IN THE MATTER OF: ) Nos. 701-TA-451 and
CERTAIN LIGHTWEIGHT ) 731-TA-1126-1128
THERMAL PAPER FROM CHINA, ) (Preliminary)
GERMANY AND KOREA )

REVISED AND CORRECTED COPY

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The preliminary conference commenced, pursuant to notice, at 9:30 a.m., before the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, Presiding.

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MR. CARPENTER: Good morning, and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty and antidumping, Investigation No. 701-TA-451 and 731-TA-1126 to 1128, concerning imports of certain lightweight thermal paper from China, Germany and Korea.

My name is Robert Carpenter. I'm the Commission's Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are from my far right, Diane Mazur, the supervisory investigator; Chris Cassise, the investigator. On my left, Marc Bernstein, the attorney/advisor; Nancy Bryan, the economist; Mary Klir, the auditor; and Fred Forstall, the industry analyst.

I understand the parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphone. We also ask you state your name and affiliation for the recording before beginning your presentation.

Are there any questions?
MR. CARPENTER: If not, welcome, Mr. Dorn. Please proceed with your opening statement.

MR. DORN: Thank you. Good morning. This case is about the damage that unfairly traded imports have inflicted on the domestic industry producing lightweight thermal paper. The petition alleges dumping margins of 65 to 75 percent for Germany, 66 percent for Korea and 104 percent for China.

The petition also alleges over 20 Chinese government subsidy programs that are benefitting the Chinese industry. The defining characteristic of thermal paper is its creation of an image when exposed to heat. The article study to investigation is thermal paper having a basis weight of no more than 70 grams per square meter, which we will refer to as lightweight thermal paper or LWTP.

The domestic like product is coextensive with the scope of the investigations. Substantially all LWTP is used in point of sale applications such as ATM receipts. It generally has a weight of around 55 grams per square meter or less. Heavy thermal paper generally has a weight of 80 grams or more. Due to its thickness and high value added features, heavy thermal paper is not interchangeable.
with or commercial substitutable with LWTP in most applications. Among other things, it is not used in the same printers in which LWTP is used. Several conditions of competition are particularly worth noting.

First, LWTP is a commodity-type product. Competing suppliers offer products with essentially the same specifications to serve the same printers. Purchasing decisions are made largely on the basis of price. Second, U.S. consumption of LWTP has increased substantially during the period of investigation. Thermal printers have increasingly replaced older technology thermal transfer ribbons and carbon paper to document transactions at the point of sale.

Third, China, Germany and Korea account for virtually all U.S. imports of LWTP. Fourth, the value of the dollar has depreciated in relation to the currencies in the subject countries. Given these last three conditions of competition U.S. producers of jumbo rolls should have received higher prices in 2006 and the first half of 2007.

Instead, they lost market share to subject imports and suffered declining prices in the face of increasing raw material costs and increasing energy costs. A quick summary of the statutory factors

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demonstrates that this industry is materially injured by reason of unfairly traded imports.

First, the volume of the subject imports is highly significant in relation to U.S. consumption and U.S. production. Imports increased about 60 percent from 2004 to 2006 and at least another 10 percent in the first half of 2007. They also increased relative to U.S. consumption and U.S. production. Second, subject imports have adversely affected U.S. prices for the domestic like product.

Appleton has documented numerous instances where it has had to lower its prices in response to lower prices of jumbo rolls from Germany and Korea and other instances where it has lost sales to lower priced imports. Imports of slit rolls from China have undersold not only U.S. prices for domestic slit rolls, but also U.S. prices for domestic jumbo rolls.

U.S. importers have used the lower prices to increase their share of the growing U.S. market. In addition, Appleton has had to refrain from raising its prices to cover its increasing cost of production in order to avoid losing even more sales to subject imports.

The prices of subject imports have declined at the very time that raw material costs and energy
costs have increased for U.S. producers. Third, the subject imports have had an adverse impact on the domestic industry. Domestic output and sales of jumbo rolls have not kept pace with the increase in U.S. consumption.

Domestic market share has fallen, and all of that lost market share has gone to subject imports since there are no nonsubject imports. Finally, subject imports are adversely affecting Appleton's revenues, prices and profits. The threat case is equally strong. Subject imports are rapidly increasing, both absolutely and relative to U.S. consumption and U.S. production.

Capacity in the subject countries far exceeds U.S. capacity. The Chinese producers are subsidized by their government, including export subsidies. Increasing imports of slit rolls from China will decrease demand for U.S. jumbo rolls.

Starting from an already large share of the U.S. market, subject imports are certain to continue to depress prices and to adversely affect U.S. output and U.S. profits at the very time that Appleton's $100 million expansion project comes onstream in 2008. In sum, the Commission should reach an affirmative preliminary determination of material injury or threat.
of material injury with respect to all three subject
countries.

We appreciate the attention the staff has
given to this case and look forward to working with
you to complete the record. Thank you.

MR. CARPENTER: Thank you, Mr. Dorn.

Mr. Silverman?

MR. SILVERMAN: Thank you, Mr. Chairman.

I've practiced before the Commission for many years,
many different products, many different cases, but
I've got to tell you, this is one of the oddest. This
is one of the oddest, and frankly, to my mind it
smells. It smells for a number of reasons. I hope
the Commission will take the time to look into it.

1) Appleton complains about imports of a
downstream product that it doesn't make but then
insists that the U.S. manufacturers of the downstream
product should be excluded from the domestic industry.

Now, except for Ag products where there is a
specific statutory provision I know of no other
situations where the Commission has analyzed a case in
which the product scope included both upstream and
downstream products and then ruled that the domestic
industry consisted only of the producers of the
upstream product. That's the clever legal strategy of
2) Everybody in this room knows that this product scope was gerrymandered to exclude profitable sales of certain thermal paper even though it was produced by the same workers on the same equipment that they're making lightweight thermal paper.

3) Appleton may claim lost sales and underutilized capacity, but at the same time it's putting customers on allocation, you'll hear testimony to that, it refuses new customers, you'll hear testimony to that, and most important, at the same time its claiming lost sales and underutilization it seeks to import this product from Europe.

You heard me right. At the same time, they're complaining to the Commission about increasing imports, the old template of all those statutory words, at the same time they're complaining about that they're going to Europe asking to import because they can't meet their customers' needs. That's for 2006 and 2007.

4) The Petitioner may tell the Commission that it is materially injured, but at the same time they're announcing a $100 million investment in new capacity. You don't do that overnight. You do that with serious analysis of rate of return, you have to
get financing. It's a fairly complicated long-term investment process.

Now, if they're operating below capacity, why are they adding capacity? If they are materially injured or threatened material injury, how do they embark on a $100 million investment? Now, if Appleton tries to cover its tracks by claiming that the investment depends on, you guessed it, an affirmative determination by the Commission, I'm sure you've heard that one before, ask yourself what U.S. company would ever make a major investment contingent upon an ITC vote?

Can you imagine telling that to an investment banker, or lender, or shareholders? It's just not credible. Let's face it. If they thought it was really predicated on the ITC vote then they could supply the Commission with their business plan, their financial analysis and other sophisticated projections that they must have had before they decided to embark on a $100 million investment.

5) The data on the record, the data on the record disprove any causal link. Appleton's own data disproves any causal link. I note, for example, and very important here because this is a little unusual in cases, Koehler, which is the major import source,
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has raised its prices during the period of investigation including the interim period.

So those are five reasons why I think the Commission can see why this case is funny. The Department of Commerce also thought so, and as you know, they have not initiated.

Now, I know this is only a preliminary investigation, Mr. Chairman, and I know that petitioners get favored treatment under the law, but every once in a while a petition is so suspect, so inconsistent, so misleading and so wrong that the Commission should look closely at the evidence in the record.

If the Commission does this it should reject the Petitioners' clever legal strategy and issue a negative determination. Thank you.

MR. CARPENTER: Thank you, Mr. Silverman.

Mr. Dorn, at this time if you would bring your panel forward, please?

MR. SCHONFELD: Good morning. My name is Walter Schonfeld, and I'm the President of the Technical Papers Division at Appleton. Appleton Papers is headquartered in Appleton, Wisconsin, and we have been making paper products there and at other locations for over 100 years.
We became a 100 percent employee owned company in 2001 and we've maintained a strong commitment to our more than 3,000 employees to continue to produce paper in the United States. We're a world leader in coated paper products, and we derive from 25 to 30 percent of our revenues from international sales.

Our specialty has always been coated paper. In 1953, Appleton began working with the National Cash Register Company, NCR as you probably know them, to develop carbonless paper. That is the type of coated paper you would see in multicopy forms where what you write on the top form is imprinted on the copies below without the use of carbon paper.

In the late 1960s Appleton and NCR developed and introduced thermal paper including the lightweight thermal paper that is the subject of these investigations. We also produce security papers, which are papers with basic security features that make them resistant to forgery and counterfeiting.

Along with our Appleton plant at which we coat our carbonless and thermal paper we have a pulp and paper mill in Roaring Spring, Pennsylvania, and another paper mill in West Carrollton, Ohio. These facilities are all part of Appleton's Technical Papers

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Division, which accounted for more than four-fifths of the sales of the company last year.

The company also has some other units that are not part of our paper making operations. Let me take a second and explain what paper making is and what thermal paper is and how it's made. We have brought samples and will pass these out during the presentation, but up on the screen you'll note some visual images of what thermal paper is. I apologize for the ergonomics here of course.

We've all seen this kind of paper before. Whenever you get a cash register receipt or for the heavier weight thermal papers whenever you buy a theater ticket, lottery ticket, airline ticket or other variety of applications where it's printed on a heaver paper. It may look like regular paper, but it's actually not.

A cross-section of thermal paper is displayed here on Slide 3. The paper is coated with chemicals that react to form images when exposed to heat. If you were to place this piece of paper in the oven and turn it up to 300 degrees the coated side would turn totally black.

As shown on the next slide, thermal printers have a roll of tiny heating elements lying side by side.
side across the width of where the paper passes through. The computer chip in the printer instructs each element to quickly heat up and cool down as the paper passes through creating a colored microdot on the paper.

The arrangement of microdots on the paper creates the words or any other image that one wants. That's how you get your cash register receipt. I understand that a few years ago the Commission conducted an investigation of thermal transfer ribbons.

For that technology the printer elements instead of directly heating the paper heated the thermal transfer ribbon and the ink was transferred onto the paper as it passed underneath the ribbon. Thermal paper does not use ribbons and is a totally different technology. A retail store only needs to make a quick change of a roll of paper without having to deal with the additional consumable of the ribbon.

As a result, thermal paper is steadily replacing thermal transfer ribbons as we do not see anyone going back to ribbon once they start using thermal paper. Making thermal paper is definitely more complicated than making thermal transfer ribbon.

As I understand it, making a jumbo roll of thermal
transfer ribbon basically consists of inking rolls of plastic that the producers buy from someone else.

Here, we need to turn trees into thermal paper. There are three basic stages to the production of lightweight thermal paper. First is the production of the base paper, second is the coating of the base paper and third is the converting and packaging for the end user. Production of the base paper begins with harvesting of trees and turning them into pulp at paper mills like the ones at our Roaring Spring facility pictured in the image on the screen.

Our West Carrollton mill from which the Appleton plant gets a good portion of its base paper does not produce its own pulp but buys it and mixes it with waste paper and various chemicals to create paper. This mixture, which is shown on the screen, is sent through the paper making lines at the desired thickness producing a very wet paper that must be dried and rolled through a massive series of ovens and rollers.

Throughout the process the characteristics of the paper are monitored so that at the end the paper with the desired thickness or basis weight is rolled up by the winders. The finished rolls of base paper are then shipped to our Appleton plant along
with rolls of base paper that we purchase from other sources. The base paper in rolls looks like what you see up on the screen.

Today, the coating stage takes place at our Appleton plant where the rolls of paper are unwound and fed through the coating machines. An example of one of those coating machines is up on the screen. The coatings are typically blended in-house from solid and liquid raw materials. The paper is coated from vats of the coating chemicals, and the desired thickness of the coating is set by calibrating a device right after it is coated.

The liquid coating is then dried on the paper, and the paper passes through a series of drying ovens to also provide firmness to the paper. Then, the paper may be rolled again or calendared to achieve a uniform thickness. Steam is applied to the paper which helps prevent curling, and it is then rewound as jumbo rolls of thermal paper.

An example of that process is up on the screen. These rolls may be slit to the jumbo roll width desired by our customer who is a converter. The final process at the converter is less complicated. There, the jumbo rolls are unwound on a slitter which cuts the rolls to the desired width and length.

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The paper is rolled onto plastic spools and boxed. A portion, we estimate about 35 percent, is printed either by the converter or by an outside party before being rolled up into the converted roll. That is the entirety of the converting process.

No chemistry is involved, and the technology and technical expertise are negligible in relation to the making of base paper in the application of the thermal coating. As Karen Hatfield will discuss in more detail there are different types of thermal paper which are distinct in terms of their physical characteristics, distribution channels, customers and consequent end uses.

Although our sales of high value thermal paper, like those for the entertainment and label businesses, are more profitable we need to stay in the point of sale business. It is the largest single segment for thermal paper, and we achieve economies of scale by continuing to serve it.

It is also a stepping stone into the high value added market, and we need to defend our other markets. That is why we have lowered our prices in response to lower prices by our foreign competitors instead of just losing even more sales than we already have.
Appleton is not just defending its market for lightweight thermal paper, we are actively investing and making sure we stay competitive for the product. Last January we announced a $100 million project to install a state of the art coater at our West Carrollton mill.

This coater will shift a significant portion of our thermal paper production capability to our West Carrollton mill, and we plan to have this mill concentrate on lightweight thermal paper. Construction has begun, and it is scheduled for completion in August of 2008.

But the competitive situation has changed since we evaluated this investment in late 2006. Increased dumping and subsidies have depressed prices to a significant degree. The price levels that indicated we could achieve a reasonable return on this investment have eroded further in 2007 due to unfair low prices of jumbo rolls from Germany and Korea and slit rolls from China.

The price erosion has occurred notwithstanding increased costs of raw material and energy and changes in foreign exchange rates. I see no explanation other than dumping and government subsidies from our foreign competitors offering the

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ability to give them the chance to lower prices continuously in the United States when production costs are increasing and the value of the dollar is declining.

There are also significant ocean freight costs to get the product here, but that doesn't seem to matter either. The worldwide price for our main product input, pulp, which is essentially the same worldwide, has continued to increase as this slide shows. If you take a look at the slide you'll see that pulp prices are up about seven percent year to date and they're up over 30 percent in the last three years. Pretty significant rise in costs.

Energy prices have also continued to increase. Our mills and all paper mills consume considerable quantities of electricity for drying ovens and other equipment and our costs have gone up as the slide on the screen shows. At the same time that all this has been going on the value of the Euro has continued to appreciate against the dollar which means that our European competitors should not be able to lower their price, including Germany.

If you reference the slide above you'll see that the Euro has actually appreciated against the dollar by 12 percent in the last 12 months. The Heritage Reporting Corporation (202) 628-4888
Korean Won has also appreciated which should mean that our Korean competitors are less competitive. Even the Chinese Won has increased in value to the dollar, and yet imports from these countries continue to arrive at continuing lower prices despite higher cost of inputs and the devaluation of the dollar.

The only answer I can come up with is that they have increased their level of dumping and subsidization. The Commission can help to reverse that trend by voting affirmatively on injury from all three countries. On behalf of Appleton's nearly 3,200 owner employees we respectfully request that the Commission allow these investigations to continue.

MS. HATFIELD: Good morning. My name is Karen Hatfield, I'm the Segment Director for Transaction Documents in the Technical Papers Division of Appleton. Within Appleton's segment for thermal paper I am responsible for the lightweight thermal paper that is the subject of these investigations. As Mr. Schonfeld explained, Appleton is strictly a producer of what we refer to as jumbo rolls of thermal paper.

All jumbo rolls are made to be converted into slit rolls of a suitable width and length for use in printers. We do not do the conversion ourselves.
That is, we do not slit and package jumbo rolls down to the size needed for use in cash registers and other printing devices, about this size, as opposed to the jumbo rolls that you saw earlier on the screen.

The key feature of thermal paper is that it reacts to form images when exposed to heat. Aside from the slitting and packaging and occasionally printing done by the converter there are no physical differences between jumbo rolls and converted rolls. The conversion process produces no chemical change in the paper itself.

As Mr. Schonfeld explained, the production of jumbo rolls is a multistep process of base paper making and coating. The application of the thermal coating is the critical step that results in thermal paper. That is the step that incorporates the technology and technical expertise that distinguishes thermal paper from all other papers.

In contrast, the process for conversion generally consists of unwinding the jumbo rolls, slitting and rewinding the converted rolls and packaging. Thus, the process of slitting and packaging thermal paper is not nearly as complex as the production of the jumbo rolls.

In fact, we estimate that the conversion
process without printing comprises approximately 10 percent of the total cost of production of the finished product excluding the converter's profit and prepaid freight to the end user. With printing the conversion process comprises about 15 percent of the total cost of production.

We estimate that about 35 percent of the converted rolls contain printing. I understand that one issue the Commission must address is whether any products other than lightweight thermal paper are like the imports subject to investigation. As defined in the scope of the investigation, lightweight thermal paper has a basis weight of 70 grams per square meter or less.

This is a key distinguishing physical characteristic of lightweight thermal paper which both defines and limits the uses for lightweight thermal paper. It is not like heavier types of thermal paper, which we refer to as high value added thermal paper. Lightweight thermal paper is a thinner product which is weaker and less durable than heavier papers.

These product characteristics are suitable for the primary use of lightweight thermal paper and point of sale products such as retail store receipts. In the samples that you'll see and what you see

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projected on the screen as well we show some examples of lightweight thermal paper products including gas station receipts and restaurant receipts.

These products are designed for use in point of sale terminal devices, which you can see above as well. Heavy and thermal papers would not function properly or at all in some cases with point of sale printers.

Heavier thermal paper is most frequently used for label products as you can see on the screen here as well such as shipping labels, and deli labels, and also ticket products, entertainment tickets and the like, lottery tickets, boarding passes and baggage tags, as well as medical charts. Some of these examples you've just seen on the screen here and are included in the samples that we've provided to you.

These other types of products normally require greater strength, environmental resistance and durability than lightweight thermal paper. We consider these heavier, high value added products to be in a separate product category than lightweight thermal paper which is essentially a commodity type product.

Lightweight thermal paper coatings typically retain images for less time than the coatings of
heavier thermal papers. Most point of sale receipts do not require high quality images for bar code reading and other purposes and are not retained for long periods of time.

In contrast, even ticket products, like baggage tags and lottery tickets, which have a relatively short lifespan, must have high quality images with specialty light protection that will resist them to fading, weather and more variable heat conditions so that your winning lottery ticket doesn't fade before you have a chance to redeem it.

These special characteristics typically cannot be obtained with lightweight thermal paper. In addition, lightweight thermal paper does not have adhesive backings. Thermal paper that is used for labels ultimately have an adhesive backing added to them as shown in the samples on the screen.

Given its different physical characteristics lightweight thermal paper is generally not interchangeable with other types of thermal papers. Point of sale terminal receipt printing stations are designed for the thinner basis weights of lightweight thermal paper and will not function properly with heavier basis weight thermal paper.

Therefore, they are carefully monitored for
caliper or thickness due to the sensitivity of the printers and their cutting mechanisms. Because they do not have adhesive backings converted rolls of lightweight thermal paper are not interchangeable with converted rolls of thermal paper that ultimately have an adhesive backing and are suitable for labels and similar products.

Given their distinctive uses the converters, distributors and resellers of lightweight thermal paper point of sale products generally do not overlap with the converters, distributors and resellers of heavy thermal papers. In addition, customers and producers perceive lightweight thermal paper and other types of thermal paper to be different products.

The end users are very different. Lightweight thermal paper is sold primarily to retail businesses. Other types of thermal paper are sold for the most part to businesses in the distribution, transportation, entertainment and gaming industries. Producers recognize that these are different customers seeking different product attributes such as scuff or UV resistance for labels.

For example, in a shipping label similar to what you see there the bar code scanability is extremely important because that's how they track the
package as it's in transit. If boxes are rubbing against each other in transit and without that scuff resistance it would distort the bar code and made it very difficult for them to ultimately track that, so that's why the scuff resistance and other features are so important.

Although lightweight thermal paper shares certain manufacturing facilities, production processes and production employees with other types of thermal paper, Appleton has some coating equipment that is dedicated to lightweight thermal paper that cannot be used to make heavier weight thermal paper.

The paper making and coating processes are typically different for lightweight thermal paper and other types of thermal papers because of the difference in basis weight and types of coatings. Finally, lightweight thermal paper is less expensive per square foot than other types of thermal paper. This is because its lower basis weight requires less paper per square foot.

It also uses less complex chemistries needed to provide the value added attributes of heavier paper such as higher quality image, greatest strength, environmental resistance and higher durability. In addition, although most heavy thermal papers have a
topcoat over the thermal coating substantially all lightweight thermal paper is not top coated.

In conclusion, with respect to the like product issue lightweight thermal paper is a distinct product category that is not like other thermal papers in terms of physical characteristics, use, customer and producer perceptions and price. The U.S. market for lightweight thermal paper has been strong and growing since 2004 as we will discuss in detail in our postconference brief.

Appleton, however, has not benefitted from the expansion of the lightweight thermal paper market. The reason is that imports have been increasing dramatically taking market share and driving down prices. The foreign thermal paper producers have concentrated on the lightweight thermal paper market.

As a result, although we continue to have some operating profits in the overall thermal paper reporting segment of our business we are not profitable in lightweight thermal paper. This is made clear in our confidential questionnaire response. The increasing imports have all been from Germany, Korea and China.

As you know, thermal paper is imported under basket categories of the U.S. Harmonized Tariff

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Schedule. The official import statistics are of no help in determining import levels for thermal paper. There is no trade association or other source that normally collects information on thermal paper shipments at the level of detail that we need.

Necessity drove Appleton to develop an internal system for tracking our competition, which we call our grass roots system. Although the details are confidential, grass roots is both a top down and bottom up approach combining data from a number of sources to calculate shipments from each thermal paper producer in the world, and there are not that many, to the markets that Appleton serves.

We believe the results to be very accurate, particularly for the imported products. Using grass roots, Appleton is able to estimate imports of lightweight thermal paper by country. Our import estimates are in Exhibit 8 of the petition. As indicated on that exhibit virtually all U.S. imports of jumbo rolls come from Germany and Korea, and virtually all U.S. imports of slit rolls come from China.

We have seen a consistent presence of imports of jumbo rolls from Korea in the market. We have seen imports of jumbo rolls from Germany
steadily since 2004. The trickle of imports of 
converted rolls from China that we saw in 2005 turned 
into a steady stream in 2006 and has become a deluge 
this year.

On an aggregate basis imports from Germany, 
Korea and China have increased about 60 percent from 
2004 to 2006 and continue to increase in 2007. In 
addition, as shown in Exhibit 9 of our petition their 
share of the U.S. market has also grown significantly 
since 2004.

The imports from these countries are not of 
all types of thermal paper. Instead, they have 
targeted the lightweight thermal paper that is mostly 
used in point of sale applications. The imports from 
Germany and Korea are all jumbo rolls. The imports 
from China are virtually all converted rolls. By 
focusing on price sensitive lightweight thermal paper 
rather than heavy, value added thermal paper the 
exporters and importers have been able to use their 
unfairly low prices to penetrate the U.S. market. 

Unlike heavy, high value added thermal 
paper, lightweight thermal paper is essentially a 
commodity product. Although the formulas for the 
coatings are relatively complex and require 
considerable expertise to make and the paper making
and coating processes also require substantial know
how and capital expenditures, the end product of all
suppliers of lightweight thermal paper must be used in
the same thermal printers and must have essentially
the same specifications.

A thermal printer manufacturer may certify a
thermal paper producer's product for its printer, but
once a company's thermal paper has been certified or
it's been used successfully it will compete with other
companies' thermal paper largely on the basis of
price. The most commonly used lightweight thermal
paper product in the United States is a 55 gram per
square meter thermal paper.

This weight of paper delivers a caliper of
thickness and stiffness that works well in a wide
variety of receipt printers. Let's compare the
specifications for our bread and butter lightweight
thermal paper, which we call Alpha 400 2.3, which is
shown on the left side of the screen there, with
Mitsubishi's bread and butter lightweight thermal
paper, which it calls F5041, which is on the right
side of the screen.

