 MS. DEFILIPPO: Thank you, Chris. Just a
15 couple quick things. To follow up a little bit on
16 what Ms. Bryan and what Mr. Cassise were both just
17 talking about where I'm a little confused, in some of
18 your testimony you talked about, which Ms. Bryan asked
19 about, economy versus higher quality or higher grade.
20 And then in here we're talking about quality is the
21 same. And several of the witnesses commented that
22 price pressure in the economy part of the market was
23 still having an effect on the higher quality. So I
24 guess I'm a little confused in terms of, are there an
25 economy and a higher level segment of the market or

1 different? And I guess, Ms. Miller, you talked a
2 little bit about what made it an economy that there
3 was a price and a brightness, I guess I'm just
4 confused on the reference to economy versus higher
5 quality, what you mean by that "and"?

6 MR. STEWART: This is Terry Stewart. Before
7 the industry folks respond, if you'd take a look at
8 product catalogues that the companies have, almost
9 every company has a series of products and those
10 series of products kind of go up the quality spectrum.
11 And so it's very, the reference that Jennifer made
12 earlier to good, better, best is what you do if you
13 look at high end printers such as the two witnesses
14 here, they may do a higher proportion of their
15 business where somebody wants a very sharp image and
16 is willing to pay a higher price for the kind of paper
17 that will permit that to happen.

18 So as you would expect, the bulk of the
19 business for the bulk of the printers is a good
20 quality paper that can be used for the vast majority
21 of uses, and that's what's being referred to here as
22 the economy grades. It used to be called grade 3.
23 Imported product straddles grade 2 and grade 3 in
24 historic terms, but basically every company has a
25 spectrum of products that they offer, and that's the

1 reference.

2 And so the Cadillac product, if you will, if
3 you think about some of the things you receive in the
4 mail, if you get a very high end booklet where there's
5 extraordinary photography in it and the colors come
6 off of the paper quite heavily, that will likely be a
7 grade 1 or a grade 2 product, versus what you might
8 see in the bulk of the kind of publications that you
9 might look at. Jennifer?

10 MS. MILLER: Yes. Jennifer Miller from
11 Sappi Fine Paper. First of all, you're not alone in
12 being confused by how paper is sold and marketed these
13 days. I think the categories are blurring. And to
14 that point I won't share any Sappi specific
15 information because it would be business proprietary,
16 but looking at the AFPA shipment data you would see
17 that what we refer to as the so called number 1 or
18 premium sheets, which are sheets that have a GE
19 brightness of 91 or more, are only 17 percent of the
20 market. The rest of the market is at GE brightness
21 below that.

22 The Asians interestingly, and we also test
23 their products to understand, you know, what we're up
24 against, the Asian products typically have brightness
25 levels of 90 to 93. So in some sense their quality is

1 right at the top and yet they're pricing their
2 products below our 88 bright products. So when I
3 talked earlier I think in answer to Ms. Bryan's
4 questions, it has become a market where price is the
5 predominant feature that paper is purchased and
6 specified on. And again it's the great majority of
7 the sheet market that's sold on the basis of price and
8 acceptable quality and brightness.

9 MR. KAPLAN: Maybe one more clarification.
10 If you think of grades in quality for the same grades
11 domestic and imported, the quality's the same and they
12 compete head to head. So there's some products that
13 are whiter, but for the same whiteness of Chinese and
14 the same whiteness when the tests are done, they're
15 comparable. And at the very high end of whiteness I'd
16 say it's a small part of the market, there's fewer
17 Chinese.

18 MS. DEFILIPPO: That's helpful, thank you.
19 Actually that'll lead me to a question for Mr. Graff.
20 In your testimony you did talk about sort of price
21 differentials between the domestic and the imported
22 product and you have chosen to, correct me if I'm
23 summarizing your statement incorrectly, you've chosen
24 to stay with the domestic and pay more, is that
25 correct?

1 MR. GRAFF: In one word, I'm trying to.

2 MS. DEFILIPPO: Is there some price
3 differential which will cause you to jump over to the
4 other side?

5 MR. GRAFF: Absolutely. I mean I have to
6 run my presses, I'm in a high-capital, high-labor
7 intensive business, and if a printer down the street
8 is choosing to go, as in my testimony, with a 50 cent
9 a pound paper and for all intents and purposes it's
10 going to perform adequately, in my particular case
11 we're talking I think we quoted 40 percent, 50 percent
12 of my cost is paper and in some cases it's even more,
13 I'm left with no choices. And I go back to the
14 domestic mill for the reasons we've stated, but I can
15 only get them to agree to go just so far, and it
16 becomes the same discussion for me, at what point do I
17 lose the order or lay the men off? And it's the same
18 discussion.

19 MS. DEFILIPPO: Just to stay with you for
20 another second, you provide both web printing and
21 sheet fed printing. Are you the one that's making a
22 determination in terms of which process to use, and if
23 so what does that depend on, the size or the order?
24 Or does the customer come and ask for a certain
25 process to be used?

1 MR. GRAFF: Rarely does a customer ask for
2 one or the other, but the order in itself dictates
3 what you're doing. If you're going to show up to your
4 garden, you show up with a shovel. If you're going to
5 build a house, you show up with a bulldozer. So it
6 really depends on the product we're creating.

7 MS. DEFILIPPO: And this is a very basic
8 question and I apologize for that. The term "paper
9 merchant" has been used here today, and I believe
10 someone used the term "distributor". Is a paper
11 merchant doing what we would refer to in most
12 industries as a distributor?

13 MR. GRAFF: Yes.

14 MR. STEWART: You've got two at the table,
15 would you like to ask them?

16 MS. DEFILIPPO: I like the "yes" answer,
17 that's easy.

18 MR. HEDERICK: I don't think I can add a
19 whole lot.

20 MS. DEFILIPPO: Actually for Mr. Nelson, you
21 were talking a little bit before about your
22 distributors or your paper merchants, I apologize, and
23 my impression was that there was evaluations and there
24 were certain criteria that were used to determine who
25 was going to be a distributor or a merchant for your

1 product. And is that a correct assessment?

2 MR. NELSON: That's correct, much like
3 Jennifer's explanation of financial stability,
4 strength of sales force, level of commitment in terms
5 of inventory, and performance relative to their peers
6 in the marketplace, those are all criteria that we
7 manage and measure our merchant distributors.

8 MS. DEFILIPPO: In light of what you all
9 have talked about in terms of having to compete with
10 imports from China and Indonesia, have you had to
11 relax or change any of that criteria? I mean you talk
12 about losing market share to the imports yet on the
13 other hand you're sort of picking and choosing
14 criteria for whom you're going to have as a
15 distributor. Have you changed that at all in order to
16 keep customers?

17 MR. NELSON: Absolutely. It's been in
18 price. We've had to lower our price to compete for
19 market share in terms of their warehouse space and the
20 mind of their sales force. That's been the leading
21 factor.

22 MR. DORN: I think there's one other issue
23 that may not have been discussed. I think that you
24 cannot overload a particular region with too many
25 distributors. I mean if you're trying to get a

1 distributor to stock your product and invest in
2 inventory and so forth, you know, he doesn't want you
3 to say, well we're going to have ten other
4 distributors who are going to be competing with you.
5 So there's some limit I believe in the number of
6 regional distributors that you would have with your
7 product.

8 MR. NELSON: Right. Barry Nelson with
9 NewPage. The value of our brands and the carrying of
10 our products is in some cases directly proportional to
11 the number of competitors that those folks would have
12 in the marketplace. So we try to make that balance
13 between making sure we have sufficient distribution
14 footprint and protecting those folks with responsible
15 distribution.

16 MS. DEFILIPPO: Thank you. Yes, Mr.
17 Sandstrom?

18 MR. SANDSTROM: I'd like to add a different
19 perspective to make sure, to maybe explain why they
20 want to limit distributors in a certain market, is I
21 can buy any of these people's paper from a distributor
22 for different prices. It depends on what margin that
23 distributor wants to take on their particular product.
24 So, selfishly as a printer, when they reduce the
25 number of distributors that I can buy from, I'm not

1 happy with that because I've lost my ability to beat
2 people up to get a lower price on a similar product.
3 So just because I'm buying any one of these people's
4 paper in the market, there still is the ability to
5 change the price depending on what the distributor
6 thinks they need to mark it up to make it viable in
7 the market.

8 MR. NELSON: You can now see the balance we
9 have to play.

10 MS. MILLER: Jennifer Miller at Sappi. I
11 also want to just make a point maybe clear, which is,
12 we don't have exclusive distributors. So we choose
13 distributors based on all the attributes that Barry
14 and I have spoken to, but essentially the merchant
15 then chooses how much space in their warehouse they
16 choose to dedicate to a Sappi product relative to
17 other products. So we're constantly in negotiations,
18 you know, on price to get that greater shelf space.

19 So there is that level of competition. The
20 merchants in the room know I like to do this, when I
21 visit a merchant I like to walk through their
22 warehouse. And it can be, you know, it can be a scary
23 sight sometimes when you see the rows and rows of
24 merchant inventory that's dedicated to support
25 programs that are coming from as far away as 12 weeks

1 away, which again is one of the dynamics that we've
2 faced, which is to get that adequate shelf space so
3 that we could have merchants in market that can
4 support the requirements of the downstream printers.

5 MS. DEFILIPPO: And obviously I would assume
6 from your perspective more shelf space better, but if
7 it came to a situation where you were dealing with a
8 merchant and they were not willing to give you as much
9 shelf space as you wanted, would you not supply them
10 at all or would you try to gain more by being more
11 aggressive on price or other terms of sale?

12 MS. MILLER: Similar to how Mike commented
13 that he is a very capital intensive business and he
14 has to keep his presses full. Making paper is an
15 incredibly high fixed-cost endeavor. We hemorrhage
16 cost if we don't keep our machines full. So there is
17 an equilibrium that we have to deal with every day
18 which is, no I can't walk away from a merchant just
19 because I don't get my ideal shelf space, I will take
20 what I can get and, increasingly and as I described in
21 my testimony, that's been on much lower prices.

22 MS. DEFILIPPO: Thank you. Just a quick
23 question on demand. I think your charts and everyone
24 has talked about how demand has declined particularly
25 in 2009, and is that for the overall paper business,

1 is demand for web rolls and sheeter product both down
2 or has one seen more of a hit than the other?

3 MS. AYER: This is Anne Ayer from Sappi.
4 And I'd say that generally the demand has been down
5 for both, not exactly the same, but we've seen
6 substantial pressure, certainly the pricing pressure
7 has been quite severe on the sheet side.

8 MS. DEFILIPPO: But in terms of consumption,
9 overall consumption, are you seeing similar declines
10 in both types or has one been able to withstand sort
11 of the general economic trend better?

12 MR. NELSON: Barry Nelson with NewPage. In
13 terms of actual demand they are somewhat similar. I
14 think there was a larger inventory correction on
15 coated rolls than there was in coated sheets.
16 Although both went through an inventory correction the
17 level of inventory correction because of the size of
18 the market, web was felt greater. But to your point,
19 both were impacted negatively.

20 MS. MILLER: Jennifer Miller from Sappi.
21 While we have seen demand down in both segments, and
22 this is a very unique economy, I would say that some
23 of the underlying bases for those declines in demand
24 are different. In the web market, which I have
25 described is that large volume mass market business

1 segment, it's been frankly I think more vulnerable to
2 the Internet media and other ways that you could get
3 to consumers on a mass basis.

4 We do believe, and again I wouldn't get into
5 business proprietary forecasts, that the sheet market
6 will weather the storm better because by definition it
7 is a shorter run business segment that allows you to
8 tailor and have more variable data. Also sheets can
9 be run on digital presses, we haven't talked a lot
10 about that, but those shorter runs and we think
11 digital is going to be an effective alternative to the
12 media.

13 So frankly in the business segment sheets,
14 which we do think should weather the storm relative to
15 other media better, that's been why Sappi has been
16 particularly disturbed by the incursion from a market
17 share basis by the Asians in the sheet market. So,
18 yes the market is down, we can all deal with business
19 cycles. What is unfortunate is any approach where
20 demand has contracted and our great merchants and
21 printers don't have access to robust lines of credit,
22 that's where we've seen these very low price points
23 come in and take share from the domestic industry.

24 MS. DEFILIPPO: Thank you. One last
25 question has to do with imports from nonsubject

1 sources. We've heard of several other countries that
2 do supply subject product to the market, and in
3 looking at one of the charts where it shows market
4 share, it says "import market share", and I wanted to
5 clarify is that subject in the chart or is it all?
6 It's chart number 14.

7 MR. STEWART: That's just subject.

8 MS. DEFILIPPO: Okay. Have nonsubject
9 imports increased?

10 MR. STEWART: Nonsubject imports have
11 contracted similar to the contraction that's been seen
12 by the domestic industry.

13 MS. DEFILIPPO: And I think, Mr. Stewart,
14 perhaps it was in your opening statement, you
15 referenced nonsubject imports being higher priced than
16 subject, am I correct?