I realize it's difficult to see and you have
copies of that as well, but the specifications are
here. They both have the same basis weight, about 55
grams per square meter with some tolerances, they have
the same thickness or caliper, again, with some
tolerances, and the other specifications are fairly
close to the extent that most purchasers do not care
about the differences.

Both our Alpha 400 2.3 and Mitsubishi's
F5041 or for that matter Koehler's KT55F20, Hansol's
HSK55, Kanzaki's P300 or Guan House Product will work
just fine in the thermal printers designed to take 55
gram per square meter thermal paper. There is no
reason on the basis of the specifications to choose
one over another.

Therefore, it does not take a large price
difference to prompt a converter to choose one
manufacturer over another. In short, domestically
produced lightweight thermal paper and imported
lightweight thermal paper from Germany, Korea and
China are highly interchangeable and are sold largely
on the basis of price.

Imports from these countries are not gaining
market share based on better quality or more desirable
features. They are gaining market share for one
reason only: they are lower priced than our products.
As we discussed in the petition, imports of jumbo
rolls from Germany and Korea are underselling our

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products by a meaningful amount.

Imports of converted slit rolls from China are underselling domestic prices for jumbo rolls. The impact of the lower priced imports is immediate. The industry does not have a tradition of using long-term or even short-term contracts between purchasers and suppliers. Instead, we typically agree with a converter to sell jumbo rolls at a certain price, and on that basis it will agree to buy from us at that price without necessarily specifying quantities.

But when a converter like Koehler or Hansol's offer the lower price the converter will come back to us and tell us about the competing price. We then have to decide how much lower we have to go to induce the converter to continue to buy from us. Our converter customers are losing sales to these massive increase in imports from China at prices else than the cost of jumbo rolls that our converters buy from us.

When our customers are threatened with a loss of sales to Chinese imports they basically have two choices. They either pressure us to reduce our prices to help make them competitive or they purchase and resell the slit rolls from China instead of doing the conversion themselves. Whether our customers lose sales to slit rolls or choose to buy and resell slit

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rolls, they buy fewer jumbo rolls from us, substantially reducing our level of domestic shipments.

As you will see from our questionnaire response, Appleton has been able to document many instances where we have lost sales to unfairly priced imports. We have also been able to document many instances where we had to lower our prices to avoid losing a sale. These examples of lost sales and lost revenues are merely the tip of the iceberg. As you can see from the petition, the dumped and subsidized imports have a very large share of the US market, and they are rapidly increasing.

The addition of such large quantities of imports to the market necessarily causes prices to be much lower than they otherwise would be. In other words, absent the dumping and subsidies, Appleton would be achieving higher prices and reasonable profits. The adverse impact of the unfairly priced imports has accelerated in 2007, at the very time we are executing the $100 million investment that Mr. Schonfeld described.

Imports of low-priced Chinese converted rolls have surged in late 2006 and 2007, and have placed increasing price pressure on the converters.
Appleton is facing increasing price pressure from our customers in order to maintain our sales. In addition, as Mr. Schonfeld explained, we have been experiencing generally increasing raw material and energy costs in the last several years.

We have been unable to pass along these increasing costs in the prices of finished products. Instead, we have been forced by unfair competition to reduce our unit prices for lightweight thermal paper. At the same time as we have seen increasing raw material costs, the US dollar has also depreciated against the currencies of Germany, Korea, and to a lesser extent, even China.

Despite the currency declines that Mr. Schonfeld has discussed, our foreign competitors have continued to drop price in US dollar terms. These market dynamics would not be possible without the unfair subsidies and dumping practices that we have explained in our petition. The effect of this unfair import competition has been apparent, both in our prices and in our bottom line.

As Mr. Schonfeld has discussed, Appleton has undertaken a major investment in the growing thermal paper business to take advantage of the opportunities in the market. To succeed, the investment requires a
fair and unsubsidized marketplace. We can compete
with anyone in the world if the playing field is
level. It is not. We need the imposition of duties
to stop the price erosion that we have been
experiencing.

Appleton therefore respectfully requests
that the Commission make an affirmative preliminary
injury determination. Thank you.

MR. SITTER: Good morning. My name is Mike
Sitter. I'm a coater operator on the No. 14 coater at
Appleton. I'm also the Vice President of the United
Steelworkers Local 2-246, which represents the 682
union members of our Appleton plant. United
Steelworkers has over 1,400 members who work for the
Technical Papers Division of Appleton. USW Local 708
has 115 members who work at the Ware, Massachusetts
facility of Kanzaki Specialty Papers, which makes
lightweight thermal paper.

The USW has nearly 275,000 workers in the
paper and forestry industries. The USW and its
workers strongly support these petitions that Appleton
has filed against imports of lightweight thermal paper
from China, Germany and Korea. Appleton has a long
history in our communities and has employed
generations of workers. There is a tendency when

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coming to work at Appleton to stay for a long time. For example, the average length of employment at the Appleton plant is 21 years, and this is important. The process of producing thermal paper that you saw in Mr. Schonfeld's presentation takes skill and experience, because it's complicated. The different coatings require different combinations of chemicals, and we have to make sure that they are mixed properly.

The machine rollers and coating heads must be set properly for each type of paper, and the process must be consistently monitored for quality while the paper is being rolled. It takes years of experience to work your way up to being a coating operator. Appleton recognizes that it needs skilled workers, and it treats us accordingly. Appleton and its local unions continue to have good relations, and there have been no work stoppages at any Appleton facility over the last 30 years, but Appleton cannot continue to protect its workers in the face of changing conditions.

Over the years, there has been declining demand for the other main product made at Appleton, which is carbonless paper, due to technology changes that have been well documented by all carbonless
manufacturers. Production of this product continues
to decline. The membership at our union local has
fallen from around 900 people in the late 90s to less
than 700 today, due to the gradual decline of our
carbonless paper business.

Demand for thermal paper, on the other hand,
continues to grow. More and more applications use it
as it replaces other means to print cash register
receipts, labels, tickets, and other applications. We
should see rising employment and rising union
membership for workers making thermal paper, and for a
while we were, but that has changed recently.

While production of the heavier, high value-
added thermal paper that is not the subject of this
case continues to grow, we are producing less and less
lightweight thermal paper. This makes us concerned
for our future. We do not want to see employment for
thermal paper production decline the way we have seen
employment for carbonless paper production decline.

As Mr. Schonfeld discussed, Appleton is building a new
thermal paper coating line at its mill in West
Carrollton.

When it is finished next August, Appleton's
capability to supply the US market will be
significantly increased. Unfortunately for us workers

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at the Appleton plant, the completion of that facility will mean that work will be shifted to West Carrollton and there will be less need for workers in the Appleton plant. Employment at Appleton is expected to decline. I don't think it needs to be that way.

If imports of jumbo rolls from Germany and Korea, and imports of converted rolls from China, had not taken away Appleton's market share with unfair prices, the new capacity in West Carrollton could add to our production at the Appleton plant, and not replace it. But the union cannot make that case unless the sales are there to justify it.

I have been working at Appleton for seven years. My dad began working 40 years ago and he is still there. My brother worked for Appleton for 16 years. Our story is not at all unusual at Appleton. My family and a lot of other families are counting on the company being able to sell all the lightweight thermal paper it can, without having to compete against dumped and subsidized imports.

On behalf of my fellow United Steelworker members, who are also employee owners of our company, I ask you to help us. Thank you.

MR. DORN: Let me just ask Mr. Sitter one question.
The coater you work on, what type of paper does it make?

MR. SITTER: This is Mike. Lightweight non-topcoat.

MR. DORN: Does it make anything else?

MR. SITTER: No.

MR. JAMESON: Good morning, I'm Paul Jameson with King & Spalding. The information provided this morning by Mr. Schonfeld and Ms. Hatfield supports the conclusion that lightweight thermal paper in both jumbo rolls and converted rolls constitute a single like product, coextensive with the scope of the investigation.

First, regarding the Commission's semifinished like product analysis, the factors that the Commission generally considers, when both semifinished and finished products are in the scope, support a finding of one like product. Ms. Hatfield provided information on of these factors, and instead of repeating them here, let me just put them in the context of past Commission determinations.

While there are a number of major factual differences, the Commission's analysis of the semifinished product issue in Thermal Transfer Ribbons, or TTR, is instructive. In that case you had
both jumbo rolls and -- being sold to converters, and they turned the jumbo rolls into smaller slit rolls. The process of coating base paper, a good proportion of which Appleton makes itself, is a relatively capital-intensive process that also requires skilled labor, as Mr. Schonfeld and Ms. Hatfield just explained.

It is more complex and probably more capital-intensive than the process of applying ink to purchased plastic, but the Commission's analysis should be very similar here. Like TTR jumbo rolls, there is no use for jumbo rolls of lightweight thermal paper, other than the conversion into smaller rolls of a suitable width and length for use in printers.

As Ms. Hatfield also explained, given the particular end use for the quality and weight of thermal paper that is the subject of our petition, lightweight thermal paper jumbo rolls will exclusively be used to be converted into lightweight thermal paper rolls that are slit. The slitting process does not change the physical characteristics of the paper, and the process of making base paper and coating that paper is substantially more costly than the process of slitting and packaging, and requires many more steps.

The Commission undertook a similar analysis.
in TTR and came to the conclusion that jumbo rolls and slit rolls constitute the same like product. We believe that the facts support reaching the same conclusion for lightweight thermal paper, and we will provide further analysis in our post-conference brief. Furthermore, the Commission's traditional like product analysis supports the conclusion that the domestic like product is coextensive with lightweight thermal paper as defined in the scope of these investigations.

There was some discussion in the TTR investigation regarding whether other types of thermal transfer ribbon not covered by the scope should be included in the like product. Using the type of analysis that the Commission used in TTR, and in other cases, there is no reason to include any other type of thermal paper within the like product, as the information provided by Mr. Schonfeld and Ms. Hatfield this morning established.

Lightweight thermal paper has different physical characteristics and end uses than other types of thermal paper. Lightweight thermal paper is defined in the scope as thermal paper having a basis weight of 70 grams per square meter or less, with some tolerances, but as a practical matter, there is a large gap. The vast majority of lightweight thermal
paper that Appleton and its competitors sell has a basis weight of 55 grams per square meter, with some lighter paper weighing around 48 grams per square meter. The next size up is 80 grams per square meter.

We chose to specify a basis weight of 70 grams per square meter, right about the middle between 55 and the 80 grams per square meter product. Thus, there is a clear dividing line between the thermal paper products that are within the scope and those that are outside the scope. As Ms. Hatfield discussed, there are distinct physical differences between the products below that line and the products above that line, and they are not interchangeable for a variety of reasons.

With regard to the channels of distribution, the converters, distributors and resellers of lightweight thermal paper point of sale products generally do not overlap with the converters, distributors and resellers of other thermal papers, although a small number of converters may cover more than one thermal paper product area. Both customers and producers perceive lightweight thermal paper and other types of thermal paper to be different products.

As Ms. Hatfield explained, the end users are very different. Lightweight thermal paper is sold
primarily to retail businesses, while other types of thermal paper are sold for the most part to industries using labels, and also the entertainment industry, the gaming industry and the transportation industry. Producers recognize that these are different customers seeking different products.

While lightweight thermal paper shares certain manufacturing facilities, production processes and production employees of other thermal paper, Appleton has certain equipment that is dedicated solely to the lightweight thermal paper. In fact, as Mr. Sitter just explained, he operates a coater that only makes lightweight thermal paper. Finally, the lightweight thermal paper is less expensive per square foot than the other types of thermal paper because it weighs less.

It is also less expensive per pound because of the type of base paper and chemical used in lightweight thermal paper, and because of the less complex process of making lightweight thermal paper. The Commission's traditional six-factor analysis therefore supports a finding that the like product should not be expanded beyond the product defined in the scope.

Appleton also urges the Commission to
cumulate the imports from China, Germany and Korea. The petitions were filed on the same day, and the subject imports from each country compete with each other and with the domestic like product. As Ms. Hatfield demonstrated this morning, lightweight thermal paper from different suppliers is highly fungible.

All of the producers of jumbo roll in Germany and Korea, as well as the United States, are considered to be high quality producers whose products are qualified to work well on thermal printers. They are sold to the same converters, many of whom buy from domestic German and Korean sources, and who use jumbo rolls from all of these sources to produce lightweight thermal paper converted rolls.

With regard to converted rolls from China, it must be remembered that the like product is both jumbo rolls and slit rolls, and the jumbo roll and this converted roll market is so completely intertwined that converted rolls from China compete, not only with the converted rolls produced in the United States, but also with the jumbo rolls from Germany and Korea, as well as jumbo rolls produced in the United States.

Because the Chinese converted rolls have
quickly gained acceptance in the United States, the extremely low price for the Chinese lightweight thermal paper forces purchasers to buy Chinese lightweight thermal paper in order to stay competitive. US converters have been feeling immense price competition from the Chinese lightweight thermal paper imports, and have been forced to lower their prices or lose sales to their traditional customers. Some converters have decided to buy Chinese converted rolls and resell them, rather than go to the expense of converting their own jumbo rolls. The price pressure on the converters has induced the converters to turn around and press the jumbo roll suppliers to lower their prices. The German and Korean suppliers have obliged with lower prices as they strive to increase their market share.

This forces Appleton to lower its prices in an effort to maintain market share. In effect, all of the jumbo roll producers, both foreign and domestic, and all the converted roll producers, both foreign and domestic, are competing for the same end users: the retail establishment that uses lightweight thermal paper. The jumbo roll producers may compete indirectly through sales to converters, but the competition is very real.
There are sales and offers to sell in the same geographical market by domestic producers and by all subject import sources. Domestic producers produced and shipped thermal paper throughout the period examined, and imports from all three countries were simultaneously present in the market. Finally, the distributor channel is the predominant sales channel for both US producers and imports from the subject country.

Accordingly, the statutory criteria for cumulation are satisfied, and Appleton requests that the Commission cumulate imports from Germany, China and Korea. Thank you.

MR. DORN: What I'd like to do now is expand a little bit on my opening statement and go through the statutory factors with respect to material injury, and of course, that analysis begins with the volume of imports. I know you don't like cases like this where we don't have official government statistics, but Appleton has done an excellent job, I believe, of setting forth very, very reasonable estimates in the affidavit of Ms. Hatfield, which is Exhibit 7 to our petition.

We expanded upon that explanation in a September 28 submission we made to the Department of Heritage Reporting Corporation
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Commerce, which will be placed in the record of these investigations, and we have Ms. Hatfield's testimony here today, and I think when you review the data that we have put on the record and compare that with at least partial data you received from the importers and foreign producers' questionnaires, we expect that the numbers in the petition are going to turn out to be on the conservative side with respect to the volume of imports that are at issue.

A very sort of unusual situation in this case is that the focus here is on the problem; that is, the only imports of lightweight thermal paper in the US market, as far as we can tell, are from China, Germany and Korea. You are not going to have to struggle with Bratsk in this case. It's pretty straightforward. So when the domestic producer loses a sale or lowers its price in response to imports, it's got to be subject imports, not non-subject imports.

So that, in a way, simplifies this case considerably, relative to most cases that the Commission looks at. So, using the estimated import volumes that are set forth in the petition, if you look at Exhibit 8, Volume 1 of the petition, in 2006, the subject imports represented virtually all US
imports, we think all imports of lightweight thermal paper from all countries.

As shown in Exhibit 9, subject imports accounted for over half of US consumption and exceeded US production. In the first half of 2007, imports were even more significant in relation to US consumption and US production. So on that first sub-factor regarding volume of imports, there is no question that the volume of imports is very, very significant.

And also, the increase in the volume of imports is very significant. As shown in Exhibit 8 to our petition, subject imports from the three countries increased by roughly 60 percent from 2004 to 2006, and increased by over 10 percent from the first half of 2006 to the first half of 2007. And then as shown on Exhibit 9 of the petition, from 2004 to 2006, subject imports increased substantially relative to US consumption and also relative to US production, and that trend continued into the first half of 2007.

So, it's a pretty easy case when it comes to the volume of imports and increase in the volume of imports. Both are clearly significant. And all of the imports are subject imports, which simplifies your analysis. Second, subject imports have had an adverse
impact on domestic prices, and given the conditions of 
the market, Appleton's prices for lightweight thermal 
paper should have increased substantially from 2004 to 
the first half of 2007.

All of the ingredients were there for price 
increases. Look at it. You had a strong market with 
demand growing substantially, raw material costs were 
increasing, energy prices were increasing, and the 
domestic producers enjoyed an increasingly favorable 
exchange rate relative to their only foreign 
competition. But it didn't happen. Prices didn't 
substantially increase. In fact, they even declined 
towards the end of the period of investigation, when 
the depreciation of the dollar accelerated and the 
increases in raw material costs and energy prices 
accelerated.

So you had a classic cost-price squeeze, 
especially towards the end of the period of 
investigation. Now, as Ms. Hatfield explained, 
lightweight thermal paper is a commodity-type product, 
and it doesn't take large price differences to cause 
customers to switch sources of supply. The market is 
fairly efficient and prices tend to converge fairly 
quickly around a narrow band.

It's a spot market, not a long-term contract

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market, and so you wouldn't expect to see much
underselling in a product like this. And we don't
need underselling to prove adverse price effects
because we've got such a large volume of imports. If
subject imports are taking half of the market because
they are unfairly priced, and you impose the duties we
have alleged in our petition, and those imports are
gone, what impact is it going to have on prices in the
United States?

Economics 101. Prices would clearly be
higher absent the dumped and subsidized imports. No
question about it, with or without underselling. But
we do have lots of evidence of underselling in our
lost sales allegations and our lost revenue
allegations, and so we have head-to-head competition
examples of where the imports of jumbo rolls from
Germany and Korea undersold us and gave us two
options: one, lower the price and try to keep the
sale; or maintain our price and lose the sale.

And that's been the pernicious effect of the
price underselling that Appleton has seen in price-to-
price negotiations for particular customers, and that
is borne out by our exhibits to our petition which set
forth those lost sales and lost revenues. The
situation with the slit rolls from China is

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interesting because we have lost sales to China both
directly and indirectly from slit rolls.

Let me explain that. In some instances,
Appleton's converter customers have chosen to buy and
resell slit rolls from China rather than to buy and
convert jumbo rolls from Appleton. So that's a direct
loss of a sale, even though we are competing against
slit rolls. Our customer, the converter, makes a
decision on whether to buy a jumbo roll from us and
process it and resell it, or to forego the conversion
and just buy the slit roll from China and resell it,
and the prices have been so low from China that they
have been induced to do that.

Of course, in other instances, the converter
customer comes to Appleton and says, look, why should
we buy your jumbo rolls when your prices are so high
relative to slit rolls coming in from China? We can't
resell the slit rolls in competition with the slit
rolls from China, so you've got to reduce your prices
to us to make us competitive with slit rolls from
China.

So either way, we are competing with the
Chinese slit rolls, and we are seeing both volume and
price effects as a result of that competition.

Obviously, another indicator of the price effects is
just a shift in the market share. Imports are gaining market share relative to the domestic producers, and that's what happens when you add up all the individual instances of lost sales that are documented in the petition, and which you will receive elsewhere in the record of this investigation.

As I mentioned a moment ago, this is really a classic case of a price-cost squeeze, or is it cost-price squeeze? I never know which one to say. But the fact is that in the later period of investigation, you've had these increasing pulp prices that are up on the screen, the increasing energy prices that were up on the screen, and so costs of production are going up, but when Appleton has tried to raise prices to pass those along, it's been rejected in the marketplace, and they have been unable to pass through price increases, and so they have that no-win situation.

The costs are going up, but if they raise their prices, they lose more market share. So particularly in the most recent period, as Mr. Schonfeld explained and Ms. Hatfield explained, you have this anomalous situation of prices going down or not being able to increase in the face of increasing costs of production.
And in a situation where the foreign producers should be raising their prices -- because pulp prices are global. They are not just set in the United States. It's a global commodity -- and because of the favorable exchange rate, they should be increasing their prices, but just the reverse has been happening. So we think it is an extremely strong price effects case.

Now turning to the third statutory factor, the volume effects, the price effects, have necessarily flowed through to all the other performance indicators, and if you just ticked them off and looked at the statute, what you will find is that the unfairly priced imports have adversely affected output sales, market share profits, productivity, return on investment, and utilization of capacity at Appleton.

Continuing down the list, as we mentioned, they adversely affected domestic prices, and finally, the unfairly priced imports have adversely affected the domestic industry's cash flow, inventories, employment growth and investment. And as Mr. Schonfeld discussed, Appleton has made every effort to maintain competitive production capacity in thermal paper.
It is investing $100 million to build a new thermal coating mill that will focus on production of lightweight thermal paper. Contrary to what Mr. Silverman said, we are not making that investment contingent upon an affirmative vote from the ITC. Ground has been broken. That investment is going to happen. It's going to come on stream next year. What we are saying is that the return on investment projected for that investment is at risk because of the increasing imports at dumped and subsidized prices.

In conclusion, the volume of imports is very significant. The increase in the volume of imports is very significant. The imports have definitely adversely affected domestic prices, and the imports have had a very severe adverse impact on the domestic industry's performance indicators and its bottom line. So we don't think there is any reason for the Commission to do anything else but to find current material injury, but if any Commissioner wants to take the next step and look at threat, Paul Jameson will take us through the threat factors.

MR. JAMESON: Thank you. Paul Jameson again. So the information on the record also supports a determination that the domestic industry is
threatened with material injury by reason of dumped imports from Germany and Korea and dumped and subsidized imports from China.

The subsidies that are alleged with regard to imports from China are substantial, involving at least two subsidies that are prohibited under Article 3 of the Subsidies Agreement and over 20 programs that cause serious prejudice under Article 6.1 of the Subsidies Agreement.

The first countervailing duty investigation of a paper product from China involving coated free sheet resolved in preliminary subsidy margins of between 10 and 20 percent, and it is likely that the subsidies in this investigation will be of the same magnitude.

As explained in our petition, the existing capacity in Germany and Korea combined far exceeds the capacity in the United States. Our countervailing duty petition regarding the Chinese case documents the extraordinary buildup of lightweight thermal paper capacity in that country.

Spurred by massive subsidies designed to encourage the production and export of lightweight thermal paper, the substantial increase in jumbo rolls, especially from Germany, indicates that these

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producers do have the extra capacity to increase exports.

The increase of imports of lightweight thermal paper from nothing in the beginning of the period of investigation to very substantial quantities in the most recent interim period speaks to the abilities of producers in that country, in China, to increase exports.

We will discuss this in detail in our post-conference brief once we've had the opportunity to analyze the foreign producers' responses.

As we've discussed in our petition and this morning, the prices of the imported lightweight thermal paper, both in jumbo roll and in inverted roll form, have already caused price depression and suppression. Further increases in imports can only exacerbate this trend.

As we have noted, the producers of lightweight thermal paper can and do produce other types of thermal paper on the same production lines, so the potential for product shifting to lightweight thermal paper also exists.

Finally, as Mr. Schonfeld explained, the dumped and subsidized imports pose a real threat to Appleton's $100 million project to expand the
lightweight thermal paper production capacity. Appleton has already begun construction of the new coating line to produce that product in its West Carrollton, Ohio, facilities.

But the decline in prices for lightweight thermal paper, due to increases in dumped and subsidized imports at prices that undersell the domestic prices, has made it likely that the new investment will receive a return on the investment that was lower than what was envisioned when the initial decision was made.

But as I discussed earlier, the criteria for cumulation for purposes of present material injury are satisfied. Imports from all three countries compete with each other and with the domestic like product.

If the Commission decides to find threat of material injury, these factors should also lead the Commission to exercise its discretion to cumulate threat of material injury.

Finally, the domestic industry is already suffering operational and financial harm and is vulnerable to further injury in the event of further increases in the subject import volumes and further price aggression.

As Mr. Dorn noted, Appleton believes that...
the record strongly supports a finding of present material injury and that the Commission does not need to reach the question of threat. But should the Commission find it necessary to consider whether the domestic lightweight thermal paper industry is threatened with material injury by reason of dumped and subsidized imports from China, Korea, and Germany, this record strongly supports an affirmative finding on threat as well. Thank you.

MR. DORN: One final point I would like to mention is the point we make in our petition, starting at page 12, I believe, explaining why converters are not part of the domestic industry because they lack sufficient production-related activities in the United States to constitute domestic production under the standards that the Commission has used in past cases.

We submitted additional information with regard to that point in our September 28 submission to the Department of Commerce, which has been placed on the record of this case.

We plan to say a lot about that in our post-conference brief. Unfortunately, in terms of a public hearing, the criteria that we have to look at deal with confidential data. In fact, at this point, I don't even have a questionnaire response, a so-called

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"producers' questionnaire response," from any of the converters on the other side of the room who are going to be testifying today. I don't have a single questionnaire response from them.

So we're going to analyze the information on the confidential record that we will receive in the EPO releases this week and address each of those factors in detail, expanding on what we've done in our petition and what we did in our September 28 submission.

We will also explain why, alternatively, a number of these converters should be excluded from the domestic industry because they are related to parties, and they are importing the dumped and subsidized product. So that would be an alternative reason for excluding them from the domestic industry.

But, again, that's going to be highly dependent on the level of their importing activities, and we don't have much, even on the confidential record, that we've received yet, so we're really not prepared to address that on the public record today, but we will do so in detail, I assure you, in our post-conference brief.

That concludes our presentation. Thank you.

MR. CARPENTER: Thank you, ladies and gentlemen.
gentlemen, for your presentation. We appreciate that. I'll note for the record that we will accept the exhibits provided in connection with Mr. Schonfeld's and Ms. Hatfield's testimony as an exhibit to the transcript.

Mr. Dorn, I'll also note, in response to your last comment, apparently there was some sort of electronic glitch in the APO release yesterday, and quite a number of documents that were ready for release did not, in fact, get released, but we will try to remedy that as quickly as possible.

MR. DORN: Thank you.

MR. CARPENTER: At this point, we'll begin the questions with Mr. Cassise.

MR. CASSISE: I would like to welcome the panel. Thank you for your testimony. I do have a few questions.

I would like to start with the scope definition and your choice of the 70 grams per square meter. From your testimony this morning, it seems as if the 55 grams per square meter is the most common product within the scope definition. Approximately what percentage of these sales are that product, and what are the other common grams-per-square-meter products in the scope definition?
MS. HATFIELD: This is Karen Hatfield at Appleton. The 55 gram represents a substantial percentage of the paper for the POS market, point of sale, that is, and we estimate it to be at least 75 percent. The other products that would be interchangeable with it in the kinds of printers that we were just talking about, the receipt printers, would be 48 gram that is often substituted with that down to about a 45 gram type of product.

At Appleton, we have a 55-gram product, we have a 48-gram product, and we have also, in the past, had a 45-gram product as well that we introduced a number of years ago. Those products are the vast majority and represents virtually everything in this market.

MR. CASSISE: So those three products, would it be fair to say, represent 98 percent of point of sale? Could you put a percentage on it for me, just generally? Seventy-five for 55 gram --

MS. HATFIELD: Ball park, I would say, yes, those products would represent that magnitude.

MR. CASSISE: Ninety-eight percent.

MS. HATFIELD: Uh-huh.

MR. CASSISE: I asked that question because, looking through the product list, your public product
list, on your Web site, there are a number of outlier
products, point-of-sale products that are over the 70
and then other end-use products that have lower
weights than 70. If you could explain what these
products are -- apparently they are a low percentage,
but if you could give us some detail on that as well.

MS. HATFIELD: This is Karen Hatfield at
Appleton again. I'll step back a second.

The products that we offer -- we have a
number of different lightweight thermal papers that we
offer, as well as heavier-weight thermal papers, as
Mr. Schonfeld had discussed in his presentation and I
mentioned in mine.

The point-of-sale paper is, by far,
dominated by that 55-gram product. Forty-eight to 55
is the product that is most easily handled by those
point-of-sale printers. It is also what most
retailers choose to use in the product, for its ease
of use and for the low cost. Certainly, retailers
don't want to spend any more on a receipt paper
typically than they need to.

We do offer some higher basis-weight papers
that could be used in that market, and that is mainly
for very isolated cases, for example, like a
Nordstrom's or a Talbot's that wanted a heavier feel
to their receipt. They could use a higher basis-weight paper, but that is, by far, an outlier. We list these products on our Web site as being able to be used in that kind of application, but it is a small percentage of the total market for point-of-sale receipt paper.

MR. CASSISE: For what reason would Nordstrom's want a heavier paper? Is that perceived as higher quality?

MS. HATFIELD: We believe that their association is more for their brand image so that they are portraying the best brand image possible for their product. Again, most retailers do not use that kind of paper. It's a small percentage of the total.

MR. CASSISE: Okay.

MS. HATFIELD: This is Karen again. I apologize. One other thing I wanted to add is that the papers that we mentioned that are for a higher basis, that had the higher basis-weight product, that are occasionally used for point-of-sale products; those are actually very often used for other applications, such as medical charts and some other things. So they are not necessarily designed for the POS use, but occasionally some retailers choose to use it for that purpose.
MR. CASSISE: Ms. Hatfield, you had also mentioned, in your testimony, that there was a certification process, and then once a product is certified, the competition relies on price. Who does the certifications? What does the certification entail? If you could give us some more detail on that.

MS. HATFIELD: Sure. Again, Karen Hatfield at Appleton. The certification process is handled by the printer makers, the printer manufacturers, so IBM, Epson, and those kinds of printer manufacturers, and what they do is there are a number of pieces to the process, including chemical testing of the paper. We are required to supply information on what actually goes into the product.

There is a great deal of actual just testing in the printer where they will run literally miles of paper through the printer and assess how well it runs through the machine. Is there dusting that's coming off of it? Is there exceptional wear on the cutting mechanism, which can often happen if it's a heavier basis-weight paper, which, again, is why they focus in more on the 55-gram-type products.

It takes generally a few months to go through that process just because of the volume of
material that they are trying to run through these
printers to make sure that it is appropriate for use
in the IBM printers because, ultimately, it goes back
to supporting the warranty and the service
arrangements that IBM has for servicing those
printers.

So it's a process that takes a number of
months. We supply material for that, as well as cover
some of the costs for doing that testing, in order to
get that certification, and, ultimately, it comes down
to they list those products that are approved on their
Web sites.

MR. CASSISE: So the point-of-sale printer
manufacturers are certifying your jumbo rolls, not
necessarily a downstream slitted product, or are they
certifying both?

MS. HATFIELD: They are strictly certifying
the paper that is created on the jumbo roll basis.
Since there is no change in the physical
characteristics of the product as it gets converted,
the converters are not typically involved in
certifying that unless they are also a printer
manufacturer like NCR.

MR. CASSISE: So, for example, they wouldn't
certify that if the width fits in their machine, they

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would certify that the thermal paper is functional in their heat.

MS. HATFIELD: That's correct. They would specify the type of width that they would need in the machine, or the range of widths, but the certification of the paper itself goes back to the jumbo roll manufacturer, the coater.

MR. CASSISE: Are you aware of any downstream certification that's done?

MS. HATFIELD: I'm not.

MR. CASSISE: Okay.

MS. HATFIELD: One other thing. They do certify, in addition to the width and all of that, they do generally specify the thickness of the paper that is most effectively run through their machines. Again, they typically put out a range of tolerances for widths for thickness and those elements in their certification process.

MR. CASSISE: I was involved in the Thermal Transfer Ribbon case, and one of the issues that came up was that there were many different bar-coding devices that the thermal transfer ribbon converters sold to, and so the converters kind of specialized in different products.

How many point-of-sale machines are there?
generally? Are we talking a handful of different products? Are we talking hundreds of products? Could you give us a sense of how many ultimate end users, the machines themselves, how many of those machines exist; the types of machines, not the number of machines?

MS. HATFIELD: Right. Well, there are probably four to five major manufacturers of these machines, and a printer, typically, we estimate that it will last about seven years. That's what the manufacturers have told us, before it needs some kind of work or print head replacement and that kind of thing.

So I don't know the exact number of different variations out there, but IO can tell you that there is a broad range of that because of that seven-year time span, and actually it can often go on well beyond that. There are a lot of older printers in the market, as well as the newer models, just like you would see with computers today. There would be a wide mix of types of things.

So there are certain standard widths and specifications. There are also some variants that are a little more unusual, just based on older printers. But, again, that goes back to the width of the
product, not the paper itself.

MR. CASSISE: Could you give me a ball-park figure on how many you think there are? You said there are how many manufacturers of these machines, roughly, in today's market?

MS. HATFIELD: I believe there are four to five major manufacturers.

MR. CASSISE: Do you have any sense of how many machines are on the market that they produce today? Do they try to converge into a single specification to keep them standard, or are they all different?

MS. HATFIELD: There are standard widths and standard sizes that are very typical for the machines in terms of the diameter of the roll that will fit into the machine, as well as standard widths. But as far as the number of different machines out there, I couldn't tell you off the top of my head, but I could definitely do that in the post-conference brief, if that would be helpful.

MR. CASSISE: Okay. Is there a standard width?

MS. HATFIELD: Three and an eighth is typically the width of the product. The roll length varies a little bit. There are few standard sizes,
but the standard is three and an eighth, but there are a few others beyond that, just, again, for the out lots.

MR. CASSISE: But Nordstrom's wants six inches?

MS. HATFIELD: No.

MR. CASSISE: I would like to talk a little bit about the technical expertise needed in the coating process.

Again, to use TTR as an example, there was a lot of research and development that went into the making of the inks in that investigation, and I was wondering if it was a similar situation here, where there was a lot of research and development to come up with new and improved thermal coats that created proprietary brands or patented or trade-secret formulations, or is it just a standard industry formulation that very little adjustment is made to over the years?

MR. SCHONFELD: This is Walter Schonfeld from Appleton. Let me try to answer that question. Every manufacturer of thermal paper has their own formulation for the active coat, the coat that creates the image, but, in reality, they are undifferentiated in the marketplace, for the most
part, and easily substitutable between them so no one says, "XYZ manufacturer, that's the chemistry that works best for me."

As long as it fits within a range, and you could see it from the images that were up on the screen, as long as it fits within a range of the image is good enough, that's really all anyone cares about. But everybody does have their own different formulation that's slightly different, for one reason or another, but, again, it doesn't drive market differentiation in any meaningful way. People still buy it, based mostly on price.

MR. CASSISE: Is your company trying to strive to find different formulations to get an advantage over competition, or is the market content with the formulations that exist?

MR. SCHONFELD: For us, we continue to try and find new formulations, for a lot of different reasons, including ease of manufacture, as, I would presume, do our competitors. Does it drive differentiation in the marketplace at the low end of the market, which is the lightweight paper point of sale, which is a commodity product? It doesn't drive differentiation in the marketplace.

As long as you meet certain, you know,

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general rules as to the image looks good enough to be able to do X, Y, or Z, and you could see the variation in the images, and all of those were acceptable, there really isn't any way to differentiate that kind of commoditized product.

MR. CASSISE: So it would be fair to say that most of your research and development budget would go to the high value-added thermal paper and not this product.

MR. SCHONFELD: There are reasons why we continue to invest in this product, everything from continued cost reduction for our product, which I'm sure all of our competitors go as well. There are environmental and other workability issues that we try to anticipate as we move forward. These are all sort of internal kinds of issues but nothing that drives demand or positioning in the marketplace.

MR. CASSISE: So it's fair to say that you don't perceive quality issues in the market. There is not one producer that makes a higher-quality product than another. This is a pure commodity product, in your mind.

MR. SCHONFELD: There is variability in quality, but it doesn't, to the best of our knowledge, drive any price differentiation in the marketplace.
So it's value that's unvalued, if you will, by the ultimate consumer.

Just to go a little bit further, though, there is a fair amount of investment that does go on, mostly on the production side of the business, to try and do things to improve the runability of our products for our own internal uses and also for our customers, but we haven't found any way to differentiate that except from an internal perspective.

MR. CASSISE: And to go further in the technical expertise, Mr. Sitter, you said you work in the coating facilities at Appleton.

If you had to train a new employee to do your job, how long would it take for you to train him to do the job in an efficient and productive manner?

MR. SITTER: This is Mike Sitter from Appleton. Training somebody to be a coater operator is an art form. It's not as simple as stand there and push this button, and you'll get the same result every time.

I was going to add to what Walter just said about the coating end of it. In the last two and a half to three years, I've seen at least four different coating formulations on my machine. Each of them...
behave a different way.

So becoming a coater operator for any type of paper, and especially for thermal because of its sensitivity, obviously, is something that happens over a long period of time. You start out at an entry-level job. You don't jump right up to the top coating operator.

For instance, for me, I started seven years ago. I started in an entry-level job, watching the operators, watching how things work, asking questions. You go in, and you get some formal, dedicated training, but it's not done after that.

Day One, your coater might run a certain way. The next day, the temperature jumps 20 degrees, and it's 30 percent more humid. So coating application changes in those conditions.

So it's never a thing where you can put a time limit on it and say, "This is exactly -- I'll give you one week at this station or one month at this station, and you're going to know everything you need to know about coating because next week," like Walter said, in order to improve runability, in order to lower costs to the company, the formulation changes, and everything is completely different.

The color lines alone from my coating head,

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which is one of two on my machine, have been modified
four times in the last month to machinery, to take off
outdated pieces of machinery, change valves, whatever
they have to do to get a quality product.

So that's the type of thing you can't really
put a definite start-and-stop time for training. It's
something that happens over a period of time, and you
never stop learning. There's people that have been
coating operators for 30 years that have probably
forgotten more about coating paper than I'll ever
know. Those are the types of people you want to ask a
lot of questions, and they are very valuable.

So it's taken that entire time to get to
that point.

MR. CASSISE: I understand, but the company
did give you formal training. How long was that
training, and what did it consist of?

MR. SITTER: This is Mike again. Going back
to my original statement, I had years of informal
training, and formal training as well, that if I was
taken off the schedule to train, would probably in the
months category over the period of the years I've been
employed.

So there is refresher training that goes on
yearly, sometimes monthly, but, like I said, it goes
back to the original thing of you are always in training mode. If you're somebody who wants to come in and just, like I said, push a button and expect the same result to happen every day, you're going to fail as a coater operator.

MR. SCHONFELD: This is Walter Schonfeld. If I could just add one comment to that.

As a company, we have a formal training program for all of our employees, and the comment Mike is making is basically the following: No one comes in starting out as a coater operator. They have multiple other positions that they have to fill beforehand where they pick up training and skills that are useful and necessary to be a coating operator, after which they then go through weeks and months of additional training just to be a coating operator on top of that.

So it's hard for him to quantify for you specifically because it's a multistage progression of skills, and coating operator is one of the most skilled positions in the --

MR. CASSISE: Could you quickly go through that ladder, or would it take too long?

MR. SCHONFELD: Maybe I would propose, for a lot of reasons, that we provide it to you in the post-brief, if we could.
MR. CASSISE: Sure.

(Pause.)

MR. CASSISE: Ms. Hatfield, you had mentioned top coating, and this may or may not be an issue, but you said most of the paper was not top coated. Could you just explain why you would top coat the paper? And if you do top coat the paper, how much does it add to the cost or affect the quality of the paper? Just explain a little bit about top coating. That would be helpful.

MS. HATFIELD: Okay. This is Karen Hatfield again. Top coating is typically added to provide some kind of additional environmental resistance or durability to the thermal paper product.

Substantially all of the point-of-sale receipt product is not top coated, but we have had a product that had a top coat that was for some specific customers, which is actually going away as customers have moved away from it. But those who were using it in the past were doing it for, like, a home fix-up store that works with contractors to provide some additional resistance from grease that gets on their hands so that the image would endure even if it encountered that kind of substance that would degrade a non-top-coated thermal coating.
So the top coating is typically used on our higher value-added, thermal grades, things for labels, like I mentioned, to provide scuff resistance when it's in transit for a shipping label because the boxes rub against each other and distort the bar code. It can also provide greater longevity to the image, again, just providing against some light reaction and other environmental factors.

So that's typically what top coating is. It adds another point in the process. It's another coating stage which could be passing through an additional coating station, or it could involve another pass through the machine, depending on the equipment.

So it is a more expensive piece. I don't know, specifically, the cost percentage. It would depend on the different product and the type of top coating that it needed and that kind of thing. But it would be a more expensive product to make.

MR. CASSISE: Okay. So the top coat goes over the thermal coat in order to resist or to increase the durability of the image.

MS. HATFIELD: That's correct.

MR. CASSISE: Okay. I understand now.

MS. HATFIELD: It's kind of like a varnish
on the top, if you think about it that way.

MR. CASSISE: Varnish is a very good analogy.

Quickly, Mr. Dorn, I believe, in the September 28th Commerce submission, the Commerce Department had asked for values for your import estimations, and if you could just explain quickly, if you could, how you came up with those valuations.

Ms. Hatfield, were you involved in that as well? I know you were involved in the volume estimations.

MR. DORN: I believe we used some confidential data, some unit-value data, from Appleton and then applied that to the volume estimates.

MR. CASSISE: But you reduced it by your alleged margins.

MR. DORN: Well, by the underselling margins, I believe, yes.

MR. CASSISE: Okay.

(Pause.)

MR. CASSISE: I'd just like a response from anyone on the panel on one of Mr. Silverman's allegations in his opening statement that Appleton was putting its customers on allocation and/or not servicing new customers. Are we in the ballpark, or
what's going on there?

MR. SCHONFELD: Like anything, you can take something that is, with due respect, for the most part a misrepresentation, and find a threat of truth in it.

What happened was, for a short period of time, measured in a few months last year, there was a demand spike in the industry. We extended lead times to our customers from our normal two days to a few weeks, to try and make sure that we could service all of our customers. It was a short term demand spike.

We added capacity, because we have additional machines we can bring on line. We brought those machines on line. We got back to servicing all our customers in a normal way.

Was there a period of time in which we extended lead times; yes. Did we ever put anyone on a formal allocation; no. Did we ever turn anyone away; no. But what we did do was, we did extend lead times for our customers for a short period of time and the last few years, it happened for a few months. It was a unique situation.

MR. CASSISE: This happened for a couple of months in each of the last few years?

MR. SCHONFELD: This happened for a couple of months in each of the last few years?
MR. SCHONFELD: No, one time in the last few years.

MR. CASSISE: Okay, just ballpark.

MR. SCHONFELD: September through the end of November or early December, I think would be the timeframe.

MR. CASSISE: Of 2006?

MR. SCHONFELD: 2006, correct.

MR. CASSISE: And do you have an explanation for this demand spike?

MR. CASSISE: Yes, a couple of things -- it happened industrywide. In hindsight, being a non-economist, my guess would be, people got spooked. Everybody starting ordering more product. The pipeline filled up, and what happened is, then you saw January, February, and March, and you can look at the numbers for us and everybody else.

AUDIENCE MEMBER: Excuse me, we can't hear you.

MR. SCHONFELD: I'm sorry. I apologize. I'm not a public speaker by profession. So I'll try and do a better job. I apologize.

Let me just go back and restate. There was a short period of time in which there was increased demand for everyone. Everyone was having...
difficulties. A large number of manufacturers were having difficulties meeting demand during that period. There seemed to be a little bit of a spook in the marketplace. Everybody tried to fill their channel with enough inventory to make sure that whatever perceived issues might be out there didn't become an issue, and it just self-perpetuated itself for a few months.

Come January, everybody realized there was plenty of material. We had already worked through the demand issue, as had most of our competitors. Then all of a sudden, volume dried up because everybody worked off their inventory. So it was one of these, everybody got spooked and ordered a bunch of material.

MR. CASSISE: What was the reason for the "spookiness"?

MR. SCHONFELD: I wish I could tell you. I don't really know the answer to that question.

MR. CASSISE: Okay.

MR. SCHONFELD: But it was a short period of time. It's only happened once. We brought additional machinery on line, which we do have, and which we don't run. Because frankly, at today's prices, it's not economic for us to even consider putting those machines on line and we worked through the problems.
We don't have a capacity shortage. We actually have quite a bit of spare capacity. It was more of a market anticipation issue than a capacity shortage issue. So that's sort of the explanation for the issue.

MR. CASSISE: That's all I have for right now; thank you very much.

MR. CARPENTER: Mr. Bernstein?

MR. BERNSTEIN: Thank you, and I'd also like to thank the panel for traveling here to answer our questions.

Mr. Schonfeld, let me start with you. Does the domestic industry today have sufficient capacity to satisfy U.S. demand for lightweight thermal paper?

MR. SCHONFELD: We could not supply 100 percent of the thermal paper in the market; nor is our allegation that we would necessarily want to increase market share. Our entire goal here is to get fair pricing in the marketplace, and we believe that that's the real issue here.

MR. BERNSTEIN: Okay, thank you; listening to your testimony, it appears the main reason you believe you don't have fair pricing in the marketplace is because of the imports from China. Am I correct in that? If those imports were eliminated, would you
return to a period where there was fair pricing in the market?

MR. SCHONFELD: We believe the problem has existed for quite some time, and frankly pre-dates the Chinese influence into the market. They are obviously a contributor to the issue. But eliminating the Chinese volumes by themselves would not eliminate the problems. We believe there are other unfair players in the marketplace, as well, from Korea and Germany.

Just eliminating the Chinese would not resolve the issue, because we believe that unfair pricing pattern has been in place for quite some time. It's been more accelerated in recent months, but that doesn't mean that it's been a short-term problem.

MR. BERNSTEIN: Thank you, I believe your testimony was that this $100 million expansion program of the facility in Pennsylvania, that the decision was made to go forward with that in late 2006. Am I correctly summarizing what you said?

MR. SCHONFELD: That's correct.

MR. BERNSTEIN: Okay, according to the information in your petition, by late 2006, the quantity of imports from the subject countries had already increased quite considerably. Why, in light of this, did you go forward with these expansion
plans?

MR. SCHONFELD: It was very detailed, as Mr. Silverman, I guess, is his name. There was no doubt a detailed set of plans and presentations made to the Board and financial analysis done. We'd be happy to talk with you about that, because it's a confidential matter, outside of this public hearing.

But there was quite a bit of analysis that went into indicating that it was still economically viable for us to compete in the marketplace and we thought we could compete, particularly if the playing field were leveled with regard to price.

MR. BERNSTEIN: If you could either submit that material in your post-conference submission; or, if it is in your questionnaire response -- and I have not have personally looked at your questionnaire response -- indicate in your post-conference submission where we could find it, I think that would be very much appreciated.

I know, at one point, Mr. Dorn stated that there was a contemplation that this new facility would make a certain return on investment. We would be interested to know what you had contemplated in that respect and what you contemplated the market conditions would be.
Can you indicate for purposes of the public
session how much of this facility is going to be
devoted to production of the product you are calling
lightweight thermal paper, or even a ballpark type?

MR. SCHONFELD: Day one, all of it.

MR. BERNSTEIN: Is this designed to be a
lower cost facility, more efficient production
operations? Can you describe why you are expanding to
this degree, other than your contemplation of expanded
demand in the market?

MR. SCHONFELD: There really are two reasons
for us to build the facility. One is, we do believe
the market is continuing to expand, and we want to be
able to service that market for the long term. This
facility will allow us to do that.

Obviously, the second reason is, it is a
more modern piece of equipment, and every time you
upgrade equipment, whether it's a printer, computer,
or a coding machine that costs $100 million, your
costs hopefully will go down in unit measure terms
with regard to the individual units produced on that
machine.

So sure, will the machine be more efficient
than some of the ones we have today? Absolutely, it
will be. But the real motivation for putting the
equipment -- and you'll see this when you see the
confidential submission -- is we believe that we're
going to be able to fill that machine up, as well as
the additional capacity we have now, based on what we
believe the market can do.

MR. BERNSTEIN: How will the production
equipment for lightweight thermal paper at the new
facility be staffed? Mr. Sitter said at point in
response to one of Mr. Cassise's questions that it
takes years to be able to know how to be a coating
operator.

Yet, I also understood that it does not seem
the operating staff will be transferred from Appleton
to staff this new facility. So who are the people who
are staffing this, and how are they going to be able
to run the machines?

MR. SCHONFELD: As a follow-up to the
response I made earlier, the point to keep in mind is
that the training process is really one of going
through multiple positions within an organization.
While there isn't a coding operation at West
Carrollton today, there's a paper manufacturing
operation and they coat carbonless product in that
facility, as well.