17 MR. STEWART: Yes, I think the most recent
18 data is by as much as \$200 a ton.

19 MS. DEFILIPPO: For postconference purposes,
20 if you want to address how perhaps the Bratsk issue is
21 or is not relevant, that would helpful, we don't need
22 to get into it here.

23 MR. STEWART: We'll be happy to do that.

24 MS. DEFILIPPO: Staff have any other
25 questions?

1 (No response.)

2 MS. DEFILIPPO: I think we are good from
3 here. Thank you all very much for taking the time to
4 come and explain your market and your business to us,
5 it's very helpful. With that, I'm going to take about
6 a ten-minute break. No, we'll go to 20 after, nine
7 minutes, it's easier to do. We'll reconvene back here
8 at 12:20. Thank you very much.

9 (Whereupon, a short recess was taken.)

10 MS. DEFILIPPO: We will now hear from those
11 in opposition to the imposition of antidumping and
12 countervailing duties. Welcome, Mr. Durling. Please
13 proceed when you're ready.

25 And you also have an unusual situation in

1 that the participating Respondents represent the
2 overwhelming majority of the exports that have come
3 into the United States from China and Indonesia. So
4 with complete coverage, with a good understanding of
5 industry dynamics that will be enhanced by our
6 presentation today, we think the Commission does not
7 need to continue the case just to gather a more
8 complete record or to understand the issues better.
9 And with that, I'll turn the floor over to Terry.

10 MR. HUNLEY: Good morning. My name is Terry
11 Hunley, and I'm an external advisor with Global Paper
12 Solutions, otherwise known as GPS, and Papermax. You
13 actually may remember me from the last case, and that
14 I've been in the paper business for 12 years. I was a
15 partner with Accenture Strategic Service Consulting
16 Group where I focused on consulting with U.S. and
17 foreign paper companies on the industry's strategic
18 and operations problems, and that I worked in Asia as
19 chief operating office of Asia Pulp and Paper.

20 Therefore I have experience and knowledge
21 from both a theoretical and hands-on management of the
22 production of coated paper. I am not real subtle, so
23 I'll get right to the point. I really don't
24 understand why we are back in this building spending
25 millions of dollars in legal fees, testifying on the

1 same case, and having the same disruptions to our
2 business only two years after we went through the same
3 exercise to get a positive decision from the ITC.

4 This latest petition is absolutely absurd.

5 Imports from China and Indonesia are supposedly
6 causing the domestic producers material injury?

7 You've got to be kidding me. My companies, GPS and
8 Papermax, account for the overwhelming majority of
9 total coated paper imports from China and Indonesia,
10 and I can tell you with all certainty that the U.S.
11 producers are eating my lunch in the marketplace right
12 now, not the other way around.

13 As an example, earlier this year NewPage
14 used its U.S. government subsidies to take our largest
15 single customer, Unisource, representing half of our
16 business, away from us. Half of our U.S. volume
17 evaporated in that decision. Let me repeat that. The
18 largest U.S. coated paper producer used government
19 subsidies to take business away from the Chinese. Not
20 only that, but they are then able to use the timeframe
21 that the information is collected to kind of hide the
22 fact. And yet they are allowed to file a trade case.

23 You know, something's not right here. I
24 guess it's called a subsidy if the Chinese government
25 pays it but it's called a credit when the U.S.

1 government cuts a check. So, yeah, we're a little
2 upset about this situation. What I want to do today
3 is explain to you what is actually happening in the
4 U.S. market so that you can understand why this case
5 is so absurd.

6 First, I want to address how this industry
7 should be defined. I am not a lawyer, and therefore
8 the finer points of the regulation may escape me, but
9 for the life of me I do not know how the domestic
10 producers can advocate a position that is completely
11 opposite to what they said just three years ago when
12 there has not been any change in the facts. Please
13 remember that I was here in this building when NewPage
14 testified under oath that coated paper sheets and
15 coated paper rolls were all part of the same coated
16 paper industry.

17 The witness for NewPage panel testified that
18 the business of selling sheets was interrelated, and
19 that's their word, with the business of selling rolls.
20 Another NewPage witness specifically stated that the
21 success of a paper mill is very much tied to its pulp
22 making and paper machine assets, assets that are used
23 for both rolls and sheets. These facts are still true
24 today, nothing's really changed. While there is no
25 question that rolls and sheets are sold in different

1 segments of the market, there can be no doubt that
2 both rolls and sheets are part of the same industry.

3 Indeed, in my years in this market I have
4 never viewed the industry to be composed only of
5 sheets. Some trade organizations like AFPA report
6 some shipment data separately for coated sheet and web
7 rolls. However, this distinction is not meaningful
8 based on how the industry operates and likely will
9 result in significant market distortions if decisions
10 are made on this basis.

11 Our lawyers have told me that the
12 Commission's task is to examine six different factors
13 in analyzing how to define the appropriate domestic
14 industry. I want to share with you what I believe the
15 real world facts say about each factor. The first is
16 the physical characteristics and end uses of the
17 paper. Web rolls and certain coated paper products
18 are essentially the same material. They can be
19 produced in the same mills, on the same equipment, the
20 pulp mill, the paper machine encoder, with the same
21 personnel, and using the same raw materials, pulp,
22 fillers, chemicals, and coatings.

23 There are two basic physical differences
24 here. Certain coated paper products are sheeted. The
25 rolls of paper coming off the paper machine are cut up

1 into sheets of various sizes for use on offset
2 preface. Web rolls must be able to run in the hot
3 temperature environment used by highspeed heatset web
4 printing processes. The heat is used to actually set
5 the ink as the web is running through the process.

6 To make sure that a web roll does not
7 blister under a higher temperature, they are dried on
8 the paper machine to a lower moisture content than
9 certain coated paper products, typically it's about
10 4.5 percent for the web roll, about 6.5 percent for
11 sheet fed. In addition, some manufacturers use a
12 slightly different coating formula to make sure that
13 that additional moisture can escape during the heatset
14 printing process to help avoid blisters.

15 The differences are more a matter of degree
16 than actual physical differences, however. The end
17 use differences are more a matter of the scale of the
18 printing job being done. For example, a national
19 magazine printed in the hundreds of thousands or
20 millions of copies will typically be done on a heatset
21 web printing press as that is the least expensive
22 printing method for print runs of that size.

23 A local advertisement that is printed in the
24 tens or hundreds of copies can be done on a sheet fed
25 press as that could be the least expensive printing

1 method. The scale factor, how many units of a printed
2 product, would then be the primary determinant of what
3 printing method is used and therefore whether certain
4 coated paper or web rolls are required for that
5 particular job.

6 The second factor used by the ITC to
7 determine the appropriate industry is
8 interchangeability. Web rolls can be sheeted and used
9 as sheeted coated material. Some converters do this
10 because web rolls are often priced significantly less
11 than sheeter rolls in the U.S. for some reason.
12 However, sheet fed coated product, assuming you are
13 using sheeter rolls, is typically not suitable for web
14 roll usage due to temperature requirements for heatset
15 web printing, the paper would blister and fail.

16 The third appropriate industry factor is the
17 manufacturing process itself. The manufacturing
18 processes for web rolls and sheet are essentially
19 identical. You adjust the settings on the equipment
20 to make the different products. For example, to get
21 the lower moisture content for web roll you would run
22 your driers hotter or slow the machine slightly to
23 allow the product to stay in the driers longer in
24 order to get the lower moisture content.

25 If you need to change the coating then you

1 just put in a different mixture into the coating heads
2 and apply that to the sheet. There is no difference
3 in the equipment used until the product comes off the
4 papermaking equipment, and then some of it goes into
5 the sheeting process. The sheeting process is quite
6 simple and does not have a significant capital
7 equipment cost component relative to the cost of the
8 actual papermaking manufacturing equipment.

9 For example, and these are ballpark numbers,
10 a worldscale pulp mill requires \$1.5 billion in
11 investment. A single world class paper machine, and
12 you'd probably need at least a couple of these for the
13 pulp mill, can run you \$500 million to \$750 million a
14 piece. The sheeters would cost approximately \$3
15 million a piece, and you would need 20 or 25 of them
16 to take the output from these paper machines. So
17 you're talking about an investment of \$2.5 to \$3
18 billion to actually make the paper and investment of
19 maybe \$60 to \$75 million to actually sheet it up.

20 If the Petitioners were to use some of the
21 subsidy cash that they're getting to invest in new up-
22 to-date capital equipment, the total capital cost of
23 the sheeters would account for only about 5 percent or
24 so of their total investment. The fourth industry
25 factor are the channels of distribution. Certain

1 coated products are typically sold through a
2 distributor. Web rolls are sold through many of the
3 same distributors, but a portion of those web rolls
4 are sold direct to the printers and end users.

5 This is typically a result of the fact that
6 the large web printers purchase web rolls in very
7 large volumes and many get better deals on the paper
8 by purchasing it direct rather than going through a
9 distributor. I believe that approximately 30 to 40
10 percent of web rolls are purchased direct, with the
11 remainder going through distributor of some kind. The
12 fifth industry factor is the customer perception.

13 With respect to customer perceptions, you
14 need to understand that it is the same manufactured
15 product up through certain minor differences at the
16 paper production and sheeting stage. The differences
17 are really driven by the different printing processes
18 used to achieve the printed product. Some printers
19 focus on large scale jobs and use web presses, some
20 focus on the smaller commercial jobs and use sheet fed
21 presses, and some printers use both.

22 The difference is in the size of the print
23 job, not necessarily in the nature of the product
24 being printed. Some end users have large runs and are
25 typically done on web presses -- calendars, catalogues

1 -- while others are the smaller runs -- annual
2 reports, local advertisements, and those are typically
3 done on the sheet fed. For those printers who use
4 both types of printing process, they will analyze a
5 job and put it on the printing process that offers the
6 lowest total cost to print depending upon the quality
7 requirements and other specifications for that print
8 job.

9 The sixth factor in determining the
10 appropriate industry is price. For comparable quality
11 levels and specifications such as basis weights and
12 brightness, web rolls in the U.S. are generally lower
13 in price than certain coated paper product. To sum it
14 up, it is not only the Commission's factors that say
15 that coated paper sheets and rolls are the same
16 industry, but in the real world there is no such thing
17 as the coated paper sheet suitable for high quality
18 print graphics using sheet fed press industry.

19 That animal just doesn't exist. Rather,
20 there is a coated free sheet industry, and that
21 industry produces and sells different quality levels
22 and forms of coated free sheet paper, rolls and
23 sheets. I next want to address what is perhaps the
24 most significant new development in the coated paper
25 industry, not only in the United States but this is

1 having an impact around the world. Namely, it's the
2 new ability of U.S. producers to obtain significant
3 government subsidies for their production operations.

4 These subsidies are referred to as black
5 liquor subsidies, the black liquor being a byproduct
6 from the pulping process, and diesel fuel is added or
7 some other petroleum based fuel is added to that. The
8 subsidies are massive. We're talking, reports are
9 saying that \$6 to \$8 billion will be funneled into the
10 U.S. paper industry, and some of it is ending up in
11 the hands of the people that were sitting here at the
12 table this morning.

13 There is no question that these black liquor
14 subsidies have had a significant impact on pricing in
15 the U.S. market in 2009. Both U.S. integrated
16 producers and nonintegrated producers benefit from
17 this credit. Integrated producers benefit directly by
18 receiving a cash subsidy, roughly \$150 to \$200 per
19 short ton of pulp produced. Nonintegrated producers
20 benefit because the subsidy has resulted in more
21 access to pulp in the marketplace. Essentially,
22 people are making more pulp in order to get the
23 subsidy.

24 I believe this subsidy is one factor that
25 has allowed NewPage to price at a level to win the

1 Unisource business from us. And you don't need to
2 take my word on this. The CEO of NewPage has admitted
3 publicly recently that the black liquor subsidies have
4 affected market pricing for coated paper. Let me
5 rephrase that. He says that the black liquor
6 subsidies are driving, are the driving factor, for
7 decreased market prices.

8 Indeed, it's reported that NewPage has
9 deliberately shifted its production to making a higher
10 proportion of those papers using a lot of craft pulp,
11 and this is the pulp that gets the black liquor
12 subsidies, thereby increasing the supply of that
13 product in the marketplace and therefore lowering its
14 price. You should know that the pulp used in coated
15 paper is craft pulp.

16 Next, I want to talk about who is not here
17 at the hearing, the Koreans and the other import
18 suppliers. To understand the competitive dynamics in
19 this industry it's important to keep in mind these
20 other suppliers. Imports from China and Indonesia
21 have on average been about a quarter of the total
22 imports over time, the other three quarters of imports
23 coming from other sources, including both European and
24 Asian mills.

25 The most notable absence from this petition

1 is Korea, a major supplier that was included last time
2 but has been excluded this time. In my experience,
3 U.S. distributors tend to classify their supplier.
4 They have domestic mills, they have European mills,
5 and they have Asian mills, and many of the larger ones
6 actually carry products from all three of those types
7 of mills. The different sources have different
8 strengths and different characteristics. It's the
9 feel of the paper. So customers tend to think of
10 Asian paper as a group or European paper as a group,
11 and domestics as well.