So we do have people who are both

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experienced and have worked up through what I would call the early stages of being qualified to be a coding operator; and frankly, there is still coding that goes on, even if it's not thermal coding. So that's point one. So the final training, the few months worth of training will obviously have to happen.

At the same time, as part of getting the machine on line, our plan is to bring in a few individuals from the Appleton plant to help get that technical experience into the facility. That's all part of the implementation plan. That will be part of the documents you see when you see the documents that we submit confidentially.

MR. BERNSTEIN: Thank you, while I'm on this subject, let me ask about the one allegation Mr. Silverman made that Mr. Cassise did not ask you about. This is that you're currently importing product from Europe.

MR. SCHONFELD: I'm interesting in hearing the data on that, because I'm not aware of that having happened.

MR. BERNSTEIN: Thank you, let me move on to another issue now. Ms. Hatfield, is there any particular reason that Appleton doesn't do its own
conversion operations for lightweight thermal paper?

MS. HATFIELD: Historically, the market has been separate for the coding operations and the converting operations. So those segments of the value chain have really grown up separately. So we have not pursued that, in an effort to maintain good relationships with our converter customers. We have not gone down that route.

MR. BERNSTEIN: Okay, thank you; let's talk about your converter customers. In your testimony, you distinguish generally between the type of converters who typically convert lightweight thermal paper and other converters.

First of all, could you describe what type of converters typically convert the product you're describing as lightweight thermal paper?

MS. HATFIELD: Sure, there are a number of converters in North America of far-ranging sizes, in terms of their capacity that specialize in converting jumbo rolls down to small receipt size rolls.

Oftentimes, they will not only do the thermal paper. Thermal paper is a predominant part of the business for this end user. But oftentimes, they will also use convert carbonless paper, as well, for like a two-ply receipt or bond paper, as well, for
something that's through an impact printer. So that's typically where they put their focus.

For other high value-added products, it's a different type of process. Because if you think about labels, for example, There needs to be an adhesive coating put on the back of it and a release paper attached to that, as well. So it goes through different people that specialize in that type of coding in order to get it into a label type of product.

Also, a lot of times, the converters are specializing in who they're selling to, in terms of selling to the label market versus lottery market, entertainment industry versus the retailers that are purchasing the POS product. So there's different specialization in that respect.

MR. BERNSTEIN: Okay, so is what you're saying is that the converters who handled the lightweight thermal paper don't have their conversion equipment couldn't handle something like a lottery ticket? It would require a different type of slitting machines or printing operations that these converters don't have?

MS. HATFIELD: Yes, for the lottery business, the slitting equipment, I don't know, would
be radically different. The specifications for that
market though would be different. The specifications
for the lottery market would be different than what it
would be for a POS. So that factors into the
specialization.

MR. BERNSTEIN: Okay, let's go into your own
production process now. You've indicated that some
equipment is used to produce both lightweight and
other thermal papers, and other equipment can be used
exclusively to produce thermal papers; and you really
haven't specified, nor did the petition distinguish
among these. What equipment is used by Appleton
exclusively to produce lightweight thermal paper?

MR. DORN: Can we address that in the post-
conference brief?

MR. BERNSTEIN: If you could address that in
the post-conference brief. Specifically, I'm seeking
a little more specificity on some of these assertions
you make on page 12 of the petition under this
Paragraph E; that if you would identify what the
certain equipment is that could be used to produce
both, and which equipment is dedicated to lightweight
thermal paper. Because the petition does not seem to
provide any detail in that regard.

Okay, Mr. Sitter, let me ask you, if you
were to be asked how many of the employees you
represent who belong to the USW at the Appleton plant
are involved in producing lightweight thermal paper as
opposed to other types of thermal paper, could you
give me a breakdown?

    MR. DORN: Is that something we could do
post-conference?

    MR. SITTER: Yes. It's difficult to do with
some of the lean manufacturing principles that we
brought in at this point.

    MR. BERNSTEIN: Okay. If you could attempt
to do that post-conference, I would appreciate it. I
would note, however, for the record that the witness
did not indicate he could give me an immediate answer
to the question. Let's see what else we have here.

    MR. DORN: I wasn't trying to cut of the
witness.

    MR. BERNSTEIN: Oh, okay.

    MR. DORN: If you'd like to follow up on
that, that's fine. I just think, in terms going
through a head count, if you want something accurate,
I thought we could do it much better in a post-
conference brief. But if you'd like for him to take
stab at it, I don't have any problem.

    MR. BERNSTEIN: Well, I mean, the question
is, do you think you could easily perform such a breakdown, for now? I mean, you can give me what the breakdown would be in the post-conference brief and how you compute it. But at this point, I would like your impression about how easily you could perform such a breakdown.

MR. SITTER: Yes, it's by machine; what machine makes what product. I would say, when we have converting products, we have carbonless or converting machinery. We have carbonless machinery and we have thermal machinery. So I would say it's probably about half and half, as far as the membership working on that equipment.

But like Mr. Dorn said, it would be a lot easier in the post-conference brief to give you. We could probably give you actual numbers.

MR. BERNSTEIN: Okay, again, I think we would appreciate that and your explanation of how you made that computation. This is for anyone on the panel who can answer it. Do any purchasers of lightweight thermal paper purchase both jumbo rolls and slit rolls?

MS. HATFIELD: This is Karen Hatfield at Appleton. Yes, some of the converters do purchase both. As we'd indicated previously, the pricing
coming in from the Chinese slit rolls has been at such an aggressive, that some of our converter customers have struggled with how they can produce a slit product at such a competitive price, with the Chinese rolls coming in not only offered for sale to our converter customers, but to their customers directly, as well; and had therefore been put in the position of needing to purchase some degree of these Chinese slit rolls and just re-sell them to their customers in order to remain competitive on price.

MR. BERNSTEIN: Are some of their customers buying the Chinese slit rolls?

MS. HATFIELD: Yes, they are.

MR. BERNSTEIN: Okay, from your market information, can you give any seat of the pants estimate -- and I'm not asking for a formal breakdown -- of what the purchaser breakdown of the Chinese rolls is, between the converters and the end-user customers?

MS. HATFIELD: I don't know that I could venture a good guess at this point. What I can tell you is that initially, what we were seeing in the market was that it was exclusively being offered for sale to converters. Then more recently in the last six months or so, that has changed. So they've also
been offering it for sale to converters' customers. So it has been a more recent development on that side of things, but we are seeing it in both places.

MR. BERNSTEIN: Can you describe the types of customers who are purchasing the Chinese slit rolls?

MS. HATFIELD: In terms of converter customers or further downstream?

MR. BERNSTEIN: No, no, the end user customers.

MS. HATFIELD: Okay, as the converted rolls of Chinese paper are being sold to distributors, who typically just re-sell slit rolls to other groups; whether that is on line. You know they might have a website that just specializes in POS paper. So they just list it for sale and sell it that way.

Some of them are distributors who, like, service a specific industry such as the restaurant industry. They might sell them the slit rolls of paper, as well as paper cups, paper plates, other things that restaurants might need.

So there are a couple of different groups of what we call distributors. But both of those would be able and have purchased the slit roll products directly from the Chinese imports.
MR. BERNSTEIN: Basically, your contention
is, the customers communicate pricing offers to the
converters, who then communicate it to you, as
upstream?

MS. HATFIELD: You mean, the distributors?

MR. BERNSTEIN: Well, the distributors, yes.

MS. HATFIELD: Okay.

MR. BERNSTEIN: The distributors
communicated to the converters, who them communicated
to you, is how you're getting the pricing information
in the market?

MS. HATFIELD: We've typically gotten
information through customer communications. I don't
know how much the customers are getting directly from
their purchasers, the distributors on the price that's
offered for sale to the distributors. Some of our
customers have just said, this distributor isn't
buying from us any more, because they said they are
buying directly from China.

MR. BERNSTEIN: I now have a question for
the lawyers. If virtually all the imports coming in
from China are slit, which I believe is what the
testimony has been, and virtually all of the rolls
coming in from Germany and Korea are jumbo rolls, and
if the testimony has been, a slit roll can't be
interchanged with a jumbo roll, how is the Commission supposed to find that the subject imports from China are fungible with the subject imports from the two other countries?

MR. DORN: Well, we think there's one like product, and there's a reasonable overlap in competition, as has been explained. I mean, there's direct competition between Appleton's jumbo rolls and Chinese slit rolls to the same converters, because the converter has the choice of buying the slit roll from China and re-selling it, or buying the jumbo roll from Appleton and converting it and selling it.

So there is competition in the market between the slit rolls and the jumbo rolls. We'll also have to look at the confidential record and see whether there are any jumbo rolls coming in from China.

MR. BERNSTEIN: That would be useful. I was relying on your testimony, that there seemed to be very few -- at least the panel's testimony.

One thing that would be helpful in your post-conference brief is, if you could provide any examples of where the Commission has used this type of economic effects test you seem to be advocating to ascertain fungibility. You are saying this involves a
domestic like product. If that were the case, then
fungibility has to mean something other than it's the
domestic like product, because otherwise that
particular criterion would be met in every instance.

One would infer from that, that fungibility
is a somewhat more strict test than characteristics or
uses. I understand your argument that the pricing of
one has an effect on the pricing of another. I'm not
familiar with that argument being used to define
fungibility. But if there are any prior instances of
that, or you'd like to argue why you think that is a
good test, we are certainly interested in that.

MR. DORN: We'll certainly address that in
our post-conference brief.

MR. BERNSTEIN: Okay.

MR. DORN: We have been looking at that
issue.

MR. BERNSTEIN: Another question concerning
your legal theories, this concerns the domestic
production operations. Both the submissions you made
to the Commerce Department and your testimony to us
this morning seem to me to be premised on the view
that the reason converters should be determined not to
engage in sufficient domestic production operations is
that they engage in operations that are substantially
less substantial than the coaters,

You are comparing the converters to the
coaters, finding that the coaters are engaging in a
much more sophisticated process, and therefore the
converters should not be included.

I would be interested, in your post-
conference brief, for you to provide examples of other
investigations where the Commission used such a
comparative approach.

In my view, thermal transfer ribbons doesn't
seem to be one of them. Oftentimes, the Commission
seems to be engaged in more of an example of sort of
the absolute nature of the sophistication. We will be
asking the converters more about that when they appear
on the second panel. But if you could elaborate on
your legal theory here, we would appreciate that.

MR. DORN: We'll certainly do that. Talking
about thermal transfer ribbons, I mean, in that case,
it was a close issue as to whether the converters were
in or out. In the preliminary determination, the
Commission said they were out. Then in the final,
based upon some change in the factual record, they
said that they were in. So it's a fact intensive
analysis.

MR. BERNSTEIN: No, I'm aware of that, and

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I'm also aware of cases of the polar extremes, where the operation involved is something that requires acquiring a screwdriver or knife; and the particular version of the particular converting equipment you included in your exhibits doesn't look like something you could pick up down the street or online. It also doesn't necessarily look like the type of thing you could just hire somebody off the street to operate. Again, we will get more testimony on that from the converters later. But I am interested in hearing about the comparative approach you seem to be advocating.

MR. DORN: Comparing the facts in this case with those in thermal transfer ribbons, we think it is a much stronger case for excluding the converter operations here than in the transfer ribbons case.

MR. BERNSTEIN: Also in your post-conference brief, if you could discuss, if the Commission should determine that converters engage in domestic production operations, how should it measure apparent consumption, domestic production and import penetration in this investigation.

On the same line, and this again is a matter for the post-conference submission, if you can provide any insight into how you believe we should be
examining the domestic industry's financial
performance, if that should be on a segmented analysis
or a consolidated analysis; just so we have your views
on the record as to that.

MR. DORN: We'll do so.

MR. BERNSTEIN: I believe those are all the
questions I have; thank you.

MS. BRYAN: Hello, I'm Nancy Bryan, Office
of Economics. It's very nice meeting all of you and
learning about the products. It's very interesting.

My first question would be about this spike
in demand that happened, I guess, during September of
2006. Leading up to that demand spike, how would you
have characterized demand, leading up to that point?

MR. SCHONFELD: The market has been growing.
The definition of a spike is different things for
different people. But the market has been growing at
certain rates, and what happened was, we saw our
demand grow at a faster rate as we saw everyone else's
demand in the industry grow at a faster rate. Whether
it technically qualifies as whatever a spike as
defined as, I don't know. But demand definitely went
up, from a growth rate perspective.

MS. BRYAN: And so since the spike, after
that period ended in early December, you would you
would say demand fell off after that.

MR. SCHONFELD: Our understanding, from both our own situation and the competitive information we have from other manufacturers is, demand did fall off, as inventory levels readjusted themselves; and then demand started to pick up again in the second quarter of the year as, you know, people worked through their inventory levels.

AUDIENCE MEMBER: We're still having trouble hearing.

MR. SCHONFELD: Sorry, I'll just have this affixed to my face. I apologize. It's my fault. Is this better?

MS. BRYAN: Okay, then currently, you would say demand then is back on track growing.

MR. SCHONFELD: Demand is good and growing as an industry overall. Yes, sure, it's back to where it was.

MS. BRYAN: Okay, thank you, now I'd like to get back to some product characteristics and, in particular, the basis weights; comparing the 45 gram to the 48 gram and the 55 gram, which all can be used for the point of sale receipts. I believe, Ms. Hatfield, you said that the 55 gram represented the substantial share.
I guess my question would be, why do you think the 48 and 45 gram aren't more popular, seeing that they're lower basis weights and I'd assume lower price?

MS. HATFIELD: Sure, as I mentioned, the 55 gram has been kind of the industry standard for this type of product. The lower basis weight products have been brought into the market at a discount versus the 55 gram product, which has made it more appealing to converters in using it; because again, it's deemed to be highly substitutable.

There can be some issues on the converting side with a thinner paper, leading to more breaks as they're converting the product into smaller rolls. But from an end user perspective, most don't see a difference between the 55 gram and the 4 gram. Some do. Some just say it's too lightweight, and they're not willing to go that low.

The reason I think it has been limited in its popularity in the business is because when you go to a lighter basis weight paper, a thinner paper, it means the rolls end up being smaller after they're rolled up, because they're typically rolled to a footage rather than a diameter. That's true for the United States, anyway. So when you use the lighter
basis paper, it ends up being smaller rolls. For a distributor who is selling their product on line, or to someone who is selling to someone who had previously had the heavier basis weight product, they get that roll and say it looks smaller; I think I'm being cheated. So that perception issue is in the marketplace, a lack of understanding that thinner paper necessarily means that they're still getting the same length on the roll.

The other piece is, in terms of managing the inventory through the process, the converter, again because of the size of the rolls, is different. Unless they want those rolls rattling around in the box during shipment, they need a separate carton size for the lighter basis weight rolls.

If they are maintaining both products and offering both products for sale, that means they have to have two sets of inventory for cartons and everything else that they're doing along the way. So it's more cumbersome for their process to be able to manage both.

There hasn't been a big consumer demand, a big end user push, to get two lighter basis weight products. So I think that's probably been the other
factor that's limiting the market really accepting it.

MS. BRYAN: Do you think in the near future, because it is cheaper, that it is going to become more highly demanded by the end users?

MS. HATFIELD: I think paper markets, in general, kind of gravitate toward lighter basis weight products. It think there is a big gap in end user education and understanding of the difference between the different papers. So I think it would take a major shift in order to get over to that point, given the dual inventories and other things along the way that kind of keep it from migrating there.

MS. BRYAN: Okay, and the subject imports, do you know if they're more heavily concentrated in the 55 gram or the 48 or 45?

MS. HATFIELD: There's a mix. Curler has been pretty aggressive in terms of pricing on the 48 gram, relative to the 55 gram, and appears to be making a push in that direction. But again, I couldn't tell you exactly what their split would be.

MS. BRYAN: I think I know the answer, but just to verify, for the end use customer, the printer can take either basis weight. If they're currently using 55, could they easily switch to a 45?

MS. HATFIELD: Typically, yes, the
converters watch the thickness of it very carefully. If it gets too thin, then it can lead to jamming in the printing mechanism. So on the whole, the 48 gram should work okay -- 48, 45. But in some instances, they could run into some increased jams and issues as a result of the lighter basis weight.

MS. BRYAN: Okay, thank you; this is a question related to the pricing product definitions. If you want to comment on this in your post-conference brief, that would be fine.

But pricing product, too, there's an Appleton high yield 400 and Appleton high yield 800 product. If you could, at some point, just characterize the differences between that product and Alpha 400-2.1 product?

MS. HATFIELD: This is Karen Hatfield at Appleton, again. The high yield product was about a 45 grams per square meter product that was introduced in 2004. We had that product in the marketplace with the whole idea of being able to put more paper on a roll for a customer.

For example, a Walmart doesn't want to change rolls any more than they have to, because they want to move people through the register as quickly as possible. So that's what the lighter basis weight
paper was intended to deliver as opposed to a more aggressive price point.

We had that paper out in the market until 2006. We decided to discontinue it. There wasn't a tremendous amount of demand for it. In 2007, we introduced a 48 gram product, with the same chemistry and characteristics as our 55 gram product, in order to give our converters the alternative of the 48 or the 55 gram, depending on their customer needs.

So there's a slight difference in basis weight between those two products, and they have different names and everything else as a result. But in terms of substitutability, they'd be substitutable.

MS. BRYAN: Okay, thank you.

MS. HATFIELD: Sure.

MS. BRYAN: Okay, switching to the sales contract terms, I think someone mentioned that it's mostly spot market sales rather than long-term contracts. Could you talk about maybe why you think that is? Is it price volatility or something else; or are there other types of like short-term, few month contracts, also?

MS. HATFIELD: Long-term contracts are very few and far between. It's definitely an outlier. It's not the norm at all. Typically, the business is
more on a spot basis. We might get orders for a few months in advance, but it's not considered a contract.

Typically, from a pricing perspective, you're putting a price out there for the product, and they submit orders for that price. That does not prevent the customers from coming back, if they're seeing a more competitive price in the market, and re-negotiating for a lower price.

Basically putting that offer out there for sale, it sets the ceiling on the price of the product, but not the bottom for the price. So we may get some orders for things. If a customer comes back to us and says, hey, look, so and so is offering a price of this. Are you going to match it? Otherwise, I'm going to take my orders elsewhere.

MS. BRYAN: Okay, maybe you can't answer this now, but typically on average, how many orders would you receive in one year from a certain customer? Do they come back repeated times in one year? Is it like one year?

MS. HATFIELD: This is Karen Hatfield, again. It's typically not an annual type of agreement. Again, it's an ongoing type of thing, and we can provide more details in our post-conference brief. But I wouldn't characterize it at all as an
annual contract.

MS. BRYAN: Okay, thank you; in terms of quality, I know you all have said that the product is highly fungible from different sources. But we've also heard that the coating is kind of an art form, from Mr. Sitter.

So is there really no quality differences to speak of? Have you ever heard quality concerns of the subject imports or other producers at all?

MR. SCHONFELD: Yes, let's see if I can get close enough to do this the right way this time. Clearly, every manufacturer, from time to time, has quality issues. Appleton has. Every one of our other competitors from time to time has.

By and large, when you look at most of the major players in the market, the quality differences aren't sufficient to differentiate the products from a price or market penetration perspective.

There is talk about whether some or all of the Chinese product is of sufficient quality. At the end of the day, the way you figure that out is, are customers willing to buy it and does it replace our product? The answer is, yes it does. So at the end of the day, you'd have to view people voting with their wallets that there's not a big enough difference.
to really worry about. So that's pretty much the answer.

MS. BRYAN: I understand that the jumbo imported rolls are mostly coming from Germany and Korea, and the converted rolls are coming from China. But where do you face the toughest competition in that? Is it tougher from the jumbo rolls or tougher in the converted rolls from China, in terms of volume and price?

MR. SCHONFELD: I guess it depends on what time on what day you're asking me. It all seems to be pretty tough right now. Prices have declined across the board, and I'm not sure that I could tell you what the causality was as to which one is driving down prices more.

From our perspective, the American manufacturers clearly are not the price leaders, and the foreign manufacturers are leading prices down right now. Whether one moves another one or causes another one to move, I wish I could give you the answer to that. I'm not sure anybody could ever figure it out. It's just that prices just continue to be competitive in the marketplace.

MS. BRYAN: Okay, what about competition with other U.S. producers? Have you ever had to
reduce your price in order to compete with another U.S. producer?

MR. SCHONFELD: Sure, there are times where that happens. But again, you get into the causality of, why did the other U.S. manufacturer reduce their price or not reduce their price? I have a hard time figuring that causability out.

But most of the time, what you see happening in industry where you have to keep your capacity full is, somebody causes you a problem somewhere. They drop their price. You lose business. You drop your price somewhere else.

So whether or not another domestic manufacturer caused us to drop our price, I don't think necessarily determines whether they were sort of the precipitating event that caused it. But sure, that kind of an issue happens all the time. It's a competitive marketplace, for use.

MS. BRYAN: Okay, thanks; that kind of leads to my next question about the market information. How quickly does the pricing information sift throughout all the customers? I mean, is it a very quick turnaround like, oh, I've heard a price quote from a Chinese supplier, and immediately the rest of the U.S. industry has to lower their price, or can you comment

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on that at all?

MR. SCHONFELD: We could probably give you examples of instances where a competitor went and offered a price at 9:00, and at 9:28 somebody was on the phone to us asking us to lower our price. It happens reasonably quickly. It's a relatively small business. That's sort of the way the business works.

So could I tell you everyone is that efficient? No, but by and large, there's a fair amount of efficiency, and we're not measuring it in weeks or months for price changes to sort of filter through the market. It happens much faster than that.

MS. BRYAN: Okay, so there's no regional price differences in the U.S. market?

MR. SCHONFELD: I wouldn't say there are, no. But they're not meaningful, and they all move in the same way, in the same direction. There are, of course, transportation cost differences from one region or another, which might affect prices slightly, one way or another. Those kinds of things do happen, but they all generally move. If it's dropping on the East Coast, it's unusual for it not to drop equally on the West Coast, for instance.

MS. BRYAN: Okay, I'm not sure if we touched on this earlier. But does the ability to produce
custom sizes or custom widths play a factor at all?
It didn't sound like it did at all. But everything is
the three and one-eighth inch width.
MS. HATFIELD: Does it play a factor for our
converter customers?
MS. BRYAN: Do you ever receive a request
for
a different width?
MS. HATFIELD: We cut the huge jumbo rolls
down to smaller jumbo rolls, based on the converter's
specifications. So we're not cutting it down to this
size, but we are cutting it down to a 53 and a half
inch role or whatever size that they need for their
equipment. So we do custom widths as needed.
MS. BRYAN: Okay.
MS. HATFIELD: If it's a custom width, if
it's less than standard, there can be additional
charges based on that, because of the waste that's
involved.
MS. BRYAN: Okay, and to your knowledge, are
you aware that the subject producers are also able to
do the different widths?
MS. HATFIELD: Yes.
MS. BRYAN: For other jumbo rolls?
MS. HATFIELD: Yes.
MS. BRYAN: Okay, thank you; so do the converters that buy your product also buy subject imports, and why would they buy both, in your opinion?

MS. HATFIELD: Yes, the converters typically buy from different sources. As we look at the major converters in the business, I mean, they're buying domestic and foreign produced product. What was the second part of your question; I'm sorry?

MS. BRYAN: Why do you think that is? Is it just because they don't want to buy all of their product from one source for whatever reason, or that you can't fill their whole entire order? I'm just throwing out ideas.

MS. HATFIELD: My assumption is that that is largely based on trying to get pricing down to the lowest level that they possibly can.

MS. BRYAN: Okay, so that can be a combination of domestic sources and imported sources then. It could be the best pricing combination.

MS. HATFIELD: I don't know that I'd necessarily say that. But a number of our converters do mix things up, sourcing from different places.

MS. BRYAN: Okay.

MS. HATFIELD: Yes, you may want to pose that question to them, when they're up.
MS. BRYAN: I will.

MS. HATFIELD: Okay.

MS. BRYAN: I think that's all I have for now, thank you.

MR. CARPENTER: Ms. Klir?

MS. KLIR: Hello, I want to make sure everyone can hear me, too. This is Mary Klir from the Office of Investigations, and thank you very much for your testimony. It's very helpful.

I just have a few questions. This first one, you may want to handle in your post-conference brief. I'll leave it up to you.

I'm just looking for estimates here. Approximately what percent of your total raw material costs are accounted for by each of the main raw material inputs for lightweight thermal paper? I'm sure paper is the biggest part, but I'm curious about the other components.

MR. SCHONFELD: Your guess is generally right, and we'll provide you with a lot of detail on that in the post-conference brief. I'd rather not get into that in a public forum.

MS. KLIR: Okay, sure, thank you, and along with that, if you could also comment post-conference on, if these percentages change for other weights of...
1 thermal paper, the heavier thermal paper for the
different components, that's be helpful; thank you.

   For post-conference, for the attorneys, in
your post-conference brief, please analyze the
reported profitability of coaters and the reported
profitability of converters, and discuss the factors
affecting revenues and costs that account for any
differences in profitability between coders and
converters, as well as between the various coaters who
have provided questionnaire responses. That would be
helpful. Thank you very much. That's all I have.

MR. CARPENTER: Mr. Forstall?

MR. FORSTALL: Thank you, Mr. Carpenter, and
thank you, as well, to the panel for your testimony
this morning.

   Let me start out just with a few quick
product-related questions. The first, I think I
probably know the answer to, based on one of your
slides. But I just want to make sure I'm completely
correct in this.

   The base paper we're talking about for this
product is always free sheet, typically, or sometimes
free sheet? Is there any ground wood at all?

MR. SCHONFELD: It's most always free sheet.

I wouldn't guarantee that 100 percent of the time.
I'd have to go back and check the actual statistics on it.

But it's actually a special product. It's not really what you would normally see as free sheet. It's a specially made product for thermal, in particular. It's not the same free sheet you would see come out for normal sheets you would put into a ream of paper, for example. It is a special kind of paper.

MR. FORSTALL: Yes, what would be some of the reasons that would make it special, relative to some of the other free sheets that you would see?

MR. SCHONFELD: It could be everything from the humidity of the paper, for its ability to absorb coatings, to a number of other sort of technical issues. We can give you a whole list of the things that vary. I don't have them on the tip of my tongue, but we'll provide them to post-meeting.

MR. FORSTALL: Yes, I would appreciate that.

MR. SCHONFELD: Just understand, there are some substantial differences in the product, and the product is specially made for this segment. So it's not like we could just go anywhere and just buy any paper and use it. It needs to be designed and made specially to match up with the chemistries that we
happen to be using.

So it gets to the point literally where paper that works for us may not necessarily work for one of our competitors, just so you're aware. So we do manufacture our own paper for that.

MR. FORSTALL: Thank you; in terms of the basic products, we're talking about 48 gram or 55 gram. How much of that basis weight is accounted for by the weight of the coding?

MR. SCHONFELD: We usually measure the paper in poundage and the weight in grams. So I'm sorry, I'm at a loss to give you the exact numbers right now; if I can provide that to you.

MR. FORSTALL: That would be fine.

MR. SCHONFELD: I just don't want to mislead you. I can give you a ballpark, but I would rather give you the exact number.

MR. FORSTALL: That would be fine.

MR. SCHONFELD: That's fine.

MR. FORSTALL: Getting back to touching on some of the testimony I heard earlier about the certification process, Ms. Hatfield, I believe you mentioned the certification process. What are the fundamental differences in the paper for different manufacturers' products?
I mean, I guess asked another way, if you failed to qualify or certify for a particular manufacturer's equipment, what would you do to go back and correct the problem and get that certification?

MS. HATFIELD: Okay, this is Karen Hatfield at Appleton. If we were to run into any kind of issue in the certification process, we would work with the manufacturer to understand exactly what the issues were. It could be a change to the base paper or a tweak to the coating chemistry or the amount of coating.

It could be any one of a number of things that we would do to address whatever issue it is that they were encountering; and then likely we would re-submit for testing or work with them to make sure that it was meeting their expectations.

MR. FORSTALL: Okay, thank you; one other thing that was mentioned earlier, in terms of the quality of the image for the particular product, how would you control the quality of the image, as far as the final image on the paper? What would change in terms of the coating or whatever else that would tend to affect the quality of the image?

MR. SCHONFELD: If I could just ask a clarifying question, are you talking about within a
production run or between new products?

MR. FORSTALL: Between different products --
I think one of the things that was mentioned as a
difference between the lightweight versus the other
thermal paper was the quality image.

MR. SCHONFELD: I understand the question
now. I'm sorry, I just wanted to be clear. A couple
of things, the active ingredients that change the ink
color, everything down to things like humidity and the
by-products that happen to be in the product -- all of
those will impact not only image clarity, but image
quality.

So there are a number of factors --
everything from just how much ink you happen to put on
the piece of paper, how much coating, to factors in
how you do the manufacture, that could have an impact
-- what kind of coating mechanism you use, the
different kinds of coating technologies that you can
use, as I'm sure you're aware, and those different
technologies, have different levels of viability of
the image.

So there's all kinds of factors that you can
use to drive differences in image quality between
different grades of paper. Some of them cost you
money like coating and the different technologies,
which might be more expensive; and some of them are just manufacturing differences. But there's a mix of both in there.

MR. FORSTALL: Okay, thank you; just as an observation, the Commission has in recent years heard, I think this is the sixth paper-related case or investigation that we've had. Five of those cases have dealt with converted paper products of one sort or another.

This is the first time, as far as the converted product is concerned, that we haven't been talking to the converters in the morning as opposed to in the afternoon.

If you look at the petition and the process description, in terms of the sorts of processes that go on in converting lightweight thermal papers into that final product, they sound awfully similar to the processes that some of these other products go through.

In particular, they are especially similar to some of the tissue and the crepe paper products that we've looked at in recent years, in terms of unwinding the jumbo rolls, slitting and cutting, sometimes printing, rewinding, and packaging. All of those things are very similar in overall production to
some of these other products.

I'm not exactly sure. I understand fundamentally the difference between the production side for lightweight thermal paper and some of these other converted products that we've looked at before. So if you could address that issue in your post-conference brief, I would very much appreciate it.

MR. SCHONFELD: We'll certainly do that.

MR. FORSTALL: Thank you. Finally, one other data-related question, in Exhibit 11, I think it was the October 4th submission that we received at Commission which was in fact a copy of the September 28th submission that you'd made to Department of Commerce, you presented in Exhibit 11 some facts and figures on world capacity of thermal paper.

If you could verify for me please that those figures presented, there were figures presented for the United States, Japan, Europe, and the rest of the world, and it looks to me like those include all known world capacity, but if you could verify that I would very much appreciate it.

Also, I apologize for not knowing 100 percent what's in the petition so that if it already is in the petition I beg your pardon for asking, but if you wouldn't mind submitting that entire report for

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us in the post-conference brief. That way that will
let us judge just a little bit better how much weight
we should put on those numbers.

Mr. Carpenter, that's all the questions I
have.

MR. CARPENTER: Ms. Mazur?

MS. MAZUR: Good morning and thank you very
much for coming and testifying this morning. We
always appreciate when we get actual participants in
the industry here to present testimony. So thank you.

I really don't have very much to cover. I
think many of the issues have been very thoroughly
covered already and we look forward to hearing from
you in your post-conference brief.

One question I think I'd like to address to
the attorneys, Mr. Dorn and Mr. Jameson. Do you think
negligibility is an issue in this case with respect to
imports from any of the countries?

MR. DORN: Not based upon the numbers we
have, we don't think it's an issue. But we can
certainly address that in the post-conference if you'd
like.

MS. MAZUR: That's I think my point here.

There is so much unknown in this case with respect to
actual import volumes, with respect to information as

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to the value added, for example, in conversion activities. If you all would just take, well, those who have access to the confidential information, take careful look at what's going to be released to APO and make sure that the arguments that you're making with respect to domestic product, with respect to industry, domestic industry, or negligibility are based on the actual BPI information that you'll receive in the questionnaires.

MR. DORN: We certainly plan to do that.

Thank you.

MS. MAZUR: Excellent. And because of Commerce's extension of their initiation, Mr. Carpenter will actually give you the date, but we will be postponing or extending the deadline for the post-conference brief, so hopefully that will give you additional time to peruse all of this information.

Again, I thank you all very much and look forward to your post-conference brief.

MR. CARPENTER: Just one follow-up question.

Mr. Bernstein had asked a question earlier about why your company, or whether you had considered further vertically integrating into production of the downstream slitted product, and you essentially said no, that the two segments had always been separate and
that you wanted to maintain good relations with your customers.

MS. HATFIELD: Actually, if I could clarify that for a second.

MR. CARPENTER: Sure.

MS. HATFIELD: I said we had not moved into converting product. Historically those industries have been maintained separate. So just to clarify.

MR. CARPENTER: Thank you. And maybe this is more a question for the post-conference brief, but just looking at the dynamics of how competition is shaping up in this market and you've got a number of converters who are now not just simply sourcing the jumbo rolls from you and from other sources, but they're importing directly from China I believe was the testimony.

Have you given thought to any cost advantages that you might be able to achieve by virtue of your vertical integration by further processing the product to produce the downstream slitted product?

And I guess a related question, too, you made a comment I think in response to MS. Bryan's question about slitting into narrower widths, and I was wondering if you were already currently capable of slitting the product to the 3-1/8 inch width. If you
have the machinery that's capable of doing that.

MR. SCHONFELD: I guess there were two questions in there. The second one is do we have machinery capable of doing what the converters do today within our current facilities; and the second question is have we considered whether moving downstream and disintermediating, maybe I'm using the wrong word, but disintermediating the converters would be something we'd consider doing.

To the first question, our slitting capability to slit the smaller rolls, they're still jumbo-sized rolls. It's special equipment to slit to what the converters provide which is the three-plus inch rolls. We would need to make an investment to be able to do that. As I think we've indicated in some of our filings and you can check in the industry, it's not a huge capital investment to do those kinds of things relative to the cost of putting in a paper machine, but obviously it's something we haven't yet done. So we don't today have that capability.

Have we looked at the economics of doing those kinds of things and have we looked at what you've suggested in the first half of your question? The answer is yes, and we'll provide you some information on that in the post-conference brief if we
could, because it's quite confidential.

MR. CARPENTER: Yes. I'd appreciate that.

We would definitely appreciate it if you could provide
those details in your brief.

MR. SCHONFELD: There are other people in
the room listening to this conversation. I just want
to make it clear we haven't done that and we're not
looking to disintermediate our customers. I just want
to make sure that's on the record as well.

MR. CARPENTER: Right.

A couple of related questions, too, to the
best of your knowledge do the converters tend to
market their product nationwide or more in a regional
basis?

MS. HATFIELD: There's some of both. A
number of them are national suppliers and the
customers that they're selling to are often national,
but there are some that focus more regionally.

MR. CARPENTER: And another question that
you may prefer to answer in your brief, but I was
wondering whether any of your customers source their
jumbo rolls only from you, or whether the typical
practice is they would source from you as well as from
other companies. You don't have to answer that now if
that's confidential.
MR. SCHONFELD: The only thing we'll say is there's a mix. We can provide you with some specific statistics on that confidentially, but there are some I'm sure for all manufacturers that are exclusive, and then the larger percentage that are not.

MR. CARPENTER: Thank you very much.

Are there any other questions from staff? Mr. Cassise?

MR. CASSISE: Mr. Dorn, in your post-conference brief if you could shed a little light on any other trade remedy actions in third countries. You refer in the petition to an Indian action on thermal paper. If you could provide information on whether that includes our subject product or if it's a broader category.

Also what the actual margins are would be helpful.

A little bit more detail on the Indian action and then if you are aware of it in any other third countries.

MR. DORN: We'll take a look at that. Thanks.

MR. CASSISE: Thanks. That's all I have.

MR. CARPENTER: Again, than you very much, panel, for your testimony and for your responses to Heritage Reporting Corporation (202) 628-4888
our questions. They were very helpful.

At this point we'll take a short break to allow the parties to switch sides, of about 10 minutes then we'll resume with the Respondents. Thank you.

(Whereupon, a short recess was taken.)

MR. CARPENTER: Okay, let's resume the conference at this time. Please proceed whenever you're ready.

MR. SILVERMAN: Mr. Chairman, I'm William Silverman with the law firm of Hunton & Williams and I'm serving as the quarterback for the Respondent's presentation.

Only one introductory comment. I hope we have a resourceful panel for you. You heard a lot of testimony this morning that was barely hearsay -- third hand, fourth hand. People testified this morning about imports, they don't know. We have importers here. They testified --

MR. DORN: Excuse me, Mr. Silverman, could you speak up a little bit please? I can't hear you.

MR. SILVERMAN: Sorry. I'll start over.

They heard your testimony this morning indicating they didn't know what imports were. We have the importers. They talked this morning about what converters do and what they don't do. We have
the converters. So I think it will be a fruitful
interchange for the panel. We'll begin.

MR. GREENE: Good afternoon. My name is
Richard Greene and I'm the Chief Operating Officer of
Koehler America who is the sole U.S. importer for
light weight thermal paper produced by Koehler.

I'm here today to explain Koehler's role in
the U.S. light weight thermal paper market and why
Koehler has been a consistent supplier in this market.

Koehler America imports light weight thermal
class paper in jumbo roles from Koehler's mill in Germany.
Koehler understands that all of the other subject
imports also enter in the form of jumbo rolls only
except for the Chinese product which enters only in
converted form which are small rolls, ready to use in
cash registers.

Koehler believes that it is by far the
largest U.S. import source of light weight thermal
paper and sells more light weight thermal paper in the
United States market than all other import sources
combined.

We have succeeded in selling increasing
quantities of light weight thermal paper in recent
years, but contrary to what you heard this morning
from Appleton's representatives Koehler has succeeded
in the U.S. market through product innovation, quality, and strong market demand conditions and not by price undercutting.

Until a few years ago nearly all thermal paper used for point of sale applications came in a standard thickness or caliper of 2.3 mils or thousands of an inch. The basis rate of the 2.3 caliper thermal paper is generally 55 grams per square meter.

In April 2005 Koehler introduced its KT48 paper. Our KT48 is a 48 gram weight with a caliper of 2.1 mils, 10 percent thinner than the KT55 or the 2.3 caliper paper.

The advantage of this thinner paper is that it can be used to make a longer finish roll with the same diameter which means that the person operating the register or printer at the retailer spends less time changing rolls.

Also the product is more economical for converters or customers to ship because they can ship out 10 percent more footage of register weight at the same shipping weight.

Koehler has seen its sales of KT48 paper grow. While Koehler's sales of its standard 55 gram paper have been dropping since 2005, Koehler's sales of its KT48 paper have increased. At this point,
approximately two years later, about 40 percent of the
value of Koehler's light weight sales of thermal paper
consist of its KT48 product. I expect this ratio to
increase further in 2008 as more and more converters
ask for thinner paper in which they can make longer
rolls.

I understand that prior to the introduction
of our KT48 Appleton had introduced an even thinner
product with a weight of, sometimes in their papers it
says 42 grams, other times it's referred to as 44 or
45 grams, but a caliper of 1.8 mils. However, due to
poor quality Appleton's 1.8 caliper product never
gained acceptance in the market.

I understand that Appleton did not
manufacture its own base paper for this product and
the base paper it purchased did not maintain
consistency in the caliper or thickness.

The unusually low caliper of Appleton's
product plus the wide variation in the caliper caused
difficulties in slitting as well as in performance of
thermal point of sale printers.

As a result I understand that Appleton
eventually discontinued its 1.8 caliper product, and
we heard that this morning.

We introduced our 48 gram product with 2.1
caliper as we saw the advantages of a longer roll and a lighter product, but we took the step in the middle between Appleton's old 1.8 caliper and our standard 2.3 caliper product with the aim of producing a good consistent product.

As a result, our sales began to develop.

Meanwhile it was reported to us that Appleton told some of their customers that they had no plans to reintroduce a thin, lighter product to compete with our 2.1 caliper product.

This summer, more than two years after we began selling our KT48, we learned that Appleton reversed its strategy and has offered customers a 2.1 caliper, 48 gram product to compete with Koehler's KT48 product. However, I've been told by converters that this new Appleton product is available only on a special order basis and we don't know if Appleton has made any meaningful sales yet of their 48 gram product.

Appleton made no product announcements as it normally does with a new product.

To the best of my knowledge Kanzaki, the other U.S. producer, does not offer a standard point of sale 48 gram, 2.1 caliper product.

As a result, with no competition from either

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Appleton or Kanzaki, Koehler has basically had this segment of the market to itself, with some competition from Mitsubishi, the other German jumbo roll supplier.

So in addition to product innovation, Koehler's gained business through product quality. Koehler makes all of the base paper it coats. In contrast, Appleton purchases a large portion of its base paper from outside supplies and Kanzaki purchases 100 percent of its base paper.

In addition, Koehler focuses almost exclusively on the lighter weight paper for point of sale applications while Appleton and Kanzaki concentrate on a broader line of thermal papers including heavier weight papers for applications like tickets, labels and text.

Koehler's focus on point of sale thermal paper and its ability to control all of its paper, both the paper making and coating stages, allows Koehler to deliver a high quality, consistent product. Many of our loyal customers have told us they prefer to purchase our paper over Appleton or Kanzaki because of Koehler's high quality. Converters have also told us they like the way it prints and also that it converts on their slitting machines more smoothly.
In fact in the last 19 years of doing business in the United States we have never paid a claim for runnability or product performance.

Insufficient capacity at Appleton and Kanzaki, evidenced by Appleton placing customers on allocation at various times, and by Kanzaki periodically entering and leaving the light weight thermal paper market, as well as numerous complaints about Appleton's poor quality in the second half of 2006 are additional factors that have increased our sales here.

Finally, Koehler's sales have increased worldwide, not just in the United States, reflecting increasing worldwide demand for light weight thermal paper.

For point of sale applications retailers have discovered that the use of thermal paper in thermal paper printers to generate receipts is more cost efficient than using carbonless paper or plain paper. I expect this trend to continue.

Appleton's witnesses this morning testified that Appleton's prices are depressed because of price undercutting by imports. That claim just doesn't make any sense to me.

First, our prices have gone up since 2004.
and also in the interim period.

Second, in the first quarter of this year Kanzaki lowered prices by three to five percent, seeking new business; and Appleton, Mitsubishi and Koehler were forced to follow.

This past summer Koehler announced a five percent price increase. Appleton and Kanzaki initially matched our price increase but then Kanzaki withdrew its price increase completely and Appleton cut its price hike from five to three percent.

From time to time I've gotten calls from converters who have asked Koehler to lower its price to match Appleton's or Kanzaki's offer. For example, "Good morning, Richard. Kanzaki is coming in two percent lower than Koehler on the 55 gram. I will need to cancel three trucks if we cannot get some help on pricing. Thanks, and please advise."

We sent him an e-mail responding and matching the offer.

So to the extent that there's a downward price leader it's Kanzaki or Appleton and not Koehler. The last point I'd like to discuss is the difference between the product from China versus the product from Koehler.

Koehler imports only jumbo rolls which it
sells to converters located throughout the United States. Those converters add value not only by slitting and packaging, but also by adding customer ordered printing to the back for 40 to 40 percent of what they produce.

My understanding is that none of the Chinese product is imported in jumbo roll form, but instead is imported in the slit and pre-packaged form ready to use in a cash register.

Furthermore, as I mentioned above, Koehler sells a significant and increasing share of its product in 48 gram with a 2.1 caliper. In contrast, the finished cash register rolls that come from China are only 55 gram, 2.3 caliper, unprinted, and therefore do not offer greater length possibilities or freight savings like the lighter weight products do.

Thank you for your attention.

MR. FRUEH: Good afternoon. My name is Willie Frueh and I am the Director of the Thermal Paper Division at Papier Fabrique, August Koehler AG, the largest German producer of the light weight thermal paper that is the subject of this investigation.

Koehler produces the base paper used in its thermal paper production, coats the paper, and rolls
the product into jumbo rolls for sale to thermal paper converters in Germany, the United States, and more than 70 third country markets.

The quantity of Koehler's home market and third country export sales have been significant throughout the period of investigation and Koehler anticipates that they will continue to remain significant into the future.

As shown in Koehler's foreign producer questionnaire response, the total quantity of exports to third countries greatly exceeds the quantity of sales to the United States during each year of the period of investigation, and we expect this to continue.

We expect sales to third countries to continue to be strong because many third country markets are more attractive to Koehler than the U.S. market. For example, prices in the U.S. are lower than prices in most of Koehler's other major export markets.

In addition, demand is expanding greatly in many other markets, particularly in Europe. For these reasons we expect our third country shipments to remain at least as strong as they have been in recent years and more likely increase.
In addition, Koehler's operating at full capacity and therefore is not likely to increase its exports to the U.S. because in order to do so it would need to abandon some other markets or customers. We are unwilling to abandon other markets or customers for the reasons discussed above which make sales to other markets more attractive than sales to the U.S.

In fact Koehler has been turning down some light weight thermal paper business in the U.S. throughout 2007. Also several months ago Koehler budgeted for a decrease in light weight thermal paper sales to the U.S. in 2008.

Koehler has been able to succeed in all markets not because of our price but because our quality generally exceeds that available from other light weight thermal paper producers. We produce all of our base paper which allows us to strictly control the quality of the base paper. This translates into increased quality in the finished light weight thermal paper, particularly with respect to the consistency and the thickness of the paper. Also Koehler coats its light weight thermal paper using a curtain coater which allows for the application of the coating in the most consistent way possible.

The strict control of Koehler's paper making
and coating operations result in high quality and consistent light weight thermal paper. Because of this our customers repeatedly tell us that our light weight thermal paper works better in slitting machines.

In addition, Koehler's light weight thermal paper has better imageability than comparable products. This means that the point of sale receipt initially has a darker print tone and retains the image at a higher quality for a longer period of time than other non-top coated thermal paper product.

Thank you for this time.

MR. GRANHOLM: Mr. Carpenter, ladies and gentlemen, good afternoon. My name is Donald Granholm. I am Vice President of Supply Chain Management for Nashua Corporation, a major manufacturer and marketer of both printed and non-printed point of sale transaction roles. Nashua is a NASDAQ traded company with nearly $270 million of total revenue in 2006.

In addition to converting light weight thermal paper point of sale roles, Nashua is also a manufacturer and marketer of labels and specialty papers. We supply labeling products for industrial, transportation, and retail applications. We employ
approximately 750 people, all of them here in the United States.

As a major producer of point of sale transactional roles, Nashua purchases light weight thermal papers in the form of jumbo rolls. We perform printing, slitting and packaging operations as specified by our customers. Then we market and distribute those small rolls as finished goods. Nashua performs these converting operations at company-owned locations in both Tennessee and California.

Nashua sells finished transactional rolls directly to final users such as major retailers who use the rolls in their point of sale registers, indirectly through distributors, and through major big box types of office supply wholesalers.

Nashua purchases jumbo rolls from both U.S. and German suppliers including Appleton, Koehler and Mitsubishi. The value-added by Nashua during its converting operations is estimated to range between 35 and 55 percent with printed roll products generally having a higher value added than non-printed products.

Approximately 25 to 35 percent of Nashua's business in converting light weight thermal paper includes some type of printing operation such as pre-
I'm going to interrupt my prepared statement just for a moment. Since earlier the Commission heard some remarks addressing the relative value add by the makers of the paper versus the converters, and also I've gauged interest by the staff here in the business we're in, and I don't often get a chance to talk to interested people in our business, let me just pull up a receipt I got yesterday here in D.C.. This is a receipt from a major office wholesaler.

The value added for the paper producers is of course the piece of paper itself and kind of what's happened on the front. The thermal coating's been used to apply the transactional information for my purchase on the receipt. This is certainly a necessary condition to sell this paper to this retailer, but it's not sufficient. It's not sufficient.

In order to complete the value equation and for the retailer to buy this type of material, on the back some other things have to happen. Here's where the value add by the converter takes place.

You can see there's multi-color printing on the back of the receipt and you may not be able to see

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it from where you're sitting but I'd be happy to show it to you at your convenience, there is a special security printing section on here. If you scratch the security printing it changes color and it's a way for the retailer to verify that this is an original, not a duplicate, and a perfectly valid receipt so the customer can get his or her refund.