12 Our most direct competitors are the Korean
13 mills, which produce high quality coated paper and
14 which concentrate on selling sheets. Over the past
15 year or so, much of our gain has actually been
16 business that we have won from Korean suppliers and
17 other imports, not from the domestics. Indeed, as we
18 have been trying to replace the Unisource volume we
19 lost to NewPage, we have focused on those
20 opportunities created from Korean reductions in the
21 volumes that they have shipped to the U.S. market.

22 The final topic I want to address is the
23 future. Just a few points here. First, there can be
24 no question that the future actually is very bright
25 for NewPage. Indeed, I was disappointed that the

1 Commission did not seek data from the U.S. producers
2 for the rest of 2009. By not getting this information
3 you are really ignoring a fundamental dynamic; namely,
4 that the quantity of coated sheet fed paper sold by
5 NewPage will increase dramatically in the second half
6 of 2009 and early into 2010.

7 I know this for a fact because I know quite
8 well the volume of the Unisource business that they've
9 taken from us. There is no question that whatever
10 complaints about low sales volumes Petitioners may
11 take about the first half of 2009 will disappear in
12 the second half of 2009 and early in 2010. Second,
13 it's also well known in the industry that the fall in
14 demand affected web rolls more than sheets.

15 For an industry with such high fixed cost, a
16 significant drop in demand for a product that uses the
17 exact same production equipment has a dramatic effect
18 on the operating results for the industry. Any change
19 in imported sheets is trivial compared to the
20 significant drop in demand from their bread and butter
21 product, web roll. And just an aside, we do not sell
22 any significant amount of web rolls in the United
23 States, so we cannot be blamed for the drop in that
24 market. But we are being blamed for the drop in
25 sheets. It's the same industry and it's the same

1 causes causing the drop in both.

2 Third, I want to talk about our future. As
3 I'm sure you know, we have launched a new distribution
4 initiative called Eagle Ridge. The Petitioner tried
5 to insinuate that Eagle Ridge was about to take over
6 the market. That's hardly the case. Eagle Ridge was
7 actually our response to actually losing the Unisource
8 volume. We had to find a way to replace that volume.
9 Getting Eagle Ridge Paper operational will take a
10 significant amount of time.

11 The rampup period for Eagle Ridge is already
12 taking much longer than expected. So for example our
13 website boasted of having ten locations up and
14 operating on October 1st. We have two. Over the last
15 three months Eagle Ridge has contacted over 3,000
16 printers in the United States. Of those contacts,
17 only about 150 of those printers have shown any
18 interest in Eagle Ridge by opening an account. And we
19 actually believe that a number of those accounts are
20 not credit worthy and came to Eagle Ridge as a last
21 resort.

22 Please note that APP has a Canadian
23 operation that is similar to Eagle Ridge that has
24 taken 15 years to build up to a reasonable size.
25 Also, I would doubt that the Unisource executives

1 would think that we could duplicate in a matter of
2 months what took them and us, at that time, years to
3 develop; namely, the largest private label coated
4 paper program in the country that we at one time
5 supplied. In short, it will take years for Eagle
6 Ridge to reach a volume that is even close to the
7 volume that we lost when we lost the Unisource
8 account.

9 So to summarize, from my perspective, we are
10 being taken to task on the same trade case as over two
11 years ago where none of the relevant facts have
12 changed, using some gerrymandered product and industry
13 description, by an industry that is receiving massive
14 direct U.S. government subsidies where those subsidies
15 are deliberately being used to lower market prices and
16 not invested into upgrading production
17 competitiveness, by companies that are blaming us for
18 market volume drops that are also occurring in market
19 segments (web rolls) that we do not even participate
20 in, and they have been taking customers and massive
21 volumes away from us. Therefore we should be brought
22 up on a trade case, and I hope the irony in that
23 statement is apparent. That concludes my testimony,
24 and I'm available for questions.

25 MR. DURLING: Thank you, Terry. What I'd

1 like to do now and for the rest of our time is kind of
2 walk through the analytic framework that the
3 Commission will be dealing with. First, some
4 conditions of competition. The single most important
5 condition of competition in this case is the dramatic
6 change in demand, and in fact declining demand for
7 coated paper for all printing applications, all of the
8 demand indicators have been down.

9 As measured by apparent domestic consumption
10 from public data, demand has fallen from 2.7 million
11 short tons to 2.2 million short tons over the full
12 period of investigation, but of even greater
13 significance, 2009, the period of time when most of
14 their injury complaints really occur, demand was
15 falling even more sharply with apparent domestic
16 consumption down 30 percent. With all due respect,
17 this is a decline in demand that's a little more than
18 just a normal business cycle. This is a dramatic and
19 significant change, a critical change, in the
20 conditions of competition that should inform the
21 Commission's analysis.

22 And it's not just us. NewPage admits that
23 this is about demand. In this excerpt from a recent
24 SEC filing by NewPage, it basically explains that
25 NewPage itself has said the decline in volume in 2009

1 is because of decline in demand primarily from the
2 lower demand for catalog and promotional materials by
3 retailers, lower spending on magazine advertising, and
4 customer reduction of their inventory levels. Now,
5 this statement by NewPage is in fact what the data
6 shows.

7 If you look at the next slide, it's public
8 data showing the decline in demand for catalogs
9 mailed, with decline in demand in '07, a somewhat
10 bigger decline in '08, but a dramatic shift in the
11 demand indicators in '09. If you turn to the next
12 slide you'll see exactly the same pattern for magazine
13 ad pages, two critical applications that account for a
14 bulk of coated paper sales in the United States. And
15 if you turn to the third slide on demand you'll see
16 printer inventories for coated free sheet paper being
17 drawn down during this period of time.

18 So NewPage itself has said it's demand, the
19 underlying data shows that it's demand, and their
20 presentation this morning tried to gloss over this
21 critically important condition of competition. The
22 other demand factor that's critically important for
23 the Commission to keep in mind, although this one
24 hasn't changed dramatically from the last case, is the
25 role of domestic rolls. It is critically important to

1 remember that when you think about the coated sheet
2 business in the United States that approximately 80
3 percent of that business is in the roll segment which
4 they're now trying to exclude from the case.

5 Okay, yes, they are entitled to define the
6 scope in a more narrow way, but the Commission has to
7 step back and understand what is the industry
8 producing that product, and you cannot understand this
9 industry without also taking into account the effect
10 on rolls because rolls and sheets are so intricately
11 intertwined in the operation of the domestic industry.
12 Now, on the supply side, a condition of competition
13 from the last case that is basically the same is
14 industry consolidation.

15 There continues to be consolidation to
16 reflect this worldwide trend toward declining demand
17 and everyone around the world is trying to rationalize
18 their production facilities. When you look at this
19 statement by RISI, it basically confirms that all of
20 the producers in the developed world are adjusting to
21 the decline in demand by announcing capacity
22 reductions. Now, when they're talking to the investor
23 world, what the U.S. industry basically testifies to
24 is that these consolidations are actually beneficial
25 for their business.

1 If you look at the statement by NewPage, it
2 basically shows that they were boasting about their
3 ability to merge the operations in a manner that's
4 actually going to increase their production output.
5 So this isn't a cause and injury, this is a
6 rationalization of capacity to meet declining demand.
7 If you look at the next slide you'll see a similar
8 statement by Sappi, who basically again is boasting
9 about their ability to rationalize production so that
10 they can shift from a high cost mill to lower cost
11 mills.

12 This is a natural response to declining
13 demand, this is not the result of any injurious
14 effective imports because during most of this period
15 of time imports have been maintaining a relatively
16 stable share of the market. The other critically
17 important supply side factor is the role of nonsubject
18 imports. Again just a snapshot of the full three
19 years of the period of investigations showing that in
20 every single full year of the period of investigation
21 nonsubject imports were approximately three times the
22 size of subject imports. And that continues to be a
23 very important condition of competition.

24 Now, beyond the demand side and the supply
25 side factors, there are two other conditions of

1 competition that we think are very important for this
2 case. The first is the vertical integration of the
3 domestic industry. As you heard this morning, the
4 vast majority of domestic production continues to be
5 vertically integrated in that these are mills that
6 make both rolls and sheets. There is a very small
7 portion of the U.S. industry, the converters, that are
8 basically in the business of just producing sheets.
9 Most of these guys are making both rolls and sheets.

10 So last time, for the broader like product
11 this wasn't such a big deal because both parts of the
12 industry were in fact being studied as part of the
13 broader like product. But if the Commission is
14 inclined to give them the benefit of the doubt and
15 say, okay we'll accept your narrower like product for
16 this case, that creates as a critical condition of
17 competition this vertical integration. Because with
18 all due respect, you simply cannot appropriately
19 understand the competitive dynamics facing producers
20 and the impact of imports without taking this into
21 account.

22 It simply would be unreasonable to try and
23 understand the role of demand in this industry without
24 noting the role of declining demand on their
25 production of rolls and how declining production of

1 rolls in fact impacts their overall operations. You'd
2 have to understand what assumptions and allocations
3 they're making as they decide that demand reductions
4 for the roll business are being attributed to the much
5 much smaller segment.

6 And note the relative difference in
7 magnitude. You could have a very small impact on the
8 roll side of the business that when you translate it
9 to the much much smaller sheet segment of the business
10 creates the illusion of it having a really big impact,
11 and that is a very very important issue in this case
12 particularly when it comes to understanding the
13 financial performance of the industry.

14 The other new condition of competition this
15 time is the black liquor subsidies that Terry just
16 spoke about. And critically important condition of
17 competition for 2009. It may in fact be temporary, as
18 you heard this morning, but for 2009, the critical
19 period of time they are asking you to look at and make
20 a decision based on, for the first half of 2009 it is
21 a critically important issue. And it's here now, it
22 did affect the results in the first half of the year,
23 and it is still in effect and so it is still affecting
24 results for the rest of 2009.

25 NewPage alone reported earning \$120 million

1 in the first half of 2009 from this subsidy. And they
2 testified or they provided in their SEC report that
3 they estimate this had the effect through passthrough
4 to the customers of a reduction of as much as \$60 per
5 ton of coated paper. So it's these subsidies that
6 have been driving intraindustry competition among the
7 domestic mills and driving down the prices. And we'll
8 come back to this as we go through volume effects and
9 price effect.

10 Now, like product, you heard a lot of
11 testimony about that this morning, Terry addressed
12 this issue, I'm sure there will be more questions for
13 us about like product. Here I would just like to note
14 two points. The first is, you've heard lots of facts
15 from their side and from our side, but the key thing
16 is you haven't heard any new facts. You've been
17 hearing facts about this industry that were as true
18 last time as they are today.

19 And so I come back to the question from Mr.
20 Cassise, he referenced the question from Commissioner
21 Aranoff at the last hearing about the like product,
22 with all due respect, yes we said there is a single
23 like product. Our position is the same as the last
24 case. It's the other side that's changing its
25 position. When Commissioner Aranoff posed that

1 question they said, no, no, no, we don't need to break
2 out and have different like products, the like product
3 is all coated paper. Well we think it still is.

4 An argument that we'll address in more
5 detail in our brief, but we believe imports from
6 Indonesia are negligible. We'll address this in our
7 brief. One part of our argument is that the
8 denominator should include the entire like product,
9 and we think the entire like product includes the
10 rolls, not just the sheets. We also believe that the
11 denominator should include the various HTS codes that
12 Petitioners are including for purposes of the imports.

13 In other words we don't think it's
14 reasonable to pull in parts of the coated groundwood
15 categories for subject imports and use that to inflate
16 the numerator, and then pretend that the nonsubject
17 imports -- their assumption is that nonsubject imports
18 ship absolutely nothing in the coated groundwood
19 categories that meets the scope definition in this
20 case. Well, if they're not doing it based on the
21 traditional industry distinctions they can't have it
22 both ways.

23 They can't assume all of the coated
24 groundwood is subject if it's from us and none of the
25 coated groundwood is within the scope if it's from

1 other import sources. That's simply not a reasonable
2 assumption. And the final point that we'll make is
3 that in fact the imports from Indonesia have been
4 exaggerated somewhat because there was a
5 misclassification issue. There is multi-ply board
6 coming in under the relevant HTS categories that
7 actually should have come in under 481092, and we'll
8 address this in our brief.

9 If the Commission agrees that the true like
10 product is the expanded like product that includes
11 both rolls and sheets, and frankly the Commission's
12 decision in this case is quite easy because
13 Petitioner's case now is even weaker than it was in
14 the last case because over the full three years the
15 domestic industry performance has been stronger than
16 it was in the last case, the domestic market share was
17 stable or grew slightly during this period, depending
18 on precisely what you include in the calculations.

19 Subject imports of sheet still don't compete
20 with the 80 percent of the market that represents the
21 bulk of the domestic industry, and any small gain of
22 subject imports during this period are demonstrably
23 from nonsubject imports. So the basic line of
24 argument that led the Commission to make a negative
25 determination last time applies with even more force

1 this time, which frankly is precisely why they are now
2 trying to gerrymander the scope to basically create a
3 hypothetical industry that doesn't exist to make their
4 case of injury, and frankly it's precisely why so much
5 of the testimony you heard this morning was on like
6 product.

7 I don't think I've ever been at one of these
8 conferences where the domestic industry spent so much
9 time trying to argue about like product. Because they
10 know on the expanded like product they have no case.
11 But even for the narrower like product if you walk
12 through the analytic exercise, we believe the facts
13 show that the domestic industry is not entitled to
14 relief in this case.

15 First, the industry's not being injured. As
16 I just noted, the operating results over the full
17 three-year period of investigation have been stronger
18 even in the face of weaker demand and somewhat lower
19 shipments. Indeed these operating results have been
20 enhanced in the first half of 2009 by the black liquor
21 subsidies that are quite significant.

22 We haven't seen their questionnaire
23 responses, we're not quite sure whether the black
24 liquor subsidy funds are showing up or not showing up
25 in the financial performance of the industry, but we

1 urge you to drill down and make sure that the reported
2 financial results do in fact capture the financial
3 benefit of these black liquor subsidies. Okay, first
4 let me talk a little bit about volume effects.

5 Any decline in domestic shipments has been
6 due to decreased demand not to subject imports.
7 Indeed I think subject imports have actually declined
8 over the full period we're looking at. Certainly they
9 declined from 2007 to 2008. Whether there's a decline
10 from 2006 to 2008 depends on whether you're including
11 or not including the sheeter rolls that were in but
12 now are not in. But under either event, the domestic
13 industry's share and the subject import market shares
14 have been relatively stable over the period.

15 It's also interesting to note that this is
16 one of the few cases I've been involved in where the
17 subject imports, which include a lot of imports from
18 China, have been stable or decreasing depending on how
19 you measure them. This is not like the typical case
20 where you've seen dramatic increases in imports from
21 China. This is a case where the Chinese presence in
22 total subject imports has actually been relatively
23 stable.

24 If you turn to the next slide you can see a
25 graphical representation of how imports have declined

1 over the period, at least the imports as they were
2 defined a few days ago. And it shows that both for
3 subject imports and for nonsubject imports there have
4 been declines over the full period both for the
5 narrower like product coterminus with the scope and
6 for the expanded like product.

7 If we focus in on 2009, and that's really
8 what their case is mostly about, their case is really
9 about a shift in market share in the first half of
10 2009, their argument ignores several key factors.
11 First, they're ignoring the fact that the drop in
12 demand and total consumption was in fact the most
13 substantial in the first half of 2009. They're also
14 ignoring the fact that the first half of 2008 was
15 distorted by the prior trade case.

16 The Commission didn't make its determination
17 in the last case until the end of 2007. Going into
18 the first half of 2008 subject imports were still
19 depressed by the effect of the prior trade case. So
20 essentially they're trying to attack us for simply
21 having resumed import levels back to the levels that
22 were historically the case for this industry after the
23 effects of the last case, and that is certainly not
24 fair.

25 They're also ignoring the fact that when

1 demand collapsed significantly at the end of 2008
2 there is a difference in how quickly domestic
3 shipments react to that and import shipments. You
4 heard testimony this morning about the long lead times
5 bringing imports in from Asia. If demand is declining
6 sharply at the end of 2008, domestic shipments can be
7 affected in the first half of 2009, in fact that's
8 what the NewPage testimony and its SEC filings have
9 shown. It's going to take a little more time for
10 imports from Asia to react to that.

11 Similarly it's going to take time when
12 Unisource switches from Terry to NewPage. First Terry
13 has to finish his existing order commitments, so Terry
14 was in fact still shipping to Unisource in the first
15 half of 2009, that's all gone now. And that's the
16 point of by timing this case they're basically trying
17 to mask what's going to happen in the second half of
18 2009.

19 So the next slide, slide 23 if we're up to
20 that. Actually, no, slide before that. This
21 basically shows what I was explaining about the shift
22 and the first half of 2008 being below 2009. Sorry,
23 the next slide. This basically shows that subject
24 imports even in the jury-rigged definition they have
25 come up with and even with their carefully constructed

1 let's focus just on 2009, the change in subject
2 imports during this period is actually relatively
3 small given the dramatic changes in both Korea and all
4 nonsubject imports.

5 Okay, again, they've been very selective,
6 they're just targeting certain countries and trying to
7 shift focus away from the changes among other import
8 sources. So that brings me to price effects.

9 Domestic pricing over the full period has been strong
10 and improving. And indeed during this period import
11 pricing has also been relatively strong. In fact the
12 stable operating returns for this industry over the
13 period confirms that prices have generally been
14 keeping pace with cost and all of the other demand
15 indicators.

16 So any underselling, this is one of those
17 classic cases where, you know, yes there is
18 underselling but where is the adverse impact from the
19 underselling because if their profit margins are
20 holding up, if their prices are holding up, how can
21 the underselling be having any adverse effect? So
22 throughout the period '06, '07, and '08 you have
23 underselling yet it never seems to have any effect on
24 their performance.

25 And what the next slide shows is basically

1 publicly available data on price series basically
2 showing that prices were in fact stable or trending up
3 for most of the full period, and it also shows that if
4 you look at product that isn't affected by the subject
5 imports in this case, coated groundwood paper, it's
6 basically following the same price series. So
7 basically, yes there is a decline in 2009, right,
8 we've talked about the decline in demand in 2009 where
9 demand fell off the cliff, and has that had an effect
10 on domestic pricing? Absolutely.

11 So talking about 2009, yes we acknowledge
12 that there has been weaker prices in the first half,
13 but subject imports still had relatively higher prices
14 in 2009, they didn't drop as sharply, and during this
15 period of time in addition to the weak demand that
16 we've already talked about, you have this very
17 important phenomena of the black liquor subsidies
18 where you have basically domestic producers lowering
19 prices to chase volume from other domestic sources.

20 All right, total demand is down, they're all
21 scrambling to fill their plants, you heard testimony
22 this morning about their need to basically ramp up
23 volume. So you basically have an incentive where the
24 natural incentive for the domestic mills is to compete
25 among themselves to maintain volume, and then you have

1 U.S. government policy basically, it's like throwing
2 gasoline on a fire because the U.S. government subsidy
3 created an additional incentive for these guys to
4 slash price, to cover the price difference with the
5 black liquor subsidy, and to basically chase volume at
6 any price.

7 The integrated guys get the money directly,
8 even the nonintegrated producers are experiencing this
9 effect because they have to compete with the
10 integrated producers like NewPage that are basically
11 using the black liquor subsidies to lower the domestic
12 prices. Now, this isn't my theory. I didn't think
13 this up on my own. If you look at the next slide
14 you'll see the excerpt from the NewPage SEC filing
15 where NewPage itself basically says, we believe that
16 pricing has declined primarily as a result of
17 producers passing on the benefits of the alternative
18 fuel credit to customers.

19 I didn't dream this up, I got it from the
20 NewPage SEC filing. And the next slide basically
21 shows that if you lower the price of pulp, which is
22 the effect of the black liquor subsidy, it's basically
23 a cash rebate if you produce the pulp, the decline in
24 price in the pulp translates into a declining price
25 for the product that uses the pulp. So this brings us

1 to adverse impact and whether there is any adverse
2 impact.

3 Over the full period we don't believe there
4 was any adverse impact at all. They had strong
5 operating margins, and they achieved these consistent
6 operating results over the full period even with the
7 presence of subject imports. In other words this
8 isn't the case where there were no subject imports at
9 the beginning of the period and all of a sudden they
10 surged to unprecedented levels at the end of the
11 period. For most of the period '06, '07, and '08
12 subject imports were in the market at about a 14, 15,
13 16 percent market share.

14 And in spite of that presence of subject
15 imports, everyone was coexisting and the domestic
16 industry was earning reasonable operating returns.
17 Any adverse production or shipment or capacity trends
18 during this period aren't about imports, because we've
19 been there from the beginning, these adverse trends
20 are because of the declining demand. If we focus in
21 on 2009, and their case really does boil down to an
22 alleged volume impact in the first half of 2009, this
23 is where understanding the role of demand is so
24 critical, because 80 percent of their shipment decline
25 in 2009 can be attributed to the decline in

1 consumption, not a loss of market share. In fact, if
2 you assume the imports, subject imports, had the same
3 market share in 2009 that they maintained for the rest
4 of the period -- in other words, assume away any gain
5 in import market share -- the most that could possibly
6 be attributed to subject imports is about 27,000
7 metric short tons.

8 If you take the change in market share and
9 compare the change in market share with the total
10 change in consumption, the net result is the domestics
11 lost at most 27,000 tons.

12 Now, that may sound like a big number, until
13 you put it in the context of what's happening to the
14 rest of the industry. Because during this same six-
15 month period, the total decline of U.S. producers'
16 rolls and sheet business because of demand was 730,000
17 short tons.

18 So demand is driving down the total volume
19 of rolls and sheets by 730,000 tons. Total apparent
20 consumption during this period dropped by 936,000
21 tons. Those are huge demand effects. And the change
22 in subject market share is 27,000 tons. How has that
23 been a cause of material injury to the domestic
24 industry?

25 If there had been no change in subject

1 imports, at most they would have had an extra 27,000
2 tons. They still would have lost 700,000 tons of
3 paper production. With all due respect, I do not
4 think that establishes a causal connection between
5 subject imports and the domestic industry.

6 Which brings me to threat. Subject imports
7 have already begun to decline, and we know that
8 they're going to decline even more because Terry has
9 told you he lost 50 percent of his U.S. volume.

10 When was the last time, when has the
11 Commission ever heard a case where the Chinese
12 suppliers, during the course of the case, lost 50
13 percent of their shipping volume to the domestic
14 producer basically grabbing that shipping volume? It
15 is not possible to argue that there is going to be an
16 imminent increase in imports in this case, because
17 they will be scrambling to replace the volume that has
18 already been definitively lost.

19 Nor is this story unique to APP, because the
20 second-largest Chinese exporter, Sun, also lost a
21 major sale earlier this year to Xpedx in July of 2009
22 to a European supplier. So the very largest Chinese
23 exporter has lost 50 percent of its volume to the U.S.
24 market.

25 Another significant Chinese exporter has

1 lost a major sale. This is not a case where the
2 Chinese are going to surge and take over the market
3 over the next couple of months. Which is why they
4 trotted out Eagle Ridge, which is why they brought out
5 the story of Eagle Ridge is going to basically close
6 the gap.

7 But as Terry explained to you, this is not
8 going to happen imminently; this is going to happen
9 over a very gradual ramp-up period.

10 And finally, on threat and understanding the
11 volume of imports -- and this is really important --
12 this is not a case where there is this vast unknown of
13 what's happening with the other Chinese. You have
14 before you the overwhelming majority of Chinese
15 exports to the U.S. market. And we will be submitting
16 in our post-conference brief detailed information
17 which basically shows total Chinese exports, and who
18 has been shipping, because there frankly aren't that
19 many.

20 The petition talks about all of these
21 various Chinese producers, and about capacity in
22 China, but they really are ignoring the fact that most
23 of the Chinese producers do not export at all. Most
24 of them are small-scale operations that do not export
25 at all.

1 And so the major Chinese exporters that have
2 been participating in the U.S. market, you have us.
3 We're all here. So you'll have complete information.

4 Now, what that complete information will
5 tell you, and we'll put it in the post-conference,
6 we'd be happy to address this during the questions,
7 the Chinese capacity is being largely created to meet
8 surging demand in China. And in fact, a lot of the
9 Chinese capacity is going to be used to replace
10 shutting down of smaller, environmentally unfriendly
11 mills in China.

12 And in fact, what the information will show
13 is that the Chinese producers, other than APP, have
14 largely, over the period of investigation, already
15 begun to exit the U.S. market to focus on fast-growing
16 markets in Asia.

17 In other words, over the period -- and we'll
18 give you the information to show this -- over the
19 period of time, APP has become a larger and larger
20 percentage of total exports from China to the United
21 States. We're it. When was the last time you had a
22 China case where you basically had everybody there,
23 and we're here, and we're cooperating, okay?

24 So threat of future injury, what about
25 demand? Well, this I think is an incredibly important

1 point for this case. RISI just came out with its
2 latest long-term outlook. And what it shows is that
3 on a global basis, in most of the developed world,
4 demand for coated paper for basically printing and
5 writing paper is trending downward. Most of the
6 growth is in China, which is why that's where the
7 capacity is being installed.

8 I was shocked when I read this number, but
9 RISI estimates that over the next 15 years or so, 90
10 percent of the worldwide demand growth is going to be
11 in China. That's where the future of this industry
12 is. That's where the capacity is. And that's why the
13 capacity is being added. That's where all the demand
14 growth is going to be.

15 And the more specific projections in the
16 RISI report, which we can provide to you, basically
17 shows that that 90 percent of the total demand growth
18 translates to Chinese consumption growing, on average,
19 eight percent a year; and it shows that over the near
20 term, 2009 to 2010, 2010 to 2011, significant, very
21 significant increases in the estimated consumption in
22 China.