That's a little bit of the difference between where the value add comes. Certainly a thermal application is necessary, but in many cases not sufficient for us to sell anything.

The U.S. market for thermal coated transaction rolls has been growing as retailers and other users of transactional receipt printers move away from carbonless and other types of impact printers to faster thermal printers. From 2004 through today Nashua has at various times purchased jumbo rolls of light weight thermal paper from both domestic and foreign suppliers. Multiple factors enter into Nashua's sourcing decisions. Price is certainly one of those factors, but it's not to the exclusion of the other ones.

Non-price factors critically relevant to our decision involving thermal paper include first, product availability. To assure consistent

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availability of sufficient quantities of thermal paper Nashua buys from multiple suppliers. During the periods in question domestic suppliers were, at times, unable to meet Nashua's volume requirements. These instances of restricted purchase quantities and missed shipping dates occurred during the late third and early fourth quarters. These are critical production times for Nashua to provide our customers with the transactional rolls they need during the peak retail season of the year.

Second, trim optimization. Koehler and Mitsubishi are willing to sell jumbo rolls in exact widths specified by Nashua allowing trim waste during the conversion process to be minimized. Domestic producers have required Nashua to purchase multiple role widths so as to trim out their own mill rolls. This is a suboptimal purchasing and production alternative for Nashua. Trim optimization helps lower our manufacturing costs and helps us to remain competitive in the retail market.

Third, product quality or runnability. Products provided by Koehler and Mitsubishi provide greater converting efficiency than domestic products. Nashua achieves a higher yield or productivity rate in our converting operations from rolling Koehler or

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Mitsubishi product as opposed to running domestically produced papers. Again, this helps us reduce our manufacturing costs and increase our competitiveness.

Fourth, product uniqueness. Only German based suppliers offer thermal paper with 2.1 mil caliper and 48 gram basis weight, a product that besides providing greater converting efficiency is preferred by some of Nashua's customers.

Fifth, desire for multiple supply sources. As a procurement strategy Nashua strives to source key purchased products from multiple suppliers. With the increasing consolidation of the U.S. paper industry in general and the market for jumbo rolls of light weight thermal paper in particular, it is essential that Nashua include foreign producers within our stable of suppliers for an item as important to Nashua's business as is light weight thermal paper.

With regard to competition on the basis of price. Since January 2004 U.S. producers have during certain times increased their prices to Nashua and during other times reduced their prices. In a similar manner prices quoted to Nashua by foreign suppliers have moved upwards during some periods and downwards during others. While Nashua does not know the motivations or reasons that underlie specific pricing
decisions of either domestic or foreign producers, in
our experience it has been most often the case that
the German producers of light weight thermal paper
issue price increase notices in advance of such
notices from domestic producers. As recently as
September this year, Nashua has seen foreign producers
of jumbo rolls be the first to give notice of a price
increase.

In conclusion, Nashua views the market for
jumbo rolls of light weight thermal paper as being
global in scope. In order to be competitive in the
market for our finished goods we need to have fair and
even-handed access to the full spectrum of raw
materials available in the global marketplace. The
markets for our products are highly competitive and
our ability to effectively compete in those markets is
critical to our success.

Foreign producers of jumbo rolls compete on
the basis of product innovation, product quality,
manufacturing efficiency, as well as price. Their
presence in the U.S. market in turn makes U.S.
producers stronger competitors.

Nashua thanks the Commission for the
opportunity to present our views in what we consider
to be a very important case.

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I'll be happy to try to answer any questions you may have.

MR. SANDT: Good afternoon. My name is Roger Sandt. I'm the CEO of Sandt Products, Incorporated. We are a strong, healthy, but a lot smaller competitor than the people that you see at the table, but we co-exist and manage to get our share of the business.

Sandt Products purchases light weight thermal in jumbo rolls and performs printing, slitting and packaging operations in order to produce finished rolls suitable for use in business machines such as retail register tapes.

Depending largely on whether we are printing the merchandise, our value added ranges from about 25 percent to 100 percent of the value of the input jumbo roll.

We have a substantial slitting, printing, and packaging equipment capital base as well as having skilled labor to run these machines.

With respect to light weight paper, Sandt Products generally purchases exclusively 48 gram merchandise, and primarily purchases from Koehler. Until 2003 we purchased exclusively 55 gram merchandise and our primary source was Appleton.
However, at the end of that year Appleton informed us that because of an allocation it would supply us with less paper in the upcoming year than they had in the previous year. The amount of paper Appleton offered to continue supplying us would not meet the needs of our then current customer base and leave no room for growth.

Therefore, we switched to Koehler as our main supplier in order to meet our needs. Initially we purchased 55 gram from Koehler, but eventually switched to 48 gram when it was introduced about two years ago, when we realized the advantages of 48 gram, both in the potential for longer footage rolls and the decrease in shipping weight.

We still occasionally purchase some 55 gram merchandise from both Kanzaki and Appleton when faced with critical needs, but prefer not to mix 48 gram and 55 gram thermal paper because our customers will not accept variation in the product that we supply to them. Therefore we now focus our light weight thermal purchases on 48 gram and buy 55 gram only when absolutely necessary.

We have been unable to find a domestic source for 48 gram merchandise. Sandt Products is a...
regular customer of Appleton's 80 gram merchandise
which is not subject to this investigation and has
regular contact with Appleton sales people. We have
made clear to Appleton that we are not interested in
purchasing 55 gram paper but in the event they began
making 48 gram paper with a 2.1 caliper we would be
very interested in having an alternative source for
that product.

We have made this intention clear numerous
times over the past two years. Appleton is well aware
of our interest in the 48 gram paper. Only recently,
and it was in August, a new sales representative left
us samples of both the standard, what they call
Appleton 400 2.3 which is a 55 gram paper; and a 48
gram 2.1. There was no announcement, no fanfare.
This particular sales person did not know our business
that well, but we assured him that we were still
interested in purchasing the 48 gram.

To my knowledge there has been no
announcement, sales follow-up, or we have not received
any pricing on this product. Therefore we don't think
it's generally available.

We are an existing Appleton customer. Our
company has made it clear that the 48 gram is the
paper that we wish to purchase and to date we don't

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know its availability to us. Thank you, and I would be glad to answer any
questions.

MR. ENDSLEY: Good afternoon. My name is Doug Endsley and I'm the President of Register Tapes Unlimited, Inc., which is the largest producer in the country of register tape for grocery stores with full color printed advertising on the back.

RTUI is also a converter of thermal paper. RTUI purchases thermal paper in jumbo rolls and performs printing, slitting and packaging operations in order to produced finished rolls suitable for use as register tape in grocery stores.

Roughly 90 percent or RTUI's business includes printing. For the printed tapes that we sell, I estimate that our printing, slitting and packaging operations are equal in value to the jumbo roll costs we purchase. In other words, when we sell our finished product it's for roughly double what we pay for the jumbo roll.

The value added for this merchandise is so high because it requires a significant capital investment to operate a converting and printing operation such as RTUI's and also a significant investment in the training and education of our
employees. A significant amount of technical
expertise is required to operate the machinery.

For example, a printer must serve a five-
year apprenticeship in order to be qualified to run
one of our printing presses. Employees also receive
on the job training for at least six months before
operating the slitting machines.

In the last two years we've built a new
facility with a total value of our investment
including equipment of approximately $20 million. We
spend $19 million a year in labor costs. We have 350
employees and sales associates.

Lightweight thermal paper is a growing
market. RTUI's business has grown 700 percent in the
past six years and we anticipate growing further as
customers continue to transition to thermal paper from
carbonless or other paper.

RTUI purchases its light weight thermal
paper primarily from Koehler and we do so for reasons
other than the price. Koehler has been a long-term
supplier to RTI.

About 10 years ago Appleton offered to sell
us light weight thermal paper at a price substantially
lower than what we were paying at Koehler. I decided
to make the switch at Appleton and sever the
relationship with Koehler. Before the first orders
even shipped, however, Appleton called to let me know
that they were putting us on allocation due to tight
supplies. The orders were never shipped, so after
losing my new supplier before receiving a single pound
of merchandise, I was forced to return to Koehler and
beg for paper.

Koehler was also operating on a tight supply
and was not able to ship right away, but began
supplying as soon as it was possible. I've been a
loyal Koehler customer ever since.

RTUI has contracts to provide tape to over
5,000 grocery stores. Failure to provide tape timely
would result in breaching our contracts with these
chains.

Another reason RTI purchases Koehler light
weight thermal paper is its superior quality. For
example, RTUI Pressman prefer color paper because they
tell us it takes the ink better and produces a better
print.

I used to get complains from printers when
we supply them with other paper. Although Koehler is
RTUI's primary source of paper, we occasionally
purchase from domestic suppliers when faced with short
supplies.

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Sometimes Appleton agrees to supply us, and sometimes they do not. For example, about a year ago I tried to purchase from Appleton but was rejected. Not enough supply. Appleton told me they were not adding any new customers at that time.

I cannot run a business using a supplier that decides sometimes to sell and sometimes to not. For that reason, I've not purchased thermal paper from Appleton in over 18 months.

Historically the prices of Koehler merchandise have been nearly identical with one or two percent to the similar domestic merchandise that we have occasionally purchased. However, recently Kanzaki has been offering prices below either Koehler or Appleton to the extent that if there is a downward price leader, today in my experience it's Kanzaki.

Listening to earlier testimony, I got a sense that prices haven't escalated. Since the fourth quarter of 2003 through January of this year, prices have went up 20 percent. Now they have fallen back 7 percent since then, but 20 percent in a three and a half year timeframe I think is probably historic.

Thank you.

MR. SCHWARTZ: Good afternoon. My name is Steve Schwartz. I'm the President and CEO of Rite-
Made Paper Converters, Incorporated, and I'm here today to represent Rite-Made at this proceeding. Rite-Made is a 100 percent employee-owned company and among the largest producers of converted small roll thermal paper products in the United States.

As I looked around this morning, I saw representatives from a couple of old friends -- Appleton and Koehler. Appleton, Koehler and Kanzaki, though not represented here, have all been long term partners of Rite-Made. I want to make it clear, I have no axe to grind. Rite-Made continues to purchase thermal paper products from both Appleton and Kanzaki in addition to Koehler and Mitsubishi.

However, in the fall of 2006 I had to reduce purchases of light weight thermal paper from Appleton for certain quality reasons that I will discuss shortly.

I value Rite-Made's relationship with both Appleton and Kanzaki, but I am here to testify today because continued access to imported German jumbo roll light weight thermal paper is essential to Rite-Made for various non-price reasons.

Rite-Made operates three plants in the United States. We have about 100 full-time employees, a number which has increased steadily over the years.
In 2007 our revenues will approach $50 million. We have invested millions of dollars in increasingly sophisticated equipment to produce plain and imprinted light weight thermal paper in recent years.

In 2007 alone we have invested or committed to invest $1.7 million in new slitting and printing equipment and broken ground on a new headquarters and manufacturing facility in Kansas City with a cost of about $7 million.

In addition to investing in new, modern, highly efficient manufacturing equipment, we are experiencing significant growth in the demand for printed products. Printed products currently account for about 25 percent of our light weight thermal sales, but it is the fastest growing segment of our business.

In regard to the focus of this proceeding, I believe it is very important for the Commission to distinguish between the subject merchandise that is imported from Germany versus the merchandise that is imported from China. And I would point out, we have not imported any finished goods from China.

The imported German product is all jumbo rolls which is sold exclusively as a raw material for
conversion into small rolls. The Chinese product, on
the other hand, is to my knowledge all imported as
small rolls and is not a raw material that can be used
by converters.

In addition, to my knowledge, the Chinese
merchandise is neither OEM tested nor approved, while
the German product is.

In short, it's my feeling the German imports
which are raw materials do not compete directly with
the Chinese imports.

Rite-Made began purchasing light weight
thermal paper from Appleton, Koehler and Kanzaki
nearly 20 years ago. Both Appleton and Koehler have
been important suppliers of this product. Over the
years our purchases from Appleton have grown fairly
steadily, however beginning in May of 2005 Rite-Made
began experiencing various problems slitting the
Appleton paper and also receiving complaints from
customers with respect to the image quality of
Appleton light weight thermal paper.

These problems continued until the fall of
2006. The main problems in slitting were weaving of
the paper during slitting and a build-up of a dusty
film on the rollers of some of our slitting equipment.
These problems resulted in excessive waste and
significant reductions in our production efficiency.

Throughout this period of about a year and a half, however, Rite-Made continued purchasing some Appleton light weight thermal paper and did all it could to work cooperatively with Appleton to resolve the problem. Rite-Made incurred substantial expense during that time attempting to resolve these problems.

Finally, after a year and a half of continuing problems and substantial expense, in the fall of 2006 we had no choice but to modify our sourcing which resulted in a reduction of our purchases of light weight thermal papers from Appleton at that time.

In addition, it is important that this Commission understand that it is vital that Rite-Made have multiple dependable sources of any raw material including light weight thermal paper in order to protect against supply disruption or other unforeseen problems such as the Appleton quality issues discussed previously.

While we have purchased light weight thermal paper in small quantities from Kanzaki over the years, Kanzaki, in our opinion, has never been committed to the light weight thermal paper market and therefore we do not consider them to be a reliable ongoing source.
Domestically Appleton is the only source that has been consistently committed to the light weight thermal paper market. Therefore it is critical to Rite-Made that its access to German light weight thermal paper continue.

I would also like to point out, there are those who would like you to believe that the decision as to where to source light weight thermal paper is driven entirely by cost, however in reality various non-price factors also drive Rite-Made's purchasing decisions. In fact in the long term the cost of jumbo rolls of light weight thermal paper is not in and of itself critical to Rite-Made because this cost is passed through to Rite-Made's customers as part of the final product cost.

Instead, our sourcing decision is based on a combination of reliability of supply, consistency in quality, and price.

To the extent that pricing is relevant it is important to note that earlier this year following a general increase in the price of light weight thermal papers in the fall of 2006, Kanzaki apparently seeking to increase sales at that time of light weight thermal papers offered to supply their light weight thermal papers.
paper at below the then-existing general market price level. The effect of this action was to trigger price reductions by Appleton and Koehler in order to match this offering.

I thank the Commission for your time and would be glad to answer any questions.

MR. JAHNS: Good morning. My name is Falk Jahns and I am the Area Sales Manager for North America for Mitsubishi HiTec Paper GmbH. I have held this position with Mitsubishi for approximately five years and have been in the paper industry for more than 10 years. Based on my experience I believe that I can speak to several of these issues that have been raised in this investigation of light weight thermal paper and can also speak to Mitsubishi's experience in this market.

Mitsubishi was something of a late entrant into this market and began shipping light weight thermal paper to the United States in 2000. Since 2004, though, our shipments to the United States have remained constant. As reflected in our foreign producer questionnaire response, our 2006 shipments dipped slightly, but we expect that our full year 2007 exports will be essentially unchanged from prior years. This stable export quantity comes at a time
when the U.S. market for light weight thermal paper is growing.

While no formal consumption figures are published, industry participants estimate that the U.S. market for light weight thermal paper is growing at about 10 percent a year as new users are found for thermal paper and as carbonless paper declines in popularity.

Like Koehler, 100 percent of our light weight thermal paper exports to the United States are of jumbo rolls which are sold exclusively to converters for the production of converted rolls.

We have never sold converted rolls in the United States and we do not compete against converted rolls in the U.S. market. While we do compete against Appleton and Koehler's jumbo rolls product, but to my knowledge we have never competed against import of light weight thermal paper from any Chinese producer. They simply do not sell jumbo rolls of light weight thermal paper in the U.S. market.

Furthermore even our competition with Appleton is somewhat limited as we each focus on different products in the U.S. market.

Like Koehler, the majority of our light weight thermal paper exports since 2004 have been of a
product with a basis weight of 48 grams per square meter. By contrast, Appleton principally markets and sells a 55 gram product.

In our experience, customers generally tend to prefer our product or another for reasons of cost, performance or image, and the two products generally do not compete against each other in the market.

As to pricing, Mitsubishi is a mid-level player in the U.S. market and definitely smaller than market leaders like Appleton and Koehler. As such, Mitsubishi does not have the market presence to be a price leader and our consistent export volumes suggest that we have not aggressively undersold the market to gain market share.

Finally, we are surprised that Appleton is claiming that its production facilities are under-utilized or that it lost sales opportunities in the U.S. market. In August 2006 we received a written request from Appleton to supply it with 10,000 metric tons of light weight thermal paper per year through 2008 for sale under the Appleton brand. We can only assume that Appleton made this request because it was unable to satisfy customers from its own production facilities. Mitsubishi declined this inquiry.

This request which we will submit in our

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post-conference brief, undermines Appleton's claim to have underutilized production capacity.

Thank you.

MR. DOUGAN: Good afternoon. My name is Jim Dougan from Economic Consulting Services and I'm here today on behalf of the German Respondents.

There is much about Petitioner's case that simply does not add up. The panel this afternoon has provided substantial evidence to rebut Petitioner's causation arguments with respect to imports from Germany. Other information that is publicly available on the Petitioner's business contrasts with the data presented to the Commission and raises questions about the evidence provided in support of Petitioner's injury case.

First, there is an inconsistency between Petitioner's characterization of the health of the thermal paper business and the documents presented to the Commission and in their reporting --

MR. CARPENTER: Excuse me one second.

Mr. Dorn?

MR. DORN: Can we get a copy of the slides?

MR. CARPENTER: Do you have copies?

MR. DOUGAN: They're at the table.

MR. BERNSTEIN: Have they been presented to Heritage Reporting Corporation
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MR. CARPENTER: Oh, uh huh.

MR. BERNSTEIN: -- presentation was going on and it's going on behind my back.

MR. DOUGAN: Sorry about that. That's my mistake.

I've only gotten to the title page so far.

MR. SILVERMAN: Can we get the 30 seconds back?

MR. CARPENTER: Yes, we stopped the clock.

(Laughter).

MR. CARPENTER: Please proceed.

MR. DOUGAN: Thank you.

There is an inconsistency between Petitioner's characterization of the health of their thermal paper business in the documents presented to the Commission and in their reporting to the SEC and in other public statements. Please refer to Exhibit 1.

As you can see from the slide, Appleton has been consistently profitable at the operating income level in their thermal paper business since the beginning of the POI. This is a very different story from the results presented in the petition and in Appleton's producer's questionnaire.
Now Respondents recognize that Appleton's thermal paper reporting segment covers a broader range of merchandise that is included within the scope of the petition, but nowhere in its public filings does it make a distinction between the two alleged market segments of thermal paper, and in particular it does not make reference to the allegedly injurious conditions in the light weight market.

Moreover, no mention is made of unfairly traded imports as a cause for any observed decline in performance, even though Mr. Schonfeld's testimony this morning alleged that such unfair pricing preceded the relatively recent entry of imports from China.

Second, there is Appleton's announcement in January 2007 of its decision to invest $100 million in light weight thermal paper capacity at its West Carrollton mill. Please see Exhibit 2 for excerpts from Appleton's press release announcing the project.

The significance of this investment is underscored by the fact that it is the only capital investment of any kind made by Appleton since 2003 for which it has issued a press release. This is Appleton telling the world that they are bullish on the thermal papers business. Again, this outlook seems surprising when compared to the financial results presented in
their questionnaire.

To fully appreciate the magnitude of this investment, however, it is helpful to have further context about Appleton's historical capital investments as well as its overall business situation. Please refer to Exhibit 3.

Capital expenditures for Appleton Papers as a consolidated entity in fiscal years 2004, 2005, and 2006 were 36.5 million, 32.5 million and 36.5 million respectively. Please note, these are capital investments made for the consolidated organization which includes operations in the other coated and security paper segments, the company's performance packaging division, and its British subsidiary. Collectively, these businesses account for over three-fourths of Appleton's operations as measured by 2006 net sales with total thermal paper segment representing less than one-fourth.

By definition, light weight thermal paper would account for even less than one-fourth. Thus the numbers in this chart represent a comprehensive view of all capital expenditures made by the broader organization.

Compare those numbers covering all of Appleton's business with the $100 million investment...
in one facility for its light weight thermal paper segment alone. Clearly, such an investment simply dwarfs any capital expenditure made by this company in recent history and consequently was unlikely to be approved without extensive return on investment calculations and other financial analysis. That such an investment would be approved in January 2007, given the 2004 to 2006 results reported in Appleton's questionnaire, doesn't seem to make sense.

To understand why, additional context is also helpful. At fiscal year end 2006 Appleton had approximately $20 million in cash on its balance sheet. Given this, relative to the planned investment, it stands to reason that the company intended to raise the investment funds from external sources and presumably Appleton management had something in mind when they approved the project and announced it to the world.

Here's where another wrinkle comes in. Appleton is a heavily leveraged company and operates under debt covenants that restrict its management's flexibility in selecting and financing new projects. As of December 2006, Appleton was carrying approximately $523 million in long term debt. Please look at Exhibit 4.
This works out to a debt to equity ratio over four, meaning that its debt is more than four times its equity and represents 82 percent of total capital. These are indicators of a highly leveraged company.

Moreover, Appleton has spent approximately $50 million a year in interest expense in each of the last three fiscal years which equates to approximately five percent of total net sales.

By comparison, at the end of 2006, Nashua Corporation, the only other U.S. thermal paper producer for which financial data were publicly available, carried $4.5 million in debt with a debt to equity ratio of effectively zero and interest expense amounting to less than one percent of net sales. In other words, Nashua has comparatively little debt.

The point of this comparison is not to pass judgment on how Appleton aligns its capital structure, but rather to point out the significance of its debt compared to another thermal paper producer. With Appleton's level of indebtedness come strict requirements from lenders in the form of debt covenants. If Appleton defaults on any of these covenants it could require pre-payment of the amounts outstanding which, as you can see from the slide,
could be a very sizeable sum.

These covenants also restrict Appleton's ability to meet capital expenditures which under the covenants are limited to $50 million in any one fiscal year. Therefore, to successfully complete its West Carrollton project as announced by 2008, Appleton would need to use its entire CapEx allowance under the covenants for this one facility for this one line of business.

Given the situation, we ask the staff what is the likelihood that Appleton management and debtholders would in January 2007 have approved an investment of this magnitude and strategic significance for a business returning the 2004 to 2006 results shown in Appleton's questionnaire?

Thank you for your time.

MS. JEONG: Good afternoon. My name is Rosa Jeong. I'm with the law firm of Greenberg Traurig. We're here this morning on behalf of Paper Resources, LLC which is an importer of Chinese thermal paper in Shanghai Hanhong Paper company which is an exporter of Chinese thermal paper. Also with me this afternoon are Mr. Christopher Burns of Paper Resources and Philippe Bruno of Greenberg Traurig.

Mr. Burns is here to provide you with Heritage Reporting Corporation (202) 628-4888
details concerning the thermal paper business and the products that he imports from China. We believe that Paper Resources accounts for the great bulk of Chinese imports which makes Mr. Burns' testimony particularly informative for the Commission staff.

On behalf of our clients I'd like to first thank the Commission staff for the time for this opportunity.

Among the scores of recent cases filed with the Commission recently against Chinese imports this case struck us as almost refreshing. Why? For once, China is not the primary culprit. Chinese goods have not been in the U.S. market for most of the period of investigation. There were no Chinese imports in 2004 and almost none in 2005. Commercial shipments only started in 2006.

What's shown by the data collected by the Commission and as Mr. Schonfeld of Appleton testified this morning, whatever problems the U.S. industry suffers, they pre-date Chinese imports and cannot have been caused by them.

Although it's become almost fashionable for U.S. Petitioners to blame China for their problems, in this case. Appleton is pointing their finger at the wrong place. Even with the increase in 2007, Chinese
imports remain and will remain a very small part of the market when compared to the overall market which is projected to grow at a healthy pace.

As Mr. Burns will further discuss, imports from China are all slit rolls which do not compete with the jumbo rolls produced by Appleton. Appleton, of course, knows this but claims that China is causing problems by selling the downstream product directly to their customers, i.e., the converters. This is not true.

As Mr. Burns will testify, his customers use Chinese imports to expand their national reach and protect their markets.

Further, the record contains no real pricing data that shows underselling by the Chinese product. Appleton's claimed that price competition from Chinese rolls causes an upstream price pressure on the jumbo rolls, is simply unsupported.