23 The next slide just shows graphically how
24 dramatic the increase in China is going to be over
25 this period of time. And the next slide gives kind of

1 a preview of the data that we'll be submitting
2 basically showing that exports to the United States
3 have actually been a smaller and smaller share of
4 Chinese exports on a global basis. Most of the
5 exports are actually going to the rest of the world
6 increasingly so.

7 And then the third slide on threat basically
8 shows what a small percentage of total Chinese
9 production of coated paper actually goes to the United
10 States. Most of it is going to China, the next-
11 biggest portion is going to other export markets. The
12 U.S. is a tiny part of the total.

13 So let me just leave you with a few
14 concluding thoughts. And I didn't use all of my time
15 because it's been a long afternoon.

16 First, the case should never have been
17 filed. The domestic industry had to construct the
18 scope in a like product, but there's no relationship
19 to commercial reality. We think that's a very
20 important point.

21 The other key point is that they had to
22 really rush this petition in, because if they didn't
23 get the Commission to focus just on the first half of
24 2009, their case doesn't exist. This is basically a
25 gambit to basically get past the prelim, force us to

1 live with the burden of this case for an extended
2 period of time. Who knows what incentives that kind
3 of the hedge funds that own much of the domestic
4 industry may have for this gamesmanship, but they
5 basically want to burden us during this period of
6 time.

7 And it would be a travesty of the trade laws
8 if a case with no merit is allowed to continue, to
9 allow them to manipulate the process.

10 They're hoping the Commission doesn't focus
11 on the fact, they're hoping the Commission ignores the
12 hypocrisy of an industry complaining about imports, a
13 relatively small number of imports, during a narrow
14 period of time, by complaining about imports at the
15 very same time that it's massive U.S. Government
16 subsidies that are basically fueling most of the
17 adverse competitive trends that they're complaining
18 about. They were complaining about pricing in 2009;
19 that's about black liquor, that's not about imports.

20 So with all due respect, we hope when the
21 Commission considers all of these facts they will end
22 the case now, and spare all of us the burden of going
23 through the Commerce process, and the Commission the
24 burden of coming back and hearing this case at final.

25 Thank you.

1 COMMISSIONER DeFILIPPO: Thank you for your
2 presentation. We will turn to staff questions, and
3 start first with Mr. Cassise.

4 COMMISSIONER CASSISE: I'd like to thank you
5 all for your testimony. A couple of quick points of
6 clarification on the presentation.

7 You stated that we essentially have complete
8 coverage for Indonesia and Chinese imports. Do you
9 have an idea of how you would estimate non-subject
10 imports using the official Commerce statistics?

11 MR. KLETT: For subject imports, with the
12 exception of some misclarifications on the Indonesian
13 product, the census data are fairly straightforward in
14 terms of measuring the volume of subject imports.

15 Non-subject imports that have been discussed
16 is another story, because they excluded scope product
17 from non-subject imports which should be in with
18 respect to non-subject.

19 So from our perspective, the key data issue
20 was with respect to non-subject imports, rather than
21 subject imports, with the exception of the, of the
22 Indonesian issue.

23 MR. PORTER: Let me just follow up on that,
24 Mr. Cassise. We will provide evidence in our post-
25 conference brief of sheets of coated groundwood paper

1 meeting the definition of subject from non-subject
2 sources.

3 We have compiled examples of other non-
4 subject suppliers who are shipping under the coated
5 groundwood HTS, but it meets the definition of their
6 scope with the brightness and the grams per square
7 meter.

8 And so we have evidence of that. And so
9 what that will show you is that there's no basis for
10 their assumption that none of the non-subject
11 suppliers of coated groundwood paper meet the
12 definition. And so we say that all of that should be
13 included in your calculation.

14 COMMISSIONER CASSISE: Okay.

15 MR. DURLING: Actually, I think your
16 question is just for subject imports. And for subject
17 imports, what the information will show is that the
18 reported import statistics, the export statistics, and
19 kind of our questionnaire responses, they all
20 basically point to the same numbers.

21 COMMISSIONER CASSISE: Right. I'm under the
22 impression that you are comfortable with the subject
23 imports that you submitted in your questionnaire
24 responses as --

25 MR. DURLING: Yes, yes, absolutely.

1 COMMISSIONER CASSISE: -- virtually
2 complete.

3 MR. DURLING: Yes. Because it is, we -- APP
4 has a very high degree of confidence that they
5 understand what's coming out of China. And yes, we,
6 in 2008/2009, we represent the overwhelming bulk of
7 the imports coming in from China.

8 COMMISSIONER CASSISE: What about those
9 earlier years?

10 MR. DURLING: Well, basically it's true,
11 pretty much, I mean it's generally true for the entire
12 period. It's not quite as true in '06, but even in
13 '06 it's uneasy because there are just a handful of
14 other producers.

15 The point is when you break it down, right,
16 you take total Chinese export stats, which more or
17 less reconcile to U.S. import stats. So we know we
18 have the complete universe. And then we know who we
19 are, and then we kind of work backwards from that, and
20 we can get pretty good estimates of what the others
21 are. So you should have everybody.

22 COMMISSIONER CASSISE: I mean, just thinking
23 out loud, I mean, I'm trying to think if it's a
24 reasonable way to present the import data in the staff
25 report as using the questionnaire data for subject

1 imports from subject countries, and then an adjusted,
2 an adjustment to official Commerce statistics for
3 imports from non-subject countries. Does that sound
4 reasonable to you?

5 And I guess my initial question was, what
6 kind of reasonable adjustment would you make to those
7 import statistics from non-subject countries?

8 MR. KLETT: I can just give you a few.

9 These are adjustments that Petitioner should have
10 known about themselves.

11 For example, for CFS rolls from Korea, they,
12 I think, included only five percent of that. And I
13 think they know from the prior case that virtually 100
14 percent of the sheeter, of the CFS rolls from Korea
15 are sheeter rolls. So that should be 100 percent.

16 With respect to coated groundwood, which
17 Stan talked about, which is actually a bigger
18 distortion, they said that no coated groundwood from
19 non-subject countries was within the scope. We know
20 that there is heavyweight coated groundwood being
21 exported from Europe to the U.S. that are within the
22 scope. EU export statistics, for example, actually
23 break out for heavy coated groundwood rolls and
24 others. So we know there is heavyweight coated
25 groundwood sheet being exported from Europe to the

1 U.S.

2 We can provide the details in our brief, but
3 we have some methods for estimating what the volume of
4 non-subject should be, either based on adjusting U.S.
5 census data, or using U.S. stat export data to the
6 U.S.

7 COMMISSIONER CASSISE: Okay. Whatever you
8 find most reasonable, it would be helpful if you would
9 place that in your post-conference brief.

10 It would also be helpful, I asked the
11 Petitioners to, in Exhibit, I think it was 24, they
12 have all the HTS numbers and what adjustments they
13 made to each HTS number.

14 If you could do that, a similar, a similar
15 presentation. And then with all of the documentation
16 that you say supports that, that would be helpful.

17 Now, you went through your negligibility
18 calculations in detail. You had mentioned
19 misclassifications. These have nothing to do with the
20 misclassifications that occurred in the prior
21 investigation regarding the groundwood, or is it a
22 similar issue?

23 MR. PORTER: No, I don't believe it has
24 anything to do with that.

25 COMMISSIONER CASSISE: Okay.

1 MR. PORTER: I think when they were just
2 going through it, obviously, and we were hit with the
3 Trade case, you go and analyze your -- always your
4 exports to the United States quite intently, and they
5 had discovered that certain multi-ply paperboard,
6 which is not, which is outside the definition,
7 inadvertently got classified under a subject HTS.

8 This is, just so you know, this is explained
9 in detail in the Indonesian foreign exporter
10 questionnaire response that we submitted yesterday.
11 In fact, and we give you monthly data on this sort of
12 misclassification, so you are able to do the
13 negligibility calculation real accurately.

14 COMMISSIONER CASSISE: Mr. Hunley, you had
15 testified in a prior investigation a couple of points.
16 I just wanted to make sure that they were still true
17 in the market.

18 You had stated that the exportation of web
19 rolls from Asia wasn't economically viable for those
20 mills. Is that still true? Or would you like to
21 elaborate on that?

22 MR. HUNLEY: In general, that's still true.
23 We bring in a very small amount of web rolls. But
24 it's primarily just to continue to test the quality of
25 the web rolls relative to the U.S. marketplace. You

1 know, we're talking about just a few containers.

2 But in general, we cannot make money
3 shipping web rolls into the U.S.

4 COMMISSIONER CASSISE: Now, I know there was
5 a lot of discussion in the hearing, the prior hearing,
6 about the shipping methods, and how part of the, part
7 of the reason it was inefficient to ship rolls from
8 Asia was they didn't sit in the container tightly
9 enough to make it efficient. Is that the only reason
10 it was economically not viable, or were there other
11 reasons?

12 MR. HUNLEY: That's the primary reason.
13 When you ship rolls, you know, it's a round peg in a
14 square box, you're shipping a lot of air. So the cost
15 of the freight per ton of product goes up fairly
16 dramatically.

17 In a 20-foot container we may be able to
18 get, you know, 16 and a half, 17 tons of sheeted
19 product. But when we go to a web roll, or any kind of
20 roll for that matter, that volume can decrease to 13
21 tons, 14 tons. It's a pretty dramatic impact.

22 COMMISSIONER CASSISE: Okay. And there was
23 also some discussion in the prior hearing about how
24 the Europeans had special ships to ship rolls that
25 made it efficient. And that's why the majority of the

1 imports from Europe were in roll form. Is that still
2 true? And do the Asian mills have any plans to
3 purchase such ships?

4 MR. HUNLEY: The Europeans still sell a lot
5 of rolls in the U.S. The ships that they had -- and
6 this is historical, so I'm a little bit fuzzy on it --
7 but they had purpose-built ships. I guess you'd call
8 it a consortium, primarily of the Finnish
9 manufacturers, had purpose-built ships created.

10 I believe they're still in service, but I
11 don't know specifically. And I don't believe they're
12 part of the consortium. I think they sold them off to
13 a steamship line.

14 COMMISSIONER CASSISE: Are the majority of
15 European exports still in roll form, though?

16 MR. HUNLEY: I would believe so, yes.

17 COMMISSIONER CASSISE: Okay.

18 MR. HUNLEY: They do ship a lot of sheets
19 into the U.S., or at least they used to until just
20 recently with the market downturn.

21 MR. KLETT: Mr. Cassise, Finland, a fairly
22 high share was being shipped to the U.S.'s rolls, to
23 the other countries. At least based on the data I've
24 looked at. It may be more of a 50-to-50 split, but it
25 varies country by country.

1 COMMISSIONER CASSISE: And that's primarily
2 because of these Finnish roll ships that ship right
3 from the harbors?

4 MR. KLETT: I don't know the reason. I
5 think Terry knows more the motivation.

6 MR. HUNLEY: You'd have to ask the Fins, but
7 I believe it's primarily their product sent, which
8 includes a lot of the groundwood comes in as rolls.

9 COMMISSIONER CASSISE: Okay, enough about
10 the Fins. Mr. Hunley, you had mentioned the
11 manufacturing process for sheeter rolls and web rolls,
12 or the same or similar, and that you could, you could
13 manufacture both products on the same machine with
14 some minor adjustments. Could you elaborate on what
15 those minor adjustments would be? And could you just
16 elaborate how long it would take to make those
17 adjustments?

18 MR. HUNLEY: I'm not a production person,
19 but our equipment, which is the latest state-of-the-
20 art production capability, we can do changeovers in a
21 matter of minutes. So we can dial in the
22 characteristics for the paper that we need to come off
23 that machine very quickly.

24 COMMISSIONER CASSISE: And that's even for a
25 sheeter roll versus a web roll.

1 MR. HUNLEY: Even for a sheeter roll versus
2 a web roll. Some machines have on-machine coaters, so
3 you may actually have to pull the machine down for a
4 few minutes to change the coating mixture. Other
5 machines have off-machine coaters. And we have both.
6 So the paper machine can still be operating while
7 you're changing the composition of the coating in the
8 off-machine coater.

9 COMMISSIONER CASSISE: You're not talking
10 about hours or days of down time.

11 MR. HUNLEY: No, no, no, no.

12 COMMISSIONER CASSISE: Okay.

13 MR. DURLING: In fact, Mr. Cassise -- this
14 is Jim Durling -- I think the metaphor that Mr.
15 Stewart offered is actually helpful. Think of your
16 grandmother's recipe. The basic production equipment
17 is the oven, and you're baking a cake. And the cake
18 might have a different recipe, but it's the same basic
19 equipment being used to bake the cake.

20 You tweak the recipe. You may get, it may
21 be chocolate, it may be vanilla, but it's the same
22 basic cake.

23 And just to extend the metaphor, they
24 basically want to say you cut a slice out of the cake,
25 and somehow that's different than the rest of the

1 cake. Because that's basically the difference between
2 the roll and the sheets. It's just have you changed
3 the form in which it's being sold.

4 So if you think that a whole cake is
5 different than a slice of a cake, then I guess their
6 theory kind of makes sense.

7 COMMISSIONER CASSISE: Mr. Hunley, you also
8 mentioned that web rolls could, in theory, be sheeted.
9 And this was discussed in the last hearing in '07.
10 And it seemed like it was pretty settled, and correct
11 me if I'm wrong, that yes, in theory this may occur,
12 but it doesn't ever happen. Could you elaborate on
13 that?

14 MR. HUNLEY: It does happen, but it does not
15 happen a lot. I'll be honest about that.

16 It really depends upon the printed product.
17 So if you have let's say a low-end printer that, you
18 know, he has to sell a product at the very lowest
19 price, he's probably sourcing paper at the absolute
20 lowest price that he can get.

21 I think you heard somebody testify how a
22 printer will call every merchant in his geographical
23 area to try to find the lowest price on a product. So
24 if he's really squeezed on his margins, if he's really
25 trying to put something out in the marketplace at a

1 low price, he may go to a converter that happens to
2 buy sheeter rolls, because they tend to be lower-
3 priced. He's cutting them up and selling them at a
4 very low price.

5 It does not happen a lot, but it does
6 happen.

7 COMMISSIONER CASSISE: Do I need a special
8 machine to sheet web rolls? Or is this the same --

9 MR. HUNLEY: No.

10 COMMISSIONER CASSISE: Instead of sticking
11 the sheeter roll onto my machine, I stick a web roll
12 on there, and I get the same end product, the sheeted
13 product?

14 MR. HUNLEY: The roll of paper comes off the
15 paper machine. And you've heard about maybe some
16 coating differences, maybe there's some formulation
17 differences between web and a sheet-type roll.

18 That roll goes onto a sheeter. There's not
19 a web sheeter, there's not a, you know, a sheet-bed
20 sheeter, just a plain sheeter. And it cuts it up into
21 whatever sizes that you need.

22 COMMISSIONER CASSISE: Okay. But could you
23 quantify? I mean, does that happen, what, one percent
24 of the time? Give me a hypothetical on why that would
25 happen. I mean, I'm a paper merchant, and I have web

1 rolls in my inventory, and I have some sheeter rolls
2 that I convert once in a while. But in what
3 circumstance would I sheet a web roll?

4 MR. HUNLEY: When you're looking for, you
5 know, something that doesn't have to have the same
6 quality specs. It's all priced.

7 You know, some data that might shine some
8 light on this would be what are called the job lots
9 that are sold into the industry. A lot of
10 manufacturers, at the end of the year primarily, will
11 have product that's a little, you know, it's a little
12 off-spec. Or they have some excess product at the end
13 of the year that they want to get out of their
14 warehouses. They will sell that product into what are
15 typically called job lotters.

16 These job lotters are not as interested in
17 brand names or handling a consistent grade of paper.
18 They will then sell that paper to the printers that
19 really require low cost. And sometimes these job
20 lotters have sheeters in their operations. And they
21 will cut up a web roll and sell it as sheets.

22 COMMISSIONER CASSISE: Okay. And this would
23 account for what percentage of the total market?

24 MR. HUNLEY: We don't really pay that much
25 attention to it, but I'm saying --

1 COMMISSIONER CASSISE: So it must be pretty
2 small.

3 MR. HUNLEY: It's small.

4 COMMISSIONER CASSISE: Okay. Mr. Hunley,
5 just to follow up a little bit more on that Eagle
6 Ridge. You said you had just two current locations
7 you have in operation. Where are those locations?

8 MR. HUNLEY: We have a location in northern
9 New Jersey, and we have a location in Chicago that
10 opened on October 1.

11 COMMISSIONER CASSISE: And when did you
12 commence this?

13 MR. HUNLEY: Operations commenced October 1.

14 COMMISSIONER CASSISE: And when did you plan
15 on --

16 MR. HUNLEY: It was after we lost the
17 Unisource account and volume. I'd say we actually
18 made the decision to do this some time right towards
19 the end of July.

20 COMMISSIONER CASSISE: Now, I know this is
21 all going to go in the post-conference briefs, but any
22 information regarding the loss of the Unisource
23 business would be helpful. I'm sure you don't want to
24 talk about it right now.

25 MR. HUNLEY: Actually --

1 COMMISSIONER CASSISE: Unless you do.

2 MR. HUNLEY: -- Jeff Hederick is sitting in
3 the room here. He and I know each other well. So,
4 and it's really not that confidential of information.

5 COMMISSIONER CASSISE: Okay.

6 MR. HUNLEY: Unisource occupies a fairly
7 unique position in the U.S. market when it comes to
8 paper distribution. There really are two large
9 nationwide distributors. One is called Xpedx, and
10 it's actually part of International Paper, and the
11 other is Unisource, and they're independent.

12 Over the course of a number of years we
13 worked hard with Unisource to build a program. And I
14 believe at one point in time it was actually the
15 largest private-label coated paper program in the
16 country. That single program accounted for half, in
17 some years more than half, of the volume that we were
18 selling into the United States market.

19 Towards the end of 2008 and early 2009,
20 Unisource and APP got into some disagreements over
21 some commercial terms. And Unisource decided to,
22 decided that NewPage was making a better offer in its
23 totality, and decided to ship that program to NewPage.
24 That decision was officially announced in, I believe
25 it was May of '09.

1 COMMISSIONER CASSISE: Okay. And in your
2 brief, could you tell us what those commercial terms
3 were?

4 MR. HUNLEY: Sure.

5 COMMISSIONER CASSISE: You left out the
6 juiciest part.

7 MR. HUNLEY: You know, you do one of these
8 programs, it's more like a marriage. I'd say no,
9 we're not going to talk about prices or anything. The
10 NewPage guys are here in the room, also, so between
11 us, NewPage, and Unisource, we all know everything.

12 But you know, it's a fairly difficult
13 relationship with a merchant, especially when you have
14 a merchant of that size that's commanding that much or
15 that high a percentage of your actual sales in the
16 market. They were very important to us. We would
17 like to think we were very important to them. The
18 relationship had been going on for four or five years,
19 I believe, maybe even longer. And we jointly created
20 this program. It took a lot of effort, and I'll give
21 Unisource a lot of credit. They're actually an
22 excellent company, and the people there are actually
23 quite superb to work with.

24 But at some point in time, actually over a
25 number of issues, we would get into, you know, various

1 disagreements. They wanted a lower price, we wanted a
2 higher price. We wanted to initiate a price increase
3 immediately, they wanted it initiated two months from
4 now. You know, it was just a this-and-that type of
5 situation.

6 And come, you know, the end of 2008, early
7 2009, we got into a fairly serious issue that resulted
8 in them taking their business to NewPage. And you
9 know, it's our contention that that actually would not
10 have happened if NewPage had not been able to use the
11 black liquor subsidies to actually create a package
12 for NewPage that was comparable to us.

13 So on a competitive basis, we look at this
14 as NewPage taking a customer away from us. And it's a
15 huge blow to the volumes that we sell in the U.S.
16 market.

17 COMMISSIONER CASSISE: So you would say it
18 was based solely on price, then. Or are there more
19 commercial terms that were disagreed upon?

20 MR. HUNLEY: I would say they could not have
21 moved over if there wasn't a price component.

22 COMMISSIONER CASSISE: Okay. If you want to
23 say anything further, any further confessions in the
24 brief will be appreciated.

25 MR. HUNLEY: All right.

1 COMMISSIONER CASSISE: I need to go back to
2 that for a second. I think Petitioners had mentioned
3 18 retail locations, the web site 15.

4 MR. HUNLEY: It's wrong. There are 10
5 locations that we were opening up. And, you know, we
6 can provide that information to you.

7 COMMISSIONER CASSISE: I mean, you have two
8 open now. How long do you get, how long is it going
9 to take to get to 10?

10 MR. HUNLEY: It will probably take another
11 60 days to get to 10.

12 COMMISSIONER CASSISE: Okay.

13 MR. HUNLEY: But that's not really the
14 issue. The issue is how long will it take to build a
15 program that would replace, or come close to
16 replacing, the volume that we lost at Unisource.

17 As I said, the Unisource program took a
18 number of years to build up to high-volume levels.
19 And that, you know, that was Unisource, which is one
20 of the, the premiere distributor in the United States,
21 with hundreds of salespeople out on the streets, with
22 relationships with printers that they have developed
23 over, you know, decades that they have been in
24 business.

25 And for us to try to duplicate that, even

1 though we might like to pound the table and say, you
2 know, we're going to do something, it will literally
3 take years to do.

4 COMMISSIONER CASSISE: Right, I understand
5 that the number of locations doesn't necessarily mean
6 the number of accounts. But just how rapidly you are
7 attempting to expand those accounts I think is
8 material.

9 MR. KLETT: Mr. Cassise, this is Dan Klett.
10 I just want to make sure it's clear, maybe it's self-
11 evident, that Petitioners indicated that Eagle Ridge
12 was a new entity into the U.S. as threat factor. When
13 in fact Eagle Ridge is essentially a response from APP
14 GPS losing its nationwide distribution network to
15 Unisource. So it's not additional distribution, it's
16 distribution to displace what they lost.

17 COMMISSIONER CASSISE: Right. That's clear
18 to me now. I think I asked Unisource whether Eagle
19 Ridge was the reason that they lost the business. Now
20 the chronology is clear.

21 MR. PORTER: I hope the chronology is clear,
22 but I'm sorry, I need to make this point again. The
23 trouble is with the data that you have is limited to
24 the first half of 2009. And the reason that that's
25 important to the very question you're asking now is

1 that you're going to look at data that shows a
2 shipment level in 2009 of APP, which includes
3 Unisource I think all the way through May.

4 And so you'll be saying gee, look at this,
5 and you're analyzing threat. But in fact -- and we'll
6 obviously provide associating briefs -- all of that's
7 gone, or you know, 50 percent of it's gone.

8 And so again, it's this is a real what I
9 call data timing issue that you need to think about.
10 And we'll provide more information in the brief. It's
11 a very important point.

12 COMMISSIONER CASSISE: I don't think I have
13 anything else. That's all I have for right now.
14 Thank you.

15 COMMISSIONER DeFILIPPO: Thank you. Next
16 we'll turn to Ms. Roth-Roffy.

17 COMMISSIONER ROTH-ROFFY: Good afternoon,
18 and thank you for your testimony. Getting right to
19 the like-product issues.

20 On page 16 of your handout they talk about
21 physical characteristics. The key characteristic is
22 coating, not the form, as well as with respect to web
23 rolls and sheets.

24 Now, I've heard a lot of testimony this
25 morning about moisture content, and how porous the

1 paper is. Wouldn't that be considered key
2 characteristics of both forms?

3 MR. HUNLEY: Yes, it would. But the paper,
4 let's say our sheeter rolls, I actually know of a
5 couple cases where our sheeter rolls have actually
6 been run on web presses. Depending upon the age of
7 the web press, they actually performed.

8 So you know, it's not a distinct
9 characteristic. If you were to run a sheeter roll,
10 one of our sheeter rolls on a very new, modern web
11 press, it would more than likely fail. On some of the
12 older web presses that don't run as hot, or that run
13 slower, we have some of our sheeter rolls actually
14 perform on that. We've actually run some tests on
15 that.

16 COMMISSIONER ROTH-ROFFY: So in other words,
17 web rolls are designed to meet the heat requirements
18 of the various web presses, then.

19 MR. HUNLEY: That's correct.

20 COMMISSIONER ROTH-ROFFY: Thank you. But
21 you say a common manufacturing identical manufacturing
22 step, that's one extra step. Now, aren't web rolls a
23 finished product once they're done on their rolls, but
24 sheets basically have to be slit before they can be
25 used?

1 MR. HUNLEY: Web rolls are slit, as well.
2 COMMISSIONER ROTH-ROFFY: When are they
3 slit? Are they after the printing job, or before the
4 printing job?

5 MR. HUNLEY: I'm sorry?

6 COMMISSIONER ROTH-ROFFY: When would web
7 rolls be split, or slit?

8 MR. HUNLEY: Okay, sorry. The process
9 coming off the paper machines, the rolls, there's a
10 jumbo roll that comes off the paper machine. It's
11 slit into smaller rolls, which then are, you know,
12 used for web rolls, or those rolls will go into a
13 sheeter. Okay, so that's the slitting operation I
14 thought you were talking about.

15 The rolls coming off of that rewinding
16 operation essentially go to a sheeter, and then are,
17 you know, cut into sheets of various size. The web
18 rolls will go to a printing operation. They're
19 printed, and then they're cut apart at that point.

20 COMMISSIONER ROTH-ROFFY: At that point,
21 after they've been --

22 MR. HUNLEY: After they've been printed.

23 COMMISSIONER ROTH-ROFFY: -- basically
24 through the printing process, okay.

25 You brought up the dual capability by a

1 number of U.S. printers. Is it, in fact, limited to
2 just a few printers?

3 MR. HUNLEY: In terms of whether they have
4 web --

5 COMMISSIONER ROTH-ROFFY: In terms of having
6 web presses plus the sheet-fed presses.

7 MR. HUNLEY: I would say that most of these
8 smaller printers do use offset sheet-fed press. Some
9 of the really large printers, talk about like
10 Donnelley or some of the guys that are the publisher-
11 type printers, they may have dual capability, because
12 they may need to do a, you know, small-run book cover
13 or something like that. They may also outsource that
14 to somebody.