Under these circumstances we believe that the record shows no reasonable indication of present material injury or a threat of material injury to the U.S. thermal paper industry by reason of Chinese imports and that the Commission should reach a negative determination based on the preliminary record.
However, should the Commission find it necessary to proceed to a final phase of this investigation, we submit that the Commission should define a domestic like product to include all thermal paper and not just paper weighing 70 grams per square meter or less.

Based on the Commission's normal six prong like product analysis, it's clear that the 70 grams do not represent a clear dividing line between light weight and heavy weight product. Rather the market encompasses a continual product with a wide range of weights and grades.

We believe that the analysis of thermal paper industry as a whole will reveal a picture which is very different from that portrayed by Appleton.

Thank you.

MR. BURNS: Good morning. My name is Christopher Burns. I am the owner and managing director of Paper Resources located in Norwalk, Connecticut. We import and broker thermal paper. I've been in the paper business for 16 years. The last six have been focused on the thermal industry. A hundred percent of the paper that my company imports from China is imported from Hanhong Paper Company which is located in China. We are the exclusive
distributor for Hanhong and they are a converter. What I mean by a converter is they purchase jumbo rolls from a paper producer, the print and slit them or slit them into various widths and lengths. I believe we are the largest importer of thermal paper from China.

The paper Hanhong produces and we import is to service the POS market. We sell to both converters and distributors. We sell only full container quantities and only on a made to order basis. We do not inventory paper.

The majority of the paper we import is 55 gram slit or finished rolls in what has been defined as light weight in this case. Over 90 percent of the paper we import is produced to 3-1/8 inch wide. We do buy and sell paper over 70 grams, but the vast majority is 55 gram.

I'd like to point out thermal has many markets in addition to POS, such as tickets, tags, labels, lottery, and applications for the gaming industry. Examples of products are airline boarding passes, baggage tags, event tickets, kiosks, ATMs, coupons, slot tickets and wholesale delivery receipts. The total thermal market is roughly 225,000 tons of which 52 percent is POS.
Market growth averaged 7.3 percent the last 12 years with six to eight percent forecast for the next two.

I'd also like to emphasize there is no bright dividing line between the light weight and heavy weight market. I disagree 70 gram defines the upper end of the light weight market. In my mind there is only one market which is made up of a wide range of weights and grades and which all compete for the same applications.

I've talked this over with several of my customers. All of them agree the market is not neatly divided between under and over 70 gram. Heavier paper is perceived to be more high end and is used where the end user wants a more durable, substantial transaction record. For example, most mass market retailers demand 48 to 55 gram POS paper, but some high end retailers specify a heavier POS paper to complement their luxury image.

Over 70 gram can be used and is used in most applications of lighter paper. For example, I sell 80 gram paper which is used for airline boarding passes, but depending on availability, I can substitute 70 or even 55 gram for the same application. If you compare 68 with 72, no one would be able to tell the
The majority of the companies in the thermal paper industry including coaters, converters and distributors are involved with the so-called light weight and heavy weight papers. There is no difference in the production process between heavy weight and light weight paper. The difference between light weight and heavy weight is the weight of the base paper. Light weight and heavy weight paper is coated in exactly the same manner. Heavier paper does cost more on an area basis, but is roughly the same cost on a per pound basis.

I started at Paper Resources two years ago when fundamental changes became clear in the market. First, as you hear earlier this morning, the order of business is producers sell paper in jumbo rolls, the converters slit the jumbo rolls into various widths, lengths, and then package the rolls for sale. The converter sells the rolls to distributors and end users. Historically there were hundreds of different widths, lengths, and packaging requirements depending on the customer and the brand of printer installed.

In the past several years we have seen the number of roll widths, lengths, and packaging requirements consolidate primarily into one width, 3-
1/8 inch wide, four to six different lengths, and one standard package. The 3-1/8 inch roll accounts for over 90 percent of the slit roll market. This consolidation into one size has transformed the POS market into a commodity.

Another major factor is the growth in the number of converting companies. There are over 42 converters competing in a market where 15 years ago there were maybe 15. The growth in converting capacity has outpaced the growth and demand through sheer volume of converters and gains in converting efficiency.

Converters and distributors have modified their selling policies to help leverage standardization in their favor. Historically paper converting was a regional business and distribution was a local business. Freight and communications limited the geographical reach of converters and distributors.

Today with better communications and efficiencies in truck routing, converters have expanded their geographical reach. UPS has allowed distributors to sell national accounts out of one facility or to drop ship products from the closest converter to their customer. Converters are selling

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more and more to the paper consumer which is pushing the distributor out of the supply chain.

With the thermal business becoming more and more national, more and more global, and more and more competitive, converters and distributors are looking outside the normal supply chain for an edge. This is where we fit in.

For example, one of Paper Resources largest customers is a regional converter. This converter has national business that historically they would not be able to fully service in-house at a profit. By sourcing some of their requirements from China, the converter was able to supply the national company at a profit.

Additionally, many distributors are witness to converters calling on their customers as a converter tries to broaden their customer base. To protect their business the distributors have looked to alternative sources of supply to push back competition from the converters.

In summing up our value to the market, we sell our products based on quality, convenience, reliability, and the prompt shipments our freight advantages from China afford us. An example of our freight advantage is we can ship a container from

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China to Vegas for $3100. Freight from Michigan to
the same destination is $3600. Hanhong has allowed
our customers to expand or retain business they
otherwise might have lost. My customers tell me they
do not purchase on pricing advantages. In fact we had
three price increases in the last 18 months. We sell
on reliability, quality, availability, and our promise
not to compete with them.

I honestly believe Hanhong has not harmed
the market and most certainly has not harmed Appleton
whose business is fundamentally different from ours.
We do not compete with Appleton's business, we do not
import jumbo rolls, nor have we taken sales away from
Appleton. Rather we have helped protect and grow
their markets.

Thank you very much.

MR. SILVERMAN: That completes the
testimony.

MR. CARPENTER: Thank you very much, panel,
for your testimony. We appreciate so many witnesses
coming here today. It's been very helpful.

For the record, we will accept the exhibits
to the testimony of Mr. Dougan and will attach those
to the transcript.

(The exhibits of Mr. Dougan

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were received into evidence.)

We'll begin the questions with Mr. Cassise.

MR. CASSISE: Good afternoon to everyone.

Thank you for your testimony. I do have a few questions.

Just as points of clarification, both Koehler and Mitsubishi have U.S. importing subsidiaries that are the exclusive importers of the parent company product. Is that a fair statement?

MR. JAHNS: Yes, that's correct for Mitsubishi.

MR. GREENE: It's correct for Koehler as well.

MR. CASSISE: So when we look at your U.S. importers' questionnaires, combined that will constitute all of the German imports into the United States market.

MR. GREENE: Yes.

MR. EMERSON: Mr. Cassise, could I make one clarification?

MR. CASSISE: Sure.

MR. EMERSON: the relationship between Mitsubishi HiTec Papers and its importer is exclusive. It's not quite the same corporate relationship that you described in your question. The specific
relationship between the two companies is spelled out in the questionnaire responses. But you mentioned sort of parent and subsidiary. That's not exactly right for the Mitsubishi companies that have responded, but like I said, it's spelled out in the questionnaire responses.

MR. CASSISE: Thank you, Mr. Emmerson. [sic]

This question is for anyone on the panel.

Is anyone aware of imports from any other country besides China, Germany and Korea coming into the U.S. market?

I see no one raising their hand. That's a no. Okay, thank you.

I guess we should get into the technical expertise, more detail of the technical expertise of the converting process. Some of you have mentioned some percentages of value added. I think Mr. Granholm, you had mentioned some of the printing operations that your firm conducts.

I was actually kind of curious for you to explain a little bit more about the security printing which I never knew existed on the back of a receipt, but could you go through some of your firm's printing operations and just kind of detail how much value added you think that adds to your product?
MR. GRANHOLM: Certainly. I'll do my best.

In my statement I estimated that about 25 to 35 percent of our POS transaction roll business involves some type of printing or value added operation. That kind of flows up and down with our success in the marketplace and seasonally as well.

In terms of printing capabilities, we have the ability to print in multiple colors, to incorporate custom logos or artwork on the back of some of the receipts. We also have the ability to add a security stripe or security printing. What happens is there are certain words on the back of this particular receipt I waved at you earlier that are printed in a little different color. They're printed in gray. When you rub it, it turns in to a different color. so if you just ran a receipt through a xerox machine and tried to return your TV from Circuit City six times, it could verify that you don't have an original receipt because they couldn't get the certain printing to change colors.

That technology, that security ink, and the application of it is made available to converters under license. It's intellectual property that's protected by a patent. So there's a considerable value add for this type of converting operation. Of
course not all retailers choose to do that, but many well known consumer brand names do.

MR. CASSISE: What firm owns the patents to that technology?

MR. GRANHOLM: I don't know. I could get back to you on that.

MR. CASSISE: That's fine.

Is it fair to say that the major retailers would not buy your product if you didn't have that printing technology available to them?

MR. GRANHOLM: I would say they're desirous of it. The converters, this is just a Nashua exclusive province, but the converters in the industry, many of them have this capability. A good number of them anyway have this capability. And we solve a problem for the customer. We solve the problem by adding to the value of the product in a thermal print type of application.

MR. CASSISE: Again, this is for all of the converters. I have in front of me a copy of Appleton's public product list and on the bottom it has its new product. It says new, the 48.2 gram per square meter product, the Alpha 400-2.1. Has anyone been offered this product?

One of you had mentioned the product that Heritage Reporting Corporation
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you couldn't get it or there wasn't a sales follow-up, but I would like any converter's experience with --

MR. SILVERMAN: What's the date of the document?

MR. CASSISE: I printed this, oh, there is a date on it. June 21, 2007.

MR. SCHWARTZ: I can address that question. This is Steve Schwartz. We did some testing in one of our facilities for Appleton on that product in terms of slitting it, and we have also purchased I believe one truckload of that product.

MR. CASSISE: Mr. Schwartz, that wasn't the product that you said you had the dusty film experience with.

MR. SCHWARTZ: No. That was the 55 gram product.

MR. GRANHOLM: Speaking for Nashua, I was not aware that this product was in the marketplace. I have spoken to an Appleton rep in the course of the past year and that was not part of our discussion. I was not made aware that this product was in the market.

MR. CASSISE: Mr. Sandt, I'm looking at my notes and I think it was you that had mentioned --
MR. SANDT: We're eager to have a second source and we would welcome any further discussion on it with Appleton, but as I mentioned, our knowledge of it comes very casually. It came from samples being dropped with us and then seen in the questionnaire. But further than that, we've never been offered it, which usually comes with a price, that's never been offered to us.

MR. CASSISE: But you said that a sales person did mention the product to you in a casual manner.

MR. SANDT: I called our office this morning just to make sure that, I was going to sit here and tell you that I was unaware of it and we have a new sales representative that doesn't know too much about light weight thermal and he came in with samples of both the current 55 gram and this other paper, but it was never brought to my attention and we would have pursued it perhaps a little bit more if it was. But there has been no either overt or even normal sales follow-up to sell us that and I can tell you that we are, as I've mentioned, we've mentioned it numerous times, both to Appleton and Kanzaki. When you have this product, we'd be very interested in looking into it.
MR. CASSISE: So none of the converters on the panel have actually purchased this product.

MR. SCHWARTZ: This is Steve Schwartz. To my knowledge we have purchased one truckload.

MR. CASSISE: What timeframe was that?

MR. SCHWARTZ: I wouldn't care to guess at that. It was within I think the past three or four months, but we would have that information available.

MR. CASSISE: Okay, thank you.

Mr. Burns, you had mentioned something interesting, and I asked a similar question to the panel this morning about the different machines, the different point of sale machines and how different slitters in the thermal transfer ribbons case had kind of specialized in different, in a wide variety of bar coding machines. According to your testimony the point of sale machines, there's been massive consolidation very recently and there is basically one standard width, one standard package. Could you just elaborate and give me a little history lesson on that?

MR. BURNS: I think traditionally there were a lot of different printers out there and everyone was kind of fighting or the market share maybe like VHS and Beta or the new HDDVD players. Who's fighting for the standardization.
MR. CASSISE: Have the number of POS machine manufacturers also consolidated? I'm assuming there are less machines out there, but --

MR. BURNS: The three major ones would be Aviant, Epson, Samsung are the three that I'm aware of. I have a new Samsung printer in my office and it prints just about everything. There used to be a lot of different core requirements. There used to be a lot of different widths, and there used to be a lot of different lengths. We sell, again, I would say 95 percent of our volume is 3-1/8 inch wide and then it comes down to certain customers like different lengths. I would say that's more to keep the prices in perspective with other things. Two hundred feet versus 220.

MR. CASSISE: Any of the other converters comment on this issue? Mr. Schwartz, Mr. Granholm, Mr. Sandt? Has the number of specific specifications gone down over the years? Has there been specification consolidation, if you will?

MR. GRANHOLM: Don Granholm, Nashua. My comments are based strictly on review of company records, having not been in the industry for a decade, but only relatively recent to the industry, but we have fewer SKUs or part numbers today than we did in
the past, that's certainly true, and the preponderance of the material we sell is as Mr. Burns described, highly concentrated on a relatively small number of different lengths and very small variants in the width.

MR. SCHWARTZ: This is Steve Schwartz. I would respond to that.

There has been a change and probably a reduction. In the past, before the advent of thermal technology, NCR dominated the equipment landscape and every new machine that came out took a unique product width. That was an after-market way to control that market. But as we move to thermal technology there are limited numbers of thermal print head manufacturers, and there has been a reduction. But I would strongly disagree with Mr. Burns' assessment of the simplicity of the marketplace.

About 70 percent of our sales are in thermal papers; 30 percent are not even in thermal papers. They're in bonds or uncoated free sheet and carbonless. And within the thermal, I would guess about three-fourths of that 70 percent of that is in some sort of 3-1/8 inch configuration, but there are a great many other sizes and some of them are quite important including a number in the 2-1/4 inch width.
So it is not quite this one size fits all that has been presented.

Thank you.

MR. SANDT: This is Roger Sandt. I would say the sizes have come down, however there is still a variety. I certainly wouldn't generalize that this is what we're going to have forever. Most of you remember that you had a fax machine in your office and you didn't like the paper that came from it. That's the paper that we use to make POS rolls. That market has completely changed. It uses cut size paper. And I think we all have to be aware that there can be changes and there will be changes in the industry.

There's ink jet printing that is somewhat widespread where you have certain banks who put out 4,000 or 5,000 terminals. You get a lot of this and the market changes now. You simply don't change a cash register within a big chain like Federated because it's a huge capital investment, but at some time the machines will turn over and we don't know what they are. We see little changes now, but we have to remain very flexible.

MR. SCHWARTZ: Can I add one further comment?

MR. CASSISE: Sure.
MR. SCHWARTZ: To give you some idea I think of the complexity, we have a stock product offering of about 100 products. This is thermal papers and non-thermal papers. But the total data bank of products that we manufacture is around 2,000 different products. Many of those are very simple changes in configuration -- lengths and so forth. But there are a variety of widths, there are differences in core specifications, differences in paper grades, there's printing requirements, there are people that have unique end of roll mark requirements, all kinds of different types of security features which has barely been touched on.

So this is a much more complex market than has been presented in some aspects.

MR. CASSISE: Thank you.

Shifting gears, again, to mention the thermal transfer ribbons. One of the things the Commission looked at was the additional raw materials that the converters use besides the jumbo rolls. In that case it was things like the cores and the leaders and the packaging materials.

Can the converters shed some light on what additional raw materials you use in the production of your final product? Of course not counting the jumbo
Mr. Schwartz, would you like to start?

MR. SCHWARTZ: Sure. I think it's fairly standard. You have cores, you have cartons, you have certain materials to seal the ends of the rolls so they don't come loose, there may be some kind of internal packaging materials, you have labels. Obviously if you move into printed products then you get into a wide variety of inks, security inks, non-security inks, and so forth.

Essentially that pretty much covers -- there may be shrink packaging, that type of thing.

MR. CASSISE: If you give me a range, say your low end products all the way to your high end products with printing and fancy packaging, what would be just the general percentage of the cost of those additional raw materials of the final product?

MR. SCHWARTZ: I believe that information is in the questionnaire I provided. I'm not sure I want to try to quote that right off the top of my head. We can certainly supply it.

MR. CASSISE: That's fine.

Also when you're briefing that issue, where those items are sourced would be helpful as well. Whether they're U.S. manufactured goods or imported as
Is there a general consensus amongst the converters how much a new converting facility would cost to build?

MR. SANDT: I was just going to answer your previous question by saying that you can minimize or maximize the materials that we use, but there was a time that you could get into this business on the cheap. You can't. The equipment is very expensive. People at this table have probably spent upwards of a million dollars instead of $100,000 or less to do pretty much the same thing. That's a cost that gets thrown into the cost of doing business, as much as the materials that go into it.

MR. CASSISE: So your answer to my question would be a million dollars to start --

MR. SANDT: I'd rather have somebody else answer. I'm not building a new plant.

MR. SCHWARTZ: I'll be happy to take a stab at that and I think Doug probably has got good information in it as well.

We're in the process of constructing a new 85,000 square foot headquarters facility in Kansas City. We'll open in approximately one year.

If you were to build that from scratch and
install all of the equipment new, we would easily have an investment in that of $10 to $12 million. Some of that would be the structure and the balance would be the equipment.

MR. CASSISE: That facility would be dedicated to the production of this product?

MR. SCHWARTZ: Dedicated entirely, yes, to the production of small rolled products of which light weight thermal papers are the major item.

MR. CASSISE: Mr. Schwartz, while we're talking about new facilities, how long would it take you to train new employees to operate those splitting machines in a productive manner?

MR. SCHWARTZ: In our printing department we have a basic requirement to hire someone that they have five years of commercial printing experience.

MR. CASSISE: That's the printers. Actually, we could back up a moment. Those are two distinct production processes in your facility, correct?

MR. SCHWARTZ: Yes.

MR. CASSISE: So a printer, five years of experience. How about the slitting machine? How much experience or training would be required for that?

MR. SCHWARTZ: That would really vary by the
level of sophistication. We have machines, they're the old machines which are being replaced which are primarily manually operated, hand/eye coordination type. You can virtually train somebody to run those machines in three or four weeks.

MR. CARPENTER: Mr. Schwartz, would you turn --

MR. SCHWARTZ: Sorry, my apologies. I can't ever see the light.

Did everybody hear that answer or do I need to repeat it?

MR. SILVERMAN: Can you repeat it for the court reporter, please.

MR. SCHWARTZ: Yes. The amount of time to train depends upon the level of sophistication of the equipment.

The old manual slitters which are being rapidly phased out within our operation, you could take somebody with motivation and good hand/eye coordination and they could be trained to run that machine in about four weeks.

At the far end of the scale are the newest levels of equipment. Appleton showed you a picture of a slitter. There's actually an advancement beyond that slitter that's called a fully automated dual
jennerjohn. We require that we have, the operators to
go into training for that type of equipment have three
years of successful experience, increasingly
successful experience in operating other equipment in
the plant.

These are quite sophisticated, computer
controlled, very different level of skills than the
manual equipment.

MR. CASSISE: Would that machine, the latter
machine you mentioned, be similar to the one that we
saw on the slide this morning?

MR. SCHWARTZ: It's actually two of those
machines that have been combined and then fully
automated so that this combined dual machine has been
automated and computerized so that it can be
essentially operated with two people.

The machine you looked at would also operate
with two people.

MR. CASSISE: You would characterize the
slide we saw this morning as a state of the art
slitting, converting machine?

MR. SCHWARTZ: One step short of state of
the art.

MR. CASSISE: One step short. Okay.

MR. GREENE: Excuse me, if I might say one
thing.

MR. CASSISE: Sure.

MR. GREENE: Richard Greene from Koehler America. This dual slitting machine that Mr. Schwartz refers to, I understand from a good source that there have at least 10 of them been sold in the United States and they cost about $750,000 per machine.

MR. CASSISE: Thank you very much.

MR. SILVERMAN: this is Bill Silverman. I just want to add in our submissions to the Commerce Department which I think we submitted and will be supplementing with some additional information that was whited out in the first one. We tried to do an estimate on how many converters there are, how many machines they have, how much the cost, to get some idea of the scope of the industry. You just happen to have four here, but there are more than four in the universe and we wanted to explain to the department for a similar issue, not the identical issue you may be after, how big the investment is nationwide. We'll try to get that to you in a way that you can use. You've made the calculation based on their knowledge of the whole industry, not just before. So you can see how many of those machines, how many employees, and you add up the cost of all those machines, it's
quite substantial.

But I'm a little concerned because you will hear at some point, if you haven't already, that a paper making machine costs X. But that's not the comparison point we're talking about when we're trying to make a statement about the ratio of the converter's contribution. Since Kanzaki buys all its paper, doesn't make it, so they can't use that. And the general understanding, as our testimony said earlier, even Appleton does not sue 100 percent of its own paper. It uses much paper from somewhere else. So you can't use that papermaking machine as part of the comparison.

MR. CASSISE: I think Mr. Burns earlier raised the issue that the test may not be more production activities, but sufficient production activities. But that issue will be briefed.

Mr. Burns, real quick on the Chinese product. Is the Chinese product certified? We heard something about certification today. Is there any certification that occurs with the Chinese product?

MR. BURNS: No, we are not certified.

MR. CASSISE: Any of your customers, have you lost sales because you're not certified?

MR. BURNS: I would say we've only lost
sales to a national retailer who would request that
you be certified for all their equipment and I would
also say if you wanted to participate in the internet
bid process you need to have a certified grade. We
don't participate in the internet. But we've simply
stated as was testified earlier, we have a product
that works, we guarantee the product, we'll take it
back if it doesn't work. We've never had to take any
back.

MR. CASSISE: I was wondering if you could
tell us a little bit about the producers in China, if
you have any knowledge about the producers in China.
You said that the company you buy from is a converter
in China. Where do they get their jumbo rolls? Is
the industry similar to the U.S. where everyone, there
are a small number of jumbo roll producers and many
converters?

Or is it dissimilar to the U.S. market. If
you could shed any light, that would be helpful.

MR. BURNS: The market in China does not
work any differently than it does here. You've got a
lot of converters. You've got some big ones and
you've got some medium sized ones and you've got some
mom and pop operations. There are three to four
coaters in China that matter. Some of them have paper
that's suitable for export to the United States and
some of them do not. The differences there would be
whether the paper is too smooth or too rough for a
print head wear, the density of the image that comes
out of the paper and the archival quality of the
paper.

    Koehler has put out a comparison of their
grade against two of the major Chinese thermal
coaters. We are not part of that comparison I
believe. We take a little different approach to how
we produce the paper and we do not source our base
paper within China. We source it on the global market
so we have a much more consistent sheet than what
typically comes out of China.

    You've heard today that caliper is a huge
issue for the converters and for the business machines
so that you have a consistent roll diameter. and
we've had a very consistent sheet. Again, we've had
no paper returned to us since December '05 until
today.

    MR. CASSISE: So you haven't encountered any
China quality issues with your customers then?

    MR. BURNS: No, we have not. And again, I'd
like to point out, we're exclusive with Hanhong and
they're exclusive to us. We don't go to China and
source from the lowest cost converter of the month. We've always promised we have the same pallets, cores, cartons, base paper, coating technology, tape, label, the whole thing. Every month.

MR. CASSISE: Is it possible for you to estimate how many converters there are in China?

MR. BURNS: I couldn't tell you how many there are, but there are probably seven that matter. That would have the wherewithal to support an export market month in and month out with a consistent quality. Most of them would probably only be able to do one to five containers a month.

MR. CASSISE: What would that be in tonnage?

MR. BURNS: A container is roughly 18 tons of paper, carton, cores and pallets.

MR. CASSISE: Okay.

Does anyone want to talk about this 2006 demand spike that we heard about this morning? Or is this not something you experienced?

MR. ENDSLEY: I'd like to comment on that.

MR. CASSISE: Okay.

MR. ENDSLEY: Doug Endsley. I'm not sure about a demand spike, but about 30 days ago I called and asked, actually one of my representatives called to price a container from Heritage Reporting Corporation (202) 628-4888
Appleton and the price was much higher than what we were paying everywhere else. When we asked why such a sudden spiking of their pricing we were told that it's because 90 percent of their capacity is going for higher grades. They only have 10 percent of their capacity for light weight. Therefore it's supply and demand.