15 But in general, most printers tend to be web
16 printers, sheet-fed printers. There are a few in the
17 middle, but it's not the majority of printers.

18 COMMISSIONER ROTH-ROFFY: So do you know,
19 for those that have a dual capability, whether or not
20 they use the web rolls, slit them up, and put it in
21 their sheet-fed? Or just sheet-fed goes into their
22 sheet-fed press?

23 MR. HUNLEY: I would say in general, they
24 would use web rolls on their web presses, and sheets
25 in their sheet presses.

1 COMMISSIONER ROTH-ROFFY: Thank you. Okay,
2 moving away from that. This is for Mr. Porter, and
3 Mr. Durling, as well.

4 Assuming the Commission does not expand the
5 like product to include web rolls, would you agree
6 that the like product should be then pre-sheet and
7 pre-sheet rolls, which would be beyond the scope at
8 this point since the scope has changed?

9 MR. PORTER: Yes. I assume we would not say
10 that it's an all-or-nothing proposition, that we are
11 saying that it's either, you know, all rolls or no
12 rolls. But you actually raise a very interesting
13 point about, if you will, the inconsistency and a
14 little bit of hypocrisy of Petitioner's position.

15 I mean, we now, they started out the case
16 saying we are bringing the case, we want the like
17 product to mirror the scope. Well, now, you know, a
18 couple days before the stock conference, they're
19 saying well, now what it should be is the like product
20 should be the scope plus sheeter rolls. So they're
21 already expanding the like product beyond the scope.
22 So this idea that the law requires an absolute mirror
23 all of a sudden, you know, is no longer.

24 So I think, you know, this is why the
25 Commission says there needs to be clear dividing

1 lines. This is an example of that there are not clear
2 dividing lines, and it should be all a single like
3 product, both rolls and sheets.

4 COMMISSIONER ROTH-ROFFY: What is your
5 position with respect to inclusion of converters in
6 the domestic industry? Do you have a position, or
7 agree or disagree?

8 MR. PORTER: Excuse me. I think our
9 position is it probably doesn't matter either way.
10 We'll give you our official position in our brief.
11 But my understanding is that the converters are just
12 not a huge part of the market. So I don't think it's
13 going to make a material difference.

14 COMMISSIONER ROTH-ROFFY: Okay, one last
15 thing. In your post-conference brief, could you
16 address the role of non-subject imports, vis-a-vis
17 Bratsk, since the Petitioners will be addressing that
18 issue, as well?

19 MR. PORTER: You can be assured non-subject
20 imports will be a big part of our post-conference
21 brief.

22 COMMISSIONER ROTH-ROFFY: Thank you. I have
23 no questions.

24 COMMISSIONER DeFILIPPO: Thank you very
25 much. Next we'll turn to Ms. Bryan.

1 COMMISSIONER BRYAN: Thank you, and good
2 afternoon. I don't think there are too many
3 questions. There was one thing I wanted to see if you
4 agreed with, since some of the testimony this morning
5 I believe we said it was about \$7 to \$10 million to
6 invest in a web press, and about \$1 to \$1.5 million
7 for a sheet press. So I want to see if you concur
8 with that.

9 And if you do, I mean, we do agree that it
10 would be kind of challenging for someone with a sheet-
11 fed press to switch to a web press.

12 MR. HUNLEY: I have no reason to disagree
13 with those numbers.

14 COMMISSIONER BRYAN: Okay. Okay, thanks.
15 Okay, this is also more of a statement than a
16 question. I think you mentioned that the second-
17 largest Chinese supplier had lost an account with
18 Xpedx. If possibly also you could include the details
19 of that in your brief. Thanks.

20 MR. DURLING: Sure, happy to.

21 COMMISSIONER BRYAN: Like the date and the
22 duration, and the claim.

23 MR. DURLING: We'll provide as much
24 information as we have.

25 COMMISSIONER BRYAN: Okay, thank you. Also,

1 and I apologize if I missed this, but when did the
2 alternative fuel credit go into effect?

3 MR. DURLING: It's been in effect for a
4 while. As I understand from what I've read in public
5 sources is that it's been there for a number of years.
6 The change was at the beginning of this year,
7 International Paper, the largest U.S. paper company, I
8 guess figured it out. And somehow word got out, and
9 so it spread like wildfire through the industry.

10 If you go on the blog, just google "black
11 liquor," and you'll get all kinds of blogs and
12 newspaper reports, because this has been the big thing
13 in the industry. It's, you know, what's new about
14 2009? Well, 2009 is about how do you basically get
15 big checks from Uncle Sam.

16 I mean, it's kind of ironic that Separis,
17 the owner of NewPage, first they get significant
18 government support on behalf of their Chrysler
19 problem, and then they basically get this huge benefit
20 through this black liquor subsidy. So it is just one
21 of the ironies of the case.

22 But 2009, it starts spreading into, you
23 know, the paper industry, because International Paper
24 figured this out. And yes, it probably will get
25 phased out, because my understanding is the U.S.

1 Government position is that they want to phase this
2 out, because they know that it would be difficult to
3 defend in the WTO. It's a likely and impermissible
4 subsidy under international standards, and it's
5 costing the government lots and lots of money.

6 But for 2009, the first half and second
7 half, it is an important condition for you guys to
8 consider.

9 COMMISSIONER BRYAN: Okay. And what
10 products does it cover? Does it cover this coated
11 groundwood?

12 MR. DURLING: It's basically you earn the
13 credits by producing craft pulp. When you make pulp,
14 you generate waste product that traditionally the
15 industry has, in fact, recycled as an energy source.
16 They basically consume it, and generate energy by
17 doing so.

18 The trick is if you mix in some diesel fuel
19 and do whatever else is necessary to qualify for this
20 alternative fuel tax credit, you basically get to
21 claim it as a tax credit. And then basically you get
22 checks from Uncle Sam.

23 MR. HUNLEY: Let me just add a little bit to
24 that. Groundwood typically would not get that
25 subsidy, because groundwood doesn't produce the black

1 liquor. It's only the craft pulping process.

2 MR. KLETT: This is Dan Klett. The
3 mechanical pulp which goes into coated groundwood
4 doesn't, doesn't qualify for the subsidy. Whereas
5 chemical pulp or craft pulp, as Jim said, that goes
6 into coated free sheet does qualify for the subsidy.

7 COMMISSIONER BRYAN: Okay, I think I
8 understand that. Okay. So it might be the case that
9 we might be seeing, in effect, a downward effect on
10 prices of the scope product, but not in coated
11 groundwood products in the first half or second half.

12 MR. DURLING: I think honestly it's a big,
13 if you remember the slide where we basically showed
14 pulp prices and paper prices, I mean, I think a big
15 part of what's happening in '09 -- in '09 there are
16 two really big things happening, right? Changing
17 demand, and the black liquor subsidy.

18 There is a small thing going on, which is
19 subject imports. And then there are these two huge
20 factors. And our basic point is we just think
21 Petitioners have it backwards. They're basically
22 trying to focus all the attention on the subject
23 imports, because that's what Petitioners do. And
24 we're just emphasizing the need for the Commission to
25 step back and, because you can't make a judgment about

1 what effect, if any, the subject imports are having
2 until you understand the broader context, right? And
3 those are the two key conditions of competition.

4 COMMISSIONER BRYAN: Okay, thank you. One
5 other thing I wanted to touch on because I didn't
6 bring it up this morning, but I wanted to get your
7 take on whether the market is subject to seasonality.

8 MR. HUNLEY: The answer to that question is
9 yes, there is some seasonality. We've seen that
10 seasonality get pretty significantly disrupted in the
11 latter half of 2008 and 2009 because of the downturn.

12 So where typically we would see an increase
13 in, a fairly significant increase in sales in the,
14 call it the spring buying season, okay, that really
15 did not materialize this year. And we're seeing some,
16 we're seeing some recovery literally right now, in the
17 marketplace. And you would typically have a spring
18 and a fall buying season, typically.

19 COMMISSIONER BRYAN: Okay, thank you. And I
20 understand the lead times, we've discussed them, for
21 it. So I'm just wondering, so for like a spring
22 buying season, when would the shipments of imports be
23 coming in for those orders?

24 MR. HUNLEY: For spring you would probably
25 see shipments coming in in January, early February.

1 COMMISSIONER BRYAN: Okay, thank you. With
2 the Eagle Ridge venture, are you expecting that to
3 change the lead time procedures? And how so?

4 MR. HUNLEY: I would say that more than
5 likely, we would still be, we would still use --
6 actually, we want to use multiple levels of
7 distribution. We had Unisource as a national
8 distributor, and then we had a second layer of
9 distributors which were regional in nature.

10 And when we lost that national distributor,
11 which was the bulk of our sales, we tried to find a
12 way to replace that. Like I said, Unisource is
13 unique. The only other national distributor that we
14 could have gone to is Xpedx, which is owned by
15 International Paper. Not a lot of love between
16 International Paper and Asia Pulp and Paper, so more
17 than likely we would not -- and we actually have tried
18 to get them as an account, and to no avail.

19 So we're literally left with no alternative.
20 So Eagle Ridge was that response. Obviously the
21 problem is that it will take a fairly long time to get
22 Eagle Ridge up to any kind of scale.

23 COMMISSIONER BRYAN: Okay, thanks. Just one
24 more question. I just kind of want to ask you your
25 take on the different quality levels of U.S.-sourced

1 product and that from China, that from Indonesia, and
2 from Korea; other non-subject sources.

3 MR. HUNLEY: Paper from different parts of
4 the world, while it is interchangeable, there are
5 differences. Not only between different parts of the
6 world, but between different manufacturers.

7 In general, and I'm stereotyping here, the
8 European papers coming in tend to be, they can have a
9 very nice printing surface, but they tend to be very
10 limp. The domestic manufacturers tend to produce a
11 fairly bulky and stuff sheet of paper, and the Asian
12 manufacturers tend to fit in between those two, more
13 towards the domestic side.

14 In terms of kind of relative levels of
15 quality, you've heard people talk about a number-one,
16 number-two, number-three grade. I agree with the
17 person from Sappi, those are fairly old-fashioned ways
18 of looking at quality. Good, better, best is probably
19 a better way of looking at that.

20 We have always sold product in that lower-
21 quality-level range. And that's where, you know,
22 that's where we compete, and that's where we fit in
23 the U.S. market.

24 COMMISSIONER BRYAN: Okay. Those are all
25 the questions I have. Thanks for your testimony.

1 COMMISSIONER DeFILIPPO: Mr. Honnold, any
2 questions? Mr. McClure?

3 COMMISSIONER McCLURE: First the good news.
4 The Dow went over 10,000 for the first time in a year.
5 Now that everybody is feeling better, just back to the
6 black liquor thing that Nancy Bryan asked. And if
7 both sides could do this.

8 I mean, while we talked a lot and ITT
9 discovered Nirvana at the start of the year, and
10 everybody jumped on it, I'd just like a more precise
11 chronology. And this is for both sides. What statute
12 begat the black liquor subsidy? When did the various
13 firms start receiving those funds? If we could just
14 get it a little more precise, instead of from what
15 I've read or this or that, I would appreciate it.

16 MR. DURLING: It will be easy, Mr. McClure,
17 because in fact, in the various SEC filings, the
18 companies at issue here have been disclosing. Because
19 this is a very big deal in the industry. It's a
20 material fact. And so it's very easy to document.

21 In fact, we gave some excerpts in our
22 presentation. We'll basically collect all of those
23 for you. So we have official filings with the SEC
24 that disclose much of this information. We also have
25 extensive, I guess some discussion of the issue in

1 kind of the investor conference calls, where everyone
2 wants to know. So guys, how much money are you making
3 on the black liquor, and how long is it going to last?
4 So there's lots of public information from credible
5 sources that we'd be happy to provide for you.

6 COMMISSIONER McCLURE: Okay. Well, if both
7 sides can present that in a nice, neat little package
8 that doesn't use too much coated paper, we would
9 appreciate it.

10 That's all I have, other than to thank you
11 folks, as well as the Petitioners, for showing up,
12 giving us lots of great information, and for being
13 patient while we question.

14 COMMISSIONER DeFILIPPO: Thank you. I was
15 sitting here crossing off all my questions that the
16 staff was asking. So I don't, I think I had one that
17 hadn't.

18 In your presentation where you talk about
19 threat of injury and talking about the projections for
20 China and demand growth in China -- and I apologize if
21 that has been said -- my understanding is there is
22 very little exports from China of web rolls. It's
23 huge.

24 But what is the composition of production,
25 do you know, in China? Are they making web rolls in

1 China for the Chinese market? And what is being
2 consumed in the Chinese market? Web rolls and sheets.

3 MR. HUNLEY: I don't have exact numbers at
4 my fingertips, we can get those for you. But in
5 general, China is a sheet market. We do produce web
6 rolls in China for the Chinese market; it's a fairly
7 small amount. Those web rolls in China are actually
8 priced higher than sheets, where here in the United
9 States it's the reverse.

10 COMMISSIONER DeFILIPPO: So in terms of the
11 information that you're presenting in terms of
12 projections or explanations on how demand will grow,
13 or is likely to grow in China, that would be the
14 subject product that we're looking at.

15 MR. DURLING: That's our understanding. I
16 mean, RISI does it, we assume RISI is projecting the
17 entire market. I mean, again, in the real world it's
18 the coated sheet business, it's not kind of rolls
19 versus sheets.

20 But China is now mostly a sheet business,
21 and my guess is RISI is projecting mostly growth on
22 that basis. But the report kind of speaks to itself.
23 Did we attach it to one of the questionnaires? Yes, I
24 think we attached it to one of the questionnaire
25 responses. We'll be happy to provide it again in the

1 brief.

2 COMMISSIONER DeFILIPPO: Okay, thank you.

3 Let me take a quick look. Actually, all my questions
4 have been asked and answered by other staff members.
5 So I very much appreciate all of you appearing today
6 and providing us with a lot of useful information.

7 MR. DURLING: Well, thank you. And we hope
8 the Longhorns lose.

9 (Laughter.)

10 COMMISSIONER DeFILIPPO: Okay. We will then
11 take about a five-minute break so that everyone can
12 get their closing statements in order. So it's a
13 couple minutes before 2:00. About 2:05 we will meet
14 back and start up with closing remarks.

15 Thank you.

16 (Whereupon, a short recess was taken.)

17 COMMISSIONER DeFILIPPO: If everyone can
18 take their seats, we'll resume. And we will start our
19 closing statements with counsel representing
20 Petitioner, Mr. Dorn. Please start when you're ready.
21 Thank you.

22 MR. DORN: I'd like to start with the charge
23 about the NewPage taking the Unisource business from
24 APP. And there's a key fact that wasn't mentioned by
25 Mr. Hunley. And that is that towards the end of 2008,

1 he approached Unisource and said we want to double our
2 output and double our shipments to the United States.
3 We want to add another 100,000 on top of the 100,000
4 we're already shipping. And we'll give you the price
5 to make that happen.

6 And Unisource felt that was an irresponsible
7 thing that would disrupt the market, and didn't want
8 to play with somebody that was that aggressive in the
9 U.S. market, especially at a time when demand was
10 dampening. So I'd just like you all to know about
11 that aspect of that.

12 Now, Mr. Hunley said this is the same case
13 he saw two years ago, no facts have changed. Well, I
14 invite you to look at the trend data from the prior
15 case, and compare that with the trend data that you're
16 going to be collecting in this case.

17 In the past case U.S. production went up
18 over the POI. U.S. capacity utilization went up over
19 the POI. Here, production will be down, and capacity
20 utilization will be down. There, prices went up over
21 the POI. Here you'll see prices going down. There,
22 there was no evidence of price suppression using the
23 Commission's normal methodology. Here you will see
24 evidence of price suppression as gross profit margins
25 go down. There, operating income went up over the

1 POI. Here you'll see operating income plunging in
2 2009.

3 This is a classic case of injury and
4 causation where you had imports going up,
5 underselling, adverse price effects, adverse volume
6 effects, and declining industry performance trends in
7 the face of increasing imports and increasing market
8 share.

9 So what do Respondents do in this case,
10 which they try to do in a lot of cases? They try to
11 change the industry, try to change the scope of the
12 case. So Mr. Hunley says we gerrymandered the scope.

13 Well, we went back and looked at what Mr.
14 Hunley told you back in 2006 about this industry. He
15 said, "web by definition, because it runs so fast
16 across the presses, is subject to a lot of heat in
17 order to make sure the inks set before the product
18 comes off the press. As a result, that web product
19 has a different formulation in that sheet which makes
20 it a very distinct and separate product from your
21 typical sheet-fed press papers."

22 Even today, look at slide 18 of Winston &
23 Strawn's presentation, you'll see there "subject
24 imports do not compete with domestic rolls." And the
25 ITC, in the prior determination, found in fact

1 interchangeability was really at the fringe. It just
2 didn't happen as a practical matter; that rolls and
3 sheets were separate. In fact, that was a major
4 factor in the Commission making a negative
5 determination in that case. Because the earlier case
6 was focused on a scope that included rolls.

7 We learned our lesson. We changed the
8 scope. We are now focusing on the product that's
9 causing the problem, and that's sheets. And when you
10 apply the like-product factor analysis starting with
11 the scope, including only sheets, the answer is pretty
12 obvious that the domestic like product is confined to
13 sheets.

14 And even Mr. Hunley, I mean, in response to
15 the very good questions that were asked by the staff,
16 admitted that there are different physical
17 characteristics and end uses. He said most printers
18 do not have dual capabilities to go with a web or
19 sheet-fed. And he said even for those that do have
20 dual capabilities, they use web rolls on their web
21 presses, and they use sheets on their sheet-fed
22 presses.

23 So this is a very clear case of a bright-
24 line distinction. Applying the six factors, you'll
25 find a domestic like product that includes certain

1 coated paper.

2 Now, turning to decreased demand. They make
3 a big deal out of that. They say that the demand
4 decreased, and they act like we ignored that. Well,
5 we said that one of the conditions of competition in
6 this case is decreasing demand. It's right in our
7 papers. And that factor just makes the U.S. industry
8 more susceptible to injury from increasing imports.

9 What happened in 2009 in this market, when
10 demand plummeted? The Koreans pulled back. Most of
11 the other non-subject imports pulled back. What did
12 China and Indonesia do? They just kept lowering their
13 prices, and kept barreling in and grabbing market
14 share. And those incremental tons hit us at the time
15 when it hurt the most, and that's a classic case of
16 injury as a result of dumped and subsidized imports.
17 The fact that demand is down is no free pass for the
18 Respondents.

19 Black liquor tax, or tax credit. A lot of
20 discussion about that. I'm glad that Mr. McClure
21 asked for some details, which we'll provide in our
22 post-conference brief about the timing and so forth.

23 But just taking their argument that having a
24 \$60-a-ton effect on prices of certain coated paper,
25 well, you heard testimony today from the witnesses.

1 The under-selling is in the range of \$150 a ton to
2 \$240 a ton.

3 Also, APP buys pulp in the United States, so
4 it's an indirect beneficiary. To the extent pulp
5 prices went lower, APP is benefitting from those lower
6 pulp prices.

7 And then the financial data that we provided
8 to the Commission in our questionnaire responses
9 didn't hide this credit. It's right in there in the
10 numbers. And what you'll find out is that, you know,
11 without the tax credit, there would be even more red
12 ink. The tax credit didn't save this industry from
13 injury, it just prevented that injury from not being
14 quite as bad as it otherwise is.

15 Now, with respect to the argument on
16 material injury, they sort of go back and forth,
17 broadening the scope where it helps them, and that's
18 most of the time to try to create a better record for
19 themselves. But if you look at the correct like
20 product, and you look at the material injury data, we
21 think that this is a pretty clear case. You're going
22 to have increasing imports in your records, you're
23 going to have increasing market share. We're pretty
24 confident you're going to have a record showing
25 consistent under-selling. I'm pretty confident you're

1 going to see data that shows that the gross profit
2 margin has been coming down over time, showing price
3 suppression. And you'll also see some price
4 depression in 2009.

5 And they can't get away from the fact that
6 for the first half of 2008 to the first half of 2009,
7 imports were up sharply, and they increased their
8 share of the market very sharply. They came at the
9 worst of all times, when demand was plummeting in the
10 United States.

11 With regard to the threat case, there was a
12 good bit of testimony about growth of demand in China.
13 I don't know what report they're looking at. We're
14 looking at a RISI forecast which says that the growth
15 in supply in China is forecasted to outstrip the
16 growth of demand in China by a significant margin over
17 the next several years. So sure, demand is going up,
18 but capacity is going even faster.

19 Between 2009 and 2013 demand in China is
20 expected to rise six to eight percent annually, while
21 supply will increase by 13 to 14 percent annually.
22 And this translates into excess production capacity of
23 about 2 million metric tons of supply growth over
24 demand growth in that short period of time.

25 So in conclusion, this is a case where

1 imports have grown as demand declines, seizing market
2 share from the domestic industry. Price under-selling
3 has been sustained and severe. Domestic producers
4 have lost shipments, cut prices, and sacrificed market
5 share. Plants have shut down, jobs have been lost,
6 and equipment has been idled. Profits and capital
7 expenditures have suffered, and more injury is
8 threatened if relief is not provided.

9 So we request an affirmative preliminary
10 determination in all four investigations. Thank you.

11 COMMISSIONER DeFILIPPO: Thank you very
12 much, Mr. Dorn.

13 We will now turn to closing remarks for
14 Respondents. Will you do that, Mr. Porter? Okay.
15 Please proceed when you're ready, thank you.

16 MR. PORTER: Thank you. My name is Dan
17 Porter with Winston & Strawn. It's been a long day; I
18 will try to be very brief.

19 Just a couple points in rebuttal. First,
20 with respect to like product. I thought it was very
21 telling when Mr. Cassise asked a very direct question:
22 what is different now than from before. And Mr.
23 Dorn's response was to cite the legislative history.
24 And that is clear indication that factually, there is
25 no difference. And Mr. Dorn was citing testimony from

1 the last case. Believe me, our brief will contain
2 lots of testimony from their witnesses that the
3 interface should be viewed as rolls and sheets
4 together.

5 Just a couple things, another thing on like
6 product. If you excuse me, I'll just do a little bit
7 of legal; I am a lawyer. If you go back and look at
8 the Commission precedents, they have been addressed
9 with this very instance before, where the Petitioners
10 came in a few years back, and then they argued a
11 particular like product. And the Commission said yes,
12 we think it's, you know, we actually think it's this
13 expanded like product. And then they made some
14 determination that the Commission didn't like.

15 The Commission came back a few years later
16 and argued for, and said the scope is only here. And
17 the Commission was very quick to say listen, we
18 understand that you changed the scope. But our job is
19 to look at the factors and see whether factually
20 anything is different.

21 And when they found that factually nothing
22 was different, they had the same like product. And
23 I'm talking about the Tomatoes case. Please go look
24 at the Tomatoes case, where this exact situation
25 happened, and notwithstanding that Petitioner changed

1 the scope, the Commission still said it's the broader
2 like product that's the relevant like product.

3 The other -- and again, one more legal point
4 on like product. This is not the first case that the
5 Commission has looked at paper. There actually have
6 been quite a few paper cases before the Commission.
7 And if you look at them, every single time they've had
8 this issue, they've done rolls or the equivalent
9 entries together. They've never found that slitting
10 into sheets is enough to do separate like products,
11 because they recognize that you're looking at an
12 industry, and the production equipment really is the
13 same to get it to where the customer can use it.

14 Yes, Mr. Dorn, his sole thing is
15 interchangeability. Well, you have that in all the
16 cases, that certain products are not interchangeable.
17 Their distinct segments doesn't mean it qualifies as a
18 separate like product. That's on like product.

19 With respect to non-subject imports, I found
20 it very interesting that their, I think it's slide 14,
21 Mr. Stewart made a big point that subject imports were
22 increasing the sphere of total imports.

23 Now, with all due respect, that's a fact
24 that favors us, not them. Why is that? Because it
25 shows, just as we said, subject imports were simply

1 replacing Korean imports, or excuse me, imports from
2 Korea, okay. So there's really not much effect on the
3 U.S. market with respect to volume. These are not,
4 the increase in subject imports did not take away
5 sales from domestic; they were simply replacing the
6 Korean.

7 Finally, I want to note some testimony from
8 the industry witnesses talked about injuries in 2005.
9 And to me, that's again an example they're still
10 fighting the last case. They're upset that they lost
11 the last case, and they're coming back and trying the
12 same thing again.

13 As you know, individually in 2005, it's
14 before your period, and really cannot be attributed to
15 any current injury from current subject, subject
16 imports.

17 And with that, I thank you, and I hope you
18 read our brief. Thank you.

19 COMMISSIONER DeFILIPPO: Thank you very
20 much, Mr. Durling. On behalf of the staff, I would
21 like to thank the witnesses who came here today, as
22 well as counsel, for helping us get a better
23 understanding of this product and its conditions of
24 competition in this industry.

25 Before concluding, I'd like to mention a few

1 dates to keep in mind. The deadline for submissions
2 of corrections to the transcript and for submissions
3 of briefs in these investigations is Monday, October
4 19. If briefs contain business proprietary
5 information, a public version is due on October 20.

6 The Commission has tentatively scheduled its
7 vote on the investigation for November 6, and it will
8 report its determinations to the Secretary of Commerce
9 on November 29. Oops, typo. Commissioners' opinions
10 will be transmitted to Commerce on November 17.

11 Thank you very much for coming, and this
12 conference is adjourned.

13 (Whereupon, at 2:21 p.m., the hearing in the
14 above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Coated Paper Suited for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia

INVESTIGATION NO.: 701-TA-470-471, 731-TA-1169-1170
(preliminary)

HEARING DATE: October 14, 2009

LOCATION: Washington, DC

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 10/14/09

SIGNED: LaShonne Robinsone
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

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