MR. CASSISE: Okay. So Appleton had a supply problem. You didn't encounter a demand problem.

MR. ENDSLEY: No.

MR. CASSISE: It wasn't an end user demand spike in the summer of 2006. The back to school season was really big that year? No?

MR. BURNS: I would just say there was just a general perception that there was not enough thermal paper in the market. That was the general perception. Because again, they talked earlier that there's no industry association that tracks the thermal business. No one really knows how much capacity is out there in thermal paper. No one knows how much converting capacity is. No one really knows what demand is. If you put NCR, Nashua, and a couple of paper mills in a room and asked them what the demand is for thermal paper you're going to get four different answers.
So the supply chains that we're talking about here are very long and if any one of them, just one of them is disrupted, it can have a ripple effect and people will panic and they will buy. And as it was said earlier, it was for the retail season and no one wants to lose business for the retail season which people are building up for. If you're importing paper from overseas for the retail season, you're looking into June, July and August orders to get it here, to convert it, to get it in the supply chain.

MR. CASSISE: So you increase your inventories slightly in the third quarter to get ready for the fourth quarter.

MR. BURNS: Yes, you would have your supply chain full.

MR. SCHWARTZ: This is Steve Schwartz. I would make a comment on that. And this is applicable to any paper market, and I've been in this business for 31 years.

What occurs, and I believe what occurred in the fall of 2006 was a combination of moving into this busy time of the year and an announced price increase. I believe the combination of those two stimulated a surge in orders which extended backlogs at the mill.

In the bond market, briefly, I have seen
mills go from basically calling for weakened tonnage in four weeks essentially they're on allocation because of the sudden and unexpected increase in pricing. Everybody tries to slam in orders, and all of a sudden their backlogs jump from two weeks to eight weeks and you have this artificial tightness.

I believe there was a combination of those factors that created some of this, pre-buys and concern about availability for the retail season.

MR. CASSISE: Mr. Greene?

MR. GREENE: I had heard late in 2006, and I don't have a way of verifying this, but that one of the reasons Appleton could not supply was that they took a large lottery business, I heard it was from New York, and a lot of their production went for that. That was a higher value added production, higher priced product, and that's why they cut back on their light weight thermal paper.

Maybe Appleton can verify that.

MR. CASSISE: Thank you, Mr. Greene.

MR. BURNS: I would say that what he said about the lottery is right. I'd heard that too.

MR. EMERSON: Eric Emerson from Steptoe. I would also add I think that the testimony from Appleton came up in the context of a short term
supply disruption in sort of the fall of 2006. As you'll see from the document that we will submit with the part of our post-conference brief, the request to supply Appleton with about 10,000 tons per year of product from Mitsubishi, that was starting in 2006 but that was through 2007 and beyond.

So the document that you will see as part of the post-conference, it's not a three month bandaid, it was a much more extended request for supply.

MR. CASSISE: Thank you, Mr. Emerson.

MR. GRANHOLM: This is Don Granholm. When the staff reviews the sales data to be submitted by Nashua as part of our questionnaire, you'll see that there is a distinct seasonal pattern in the sale of these types of products.

There is a spike in demand in the fourth quarter, but it's every year that I've looked at in our company's records, it's a stairstep pattern: first quarter, second quarter, third quarter. Came fourth quarter, the seasonality, fourth quarter compared to first quarter, can in the neighborhood of 25 percent greater demand, but this is a pattern of demand. It's not what happened in the fourth quarter of 2006.

From just looking at Nashua data, it was not
dissimilar or irrepresentative of what patterns have occurred before.

MR. CASSISE: Demand normally mirrors that of the retail industry, in that there is a spike in the fourth quarter, but that seasonality had nothing to do with what happened in 2006.

MR. GRANHOLM: Nashua can't give any type of insider testimony to what happened to the industry as a whole in the fourth quarter of 2006, for the reasons Mr. Burns just alluded to; that is, there is no industry data for us to review.

I can comment to the staff, based on Nashua's own data and experience, that, yes, our consumption of lightweight thermal paper in the fourth quarter of 2006 was high. It would look like a spike, if you plotted it, but that spike would be a repetition of the pattern of demand you would have seen from 2005 or 2004.

MR. CASSISE: Right. It would be a similar spike that they witnessed in the fourth quarter of 2005. It wasn't any larger than the spike you saw in the fourth quarter of 2005.

MR. GRANHOLM: Don Granholm again. Not in any type of statistically significant way.

MR. CASSISE: Okay, okay. I think that's
all I have for this time. Thanks.

MR. CARPENTER: Mr. Bernstein?

MR. BERNSTEIN: I would like to thank this panel as well for coming down, some of you, from fairly long distances and answering our questions, and I'll apologize in advance if I mispronounce either your names or the names of your employers.

Mr. Greene, let me start with you. You had stated in your testimony that Koehler is focusing on lighter-weight paper for point-of-sale applications. When you use that term, what do you mean by the term "lighter-weight paper"?

MR. GREENE: We mean 48-gram paper. That's our main focus today, 2.1 caliper.

MR. BERNSTEIN: So you're dealing with 48 grams.

MR. GREENE: We do sell some 55, but our focus now is 48.

MR. BERNSTEIN: Does Koehler sell anything in the U.S. heavier than 55 gram?

MR. GREENE: Less than one percent.

MR. BERNSTEIN: Thank you.

Mr. Granholm and Mr. Schwartz, you also talked about lighter-weight product in your prepared statements. Let me ask you the same question I asked
Mr. Greene. When you use that term, what do you think you're referring to?

MR. GRANHOLM: This is Don Granholm, Nashua. In the context of my remarks, I was trying to restrict myself when I used the term "light-weight thermal paper" to refer to it as defined in the complaint, so less than 70 grams.

MR. BERNSTEIN: Okay. Thank you.

Mr. Schwartz?

MR. SCHWARTZ: Yes. Dave Schwartz. I would agree, we are talking about the subject paper less than 70 grams.

MR. BERNSTEIN: Could the converters' witnesses on the panel tell me, what is the basis weight of the thermal paper you convert? What is the range?

MR. SCHWARTZ: This is Steve Schwartz, Rite-Made. We convert from 48 gram, 55 gram, 80 gram. Anything other than the 48 and 55, the sum total of the other thermal papers would be about 10 percent of our total thermal production.

MR. BERNSTEIN: Is the 80 gram converted on the same equipment as the lighter weights?

MR. SCHWARTZ: Yes.

MR. BERNSTEIN: Mr. Endsley, just doing down
MR. ENDSLEY: Yes, sir. Most of our products are the 48 and the 55 gram, but we do do some 3.2 and 3.8 caliper. I'm not sure of the gram weight on those, but those are heavier-duty, I would say, above the grade of 70 grams.

MR. BERNSTEIN: Okay. Let me go back. The heavier paper you do; does this tend to be used for point-of-sale applications?

MR. ENDSLEY: We actually print and sell sports book tickets to the casinos in Las Vegas.

MR. BERNSTEIN: Okay. Mr. Schwartz, going back to you, the 80-gram product, what is the end use of that?

MR. SCHWARTZ: The primary use by our customers is in point-of-sale transactions, transaction equipment.

MR. BERNSTEIN: Is this this high-end retail phenomenon that had been spoken of earlier?

MR. SCHWARTZ: It's a combination of retailers who do have, as Mr. Burns referred to, a luxury image, plus there are certain segments of this industry that, for reasons that are completely mystifying to me, have simply always utilized this higher-basis-weight sheet.
MR. BERNSTEIN: Thank you.

Mr. Granholm?

MR. GRANHOLM: In thermal applications, the vast majority of what Nashua converts is under 70 grams. We do convert some papers over that weight with thermal applications, but they are mostly for what the industry calls "ticketing and tag" type of applications, not transactional receipts.

MR. BERNSTEIN: And Mr. Sandt?

MR. SANDT: We primarily convert 48 gram and have maybe five to 10 percent of our business in the 70 gram and above, and it's usually 80 gram, and it's for the feel of quality. It goes for POS applications.

You mentioned, is it interchangeable on our equipment? In our case, a lot of these are smaller-quantity orders that we wouldn't put on our high-speed equipment. Most of us here have high-speed equipment that we just run on things that have a sale like a house on fire. That would be the only difference in interchangeability.

MR. BERNSTEIN: Okay. Thank you.

Mr. Granholm, Nashua is listed in the petition as a producer of thermal paper, not the light-weight thermal paper as defined in the petition.

Heritage Reporting Corporation
(202) 628-4888
but heavier-weight thermal paper. Does Nashua have
the physical capability, if it desired, to produce the
under-70-gram, basis-weight thermal paper?

MR. GRANHOLM: Don Granholm, Nashua. Nashua
has a coated division. We apply thermal coatings to
papers. We do not make paper ourselves, so we buy
someone else's paper and apply thermal coatings to it.
Our division does not participate in the lighter
weight, anything close to what we've been talking
about here today. Our thermal applications go
primarily to feed label-converting activities, not
point-of-sale converting activities.

MR. BERNSTEIN: Is there any particular
reason you can give me why Nashua hasn't participated
in the lighter-weight market as a coater?

MR. GRANHOLM: Our coating capabilities are
rather limited. We have one facility, and we've
dedicated those assets to support primarily higher-
value-added label types of applications where the
paper, after it's coated, it's also laminated and may
have other top coatings applied, and then it's printed
and sold into the label market as opposed to the
point-of-sale transactional market.

MR. BERNSTEIN: Okay. Thank you.

Now I have a few questions for the lawyers

Heritage Reporting Corporation
(202) 628-4888
Ms. Jeong, you're the one counsel who specifically addressed, in your presentation, a like product issue. If you could clarify, are you arguing that the Commission should find the broader domestic like product you advocated for purposes of this preliminary phase investigation, or are you just laying down a marker if this goes down to a final?

MS. JEONG: What we believe, even based on the lightweight, as defined in the petition, their preliminary record shows that there is no reasonable indication of material injury. I guess our intention was really to put down a marker, should the Commission go to the final in this case. I think, if you look at all of the facts and testimony, that the facts do support a finding of one like product that includes all heavier grades and heavier weights of thermal paper.

MR. BERNSTEIN: Mr. Silverman, do your clients have a position on domestic like product?

MR. SILVERMAN: Well, the story is, if we make an issue of the like product, it means the record is incomplete. So we prefer to take it as it is, for purposes of the prelim., and if it goes to final, we'll have a flag there to discuss it later. But for
purposes of the prelim., we'll take the like product
definition as it is.

MR. BERNSTEIN: Thank you.

And, Mr. Emerson, do you have anything to say?

MR. EMERSON: Nothing to add. I would say
that Mr. Silverman has summarized it.

MR. BERNSTEIN: Okay. Thank you. Let me go
on to the next issue.

Mr. Emerson and Mr. Jahns, I apologize if
this was something you already responded to in one of
Mr. Cassise's questions. Does Mitsubishi export any
lightweight thermal paper directly to converters in
the U.S., or is it all to your affiliated U.S.
importer?

MR. JAHNS: We have one direct customer in
the U.S., yes.

MR. BERNSTEIN: Okay. My next question on
this is to counsel, particularly Mr. Silverman,
because I think this may arise more with converters
that produce German merchandise.

If the Commission should conclude, as you
will be arguing, that converters engage in sufficient
domestic production-related activities to be included
in the domestic industry, the Commission will then
have to address this issue of whether any of these converters are subject to exclusion from the domestic industry as related parties.

We have one issue with respect to the extent that our record indicates that any converters are importing directly, and this may be the case of China, at least, that's fairly straightforward.

To the extent that converters may be purchasing an imported product, as you may be aware, the Commission has developed this principle over the years that purchasers of an imported product are deemed related parties only if they control some significant portion of imports, and, for this, the Commission tends to look at whether the purchaser is the sole or principal customer of an importer.

To the extent that this information is not provided in the questionnaires that Koehler and Mitsubishi will be filling out -- Mr. Emerson, this is addressed to you as well -- if you could provide some information in your post-conference brief concerning the diversification of your U.S. importers' customer base simply so if the Commission needs to get to this issue, it has sufficient information to do this.

Clearly, if Petitioners want to address this issue, they can as well. You had already indicated,
in your opening statement this morning, you were prepared to address related-party issues.

Mr. Silverman?

MR. SILVERMAN: Yes. This is Bill Silverman. We would be glad to do it, particularly since we heard there will be an extension of the deadline for the brief.

MR. BERNSTEIN: Okay. I apologize for the rather technical nature of that question, which has probably lost all of the industry witnesses, but it is one of the things that we attorneys have to give advice to the commissioners about.

I believe, in his testimony, Mr. Schwartz said he didn't deal with any imports from China. The remaining three converters on the panel; do you have any experience with imports from China?

MR. ENDSLEY: No, I don't.

MR. BERNSTEIN: Okay. Mr. Granholm?

MR. GRANHOLM: During the period in question, Nashua has imported less than one container load of Chinese product.

MR. BERNSTEIN: Was that for testing purposes?

MR. GRANHOLM: It was for market-evaluation purposes.
MR. BERNSTEIN: Okay. Does Nashua have any plans you can tell us about to explore further purchases of Chinese product?

MR. GRANHOLM: I think that's something, if the Commission would like us to comment, we would prefer to do it in a post-conference brief.

MR. BERNSTEIN: Okay. I think that would be appreciated.

Mr. Sandt?

MR. SANDT: We have no intention of buying, and we have not bought it.

MR. BERNSTEIN: Okay. The next question is to anybody on the panel who can answer it. In the last two hours or so, with the Respondent panel, I haven't heard a single word about subject imports from Korea. I realize that Korean counsel, the Korean witnesses, have not appeared here today, but does anybody on the panel have any experience with the Korean product that you can tell us about?

MR. BURNS: Chris Burns. I sell the Korean product from Hansel, and I would tell you that their imports are meaningless, for a couple of reasons. Hansel decided to bow out of the lightweight market pretty much earlier last year. Pricing got pretty rough, and they decided that they were going to focus
more on heavyweight grades, basis weights. As everyone has said, we've seen basis weights go down. They want to go up in basis weights.

They want to focus more on value-added grades and top-coated grades, and Hansel also had kind of a realignment in their production. They have a facility with a paper mill and a coater and another facility with a coater. They have taken the coater that's standalone and put it at the other paper facility.

So, in doing that, they have lost a lot of production. In 2007 through June, Hansel has imported less than 1,000 tons of jumbo rolls of lightweight paper.

MR. BERNSTEIN: Thank you. Anything from any of the other witnesses on this?

Okay. Another question for the lawyers. Do you all have a position on cumulation? I'll start, going left to right, Ms. Jeong.

MS. JEONG: We would like to address that in our post-conference brief.

MR. BERNSTEIN: Okay. Mr. Silverman?

MR. SILVERMAN: I'm going to ask Mr. Ferrin to answer, if that's okay.

MR. BERNSTEIN: Okay. Certainly.
MR. FERRIN: This is Richard Ferrin. We believe that the Chinese product should not be cumulated with the product from either Korea or Germany. If you take a look at the four-step test, first, in terms of fungibility, the German and Korean imports consist entirely of the jumbo rolls, whereas the Chinese sell only converted rolls. Secondly, Chinese imports are of lower quality than imports from Germany or Korea. Third, there is the difference in terms of OEM approval. The Chinese product is not OEM approved by either IBM or Epson, whereas it is with respect to German product.

In terms of the distribution channels, the Chinese imports are already slit and packaged and generally sold to distributors. Very little Chinese product is sold to converters.

In contrast, all German and Korean product is sold to converters, who then covert and sell the downstream product to distributors.

In terms of the simultaneous presence in the market, we note that, again, as mentioned by the attorney for the Chinese, for most of the period of investigation Chinese imports were not present in the market at all, whereas German imports were present.

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throughout the POI. For those reasons, if you look, at least three or four parts of the test point towards decumulation.

MR. BERNSTEIN: Mr. Emerson?

MR. EMERSON: We support the Koehler position, believing that Chinese imports should not be cumulated with the German and Korean imports for the case.

MR. BERNSTEIN: I would, at least, request the German parties who are arguing noncumulation to, I guess, devote some discussion in your post-conference brief to how you think the Commission should analyze causation with respect to, I assume, Germany and Korea because most of the data that seems to be available indicate those two countries have accounted for the bulk of the subject imports during the period we're looking at. So if you could provide us some guidance with that, we would appreciate that.

Mr. Burns, a factual question for you. You stated that you sold both to converters and to distributors directly. Can you give, for purposes of a public session, any breakdown on what the relative sales are to those two channels of distribution?

MR. BURNS: That's a post-conference for us.

MR. BERNSTEIN: Okay. Thank you.
Another question: You had stated, at one point, that one of the converters who purchased from you did so because they were not able to service in house at a profit. Am I repeating that correctly? Am I paraphrasing incorrectly there?

MR. BURNS: I would say that, yes, you are. This is Chris Burns. If a lot of the internet bids, which we don't participate in, but some of our customers do, if it's a national account, it's pretty much one price for the whole country. If you're a regional converter, you cannot service the farthest reaches of the national account, so, for that, they would source the product from China.

MR. BERNSTEIN: Well, it would seem to me, in plain English, that means if somebody is able to purchase from you that they can't service in house at a profit, that your price is cheaper.

MR. BURNS: It's a freight issue. It's purely a freight issue.

MR. BERNSTEIN: Okay. If you could provide any supporting documentation for that in the post-conference, we would appreciate that. I would ask the converters on the panel, is this a concept that constrains your ability to service particular markets, freight cost? Is anyone willing to answer that?
MR. SCHWARTZ: Steve Schwartz with Rite-Made.

MR. BERNSTEIN: Okay.

MR. SCHWARTZ: We operate three plants: one on the East Coast, one in the Midwest, and one on the West Coast. We have invested. We have employees, we have facilities, we have equipment, and we continue to make investments. We do that so that we can service national accounts.

MR. BERNSTEIN: Okay. Mr. Granholm, you looked like you had something to say.

MR. GRANHOLM: Don Granholm with Nashua. Nashua converts lightweight thermal papers in two facilities, one in the eastern time zone, Tennessee; one in the Pacific time zone, California. A strong part of the rationale for doing that is to minimize freight costs and, as well, to minimize the transit time from our facility to the customer's facility.

MR. BERNSTEIN: Do you think it would be impractical or ineffective to try to service the continental U.S. from a single facility?

MR. GRANHOLM: I can't speak for everybody in the industry, but from Nashua's perspective, it's a challenge that we would prefer not to take on. We have enough already on our plate.
MR. BERNSTEIN: Do any of the other converters care to answer that question about whether you think it would be practical to service the U.S. market from a single facility?

MR. SANDT: We don't do it in a great extent at Sandt Products, but we do it, and it depends on the mix, but we're in Lancaster, Pennsylvania. We can service nationwide accounts who have locations on the West Coast and compete against everybody else here in the room on a price basis and make out on it.

MR. BERNSTEIN: Okay. Thank you.

MR. GREENE: Richard Greene, Koehler America. One of the reasons behind our emphasis on 48 gram is to give converters that don't have a national footprint with this lighter-weight paper the ability to ship longer distances, more footage on a roll longer distances, and not have to buy from China on the West Coast. They have a lower freight cost, so it helps them to act as a national distributor of the lighter-weight paper.

MR. BERNSTEIN: Thank you.

MR. SANDT: I can give something specific, if you would like. There was a figure thrown out of going from Michigan to Las Vegas of $3,600. We can go from Lancaster, Pennsylvania, to two spots in Pennsylvania.
California, northern and southern California, for $1,900.

MR. BERNSTEIN: Okay. Thank you. Another request for the lawyers. This will be the same one I made this morning to the Petitioners.

If the Commission should determine that converters engage in domestic production operations, if you could provide us your position on how the Commission should measure apparent consumption, domestic production, and import penetration, and also what you think the best measure of industry performance, particularly financial performance, would be in those circumstances.

Let me ask Mr. Dougan.

MR. SILVERMAN: Bill Silverman. The last part of your question was how you should measure --

MR. BERNSTEIN: Well, whether you believe all of the entrants should be aggregated, that we should do this on some sort of segmented analysis, do one number for converters and one for coaters, as opposed to aggregating everybody together, if you have a position on that.

Again, same thing for Petitioners, just to give you the opportunity to assert something on that.

Mr. Dougan, nobody has asked you any
questions so far, so let me ask you a couple. With respect to your Exhibit 1 about the Appleton Papers segmented operating results, now I will acknowledge, before I ask this, I realize this isn't the type of data we'll be looking at when we make our determination, so your counsel don't jump in and correct me. But just on the basis of these particular operating ratios you see here, would you view this as a particularly healthy producer, or is this good for this industry?

MR. DOUGAN: I wasn't reviewed it with respect to other U.S. producers of the subject merchandise because those data are not publicly available. So whether this is representative of an industry-level profitability, frankly, I'm not sure. The purpose of this exhibit and my argument was to demonstrate by reference that it was different than information that was provided to the Commission as part of their questionnaire submission.

MR. BERNSTEIN: Okay. I appreciate that. Going back to Exhibit 4, with Appleton being highly leveraged and having a lot of long-term debt, if the Commission should need to make a threat analysis here, one of the things that it typically examines with respect to threat is how vulnerable the
industry may be to future subject imports.

Doesn't the fact that a major or the largest producer, no matter how the industry is defined, is so heavily leveraged and has such a high debt load tend to make it more vulnerable to increased imports?

MR. DOUGAN: I would answer that question in the following way. If they perceive themselves to be vulnerable and if this is an issue with them and this is a problem, why are they making a $100 million investment in this line of business or actually more narrowly defined? That's the question to me, is what I'm trying to understand. So I raise that question. Obviously, someone within Appleton management, as part of the evaluation process of this investment, must have taken these things into consideration and given the green light, and they know more about their business than, at least at this moment, than I do.

MR. BERNSTEIN: Okay. Thank you.

A final question to -- I think this is principally directed to the converters. Is there any sort of expectation that, among purchasers, that Appleton is likely to expand its product line or offer better-quality products or offer a different type of pricing when its new production facility is completed
next year? Is there any industry scuttlebutt at all among those who may be possible purchasers?

MR. SCHWARTZ: Steve Schwartz. I don't know that there is any significant scuttlebutt, but I think, at least speaking for Rite-Made, I think the assumption is that there will be a need for Appleton to fill the capacity of that machine and that they will endeavor to do what they feel is appropriate in marketing their product to accomplish that end.

MR. BERNSTEIN: Any further responses from the panel? Okay. Hearing none, I have no further questions. Thank you.

MR. CARPENTER: Ms. Bryan?

MS. BRYAN: Good afternoon, everyone, and thanks for your testimony thus far.

I, first, have one more question on the Appleton allocation issue in '06, and it's a two-part question, and anyone who wants to jump in here, go for it.

Was Appleton the only producer that had supply issues in that time period? Were there any other producers that had allocation issues, and was it concentrated on just the 48-gram or 55-gram paper, or was it all of their product line that they had allocation on?
MR. SITTER: As just a point of clarification, Appleton did not introduce their 48-gram product until after that time period.


So by no one coming forward, I assume it was just Appleton that had supply issues during that period.

MR. GRANHOLM: This is Don Granholm with Nashua. I can't characterize the behavior of the whole industry during that period of time, but Nashua's producers during the period were able to meet all of our requests. We bought the majority of our requirements from non-Appleton sources during that period.

MS. BRYAN: Okay. Thank you.

This question is for converters that buy both 48-gram and 55-gram paper. When your customers put in an order, are they going to specifically request just 48 gram or just 55 gram? Do you keep that separate, or is it kind of all lumped together ever?

MR. SCHWARTZ: Steve Schwartz with Rite-Made. Within our stock product line, we have two lines, a 48-gram line and a 55-gram line, and they have separate stock numbers.
In regard to production for specific customers under their specifications, they have determined, through some process, which they prefer. So we don't arbitrarily make that decision.

MS. BRYAN: Okay. Thank you.

And for those of you that do source the 48 gram, have you ever had customer complaints about issues that would just pertain to 48 gram versus 55 gram, that it's thinner or weaker in any sense?

MR. SCHWARTZ: Steve Schwartz with Rite-Made. We've had no complaints.

MR. GRANHOLM: Don Granholm, Nashua. No significant complaints, to my knowledge.

MR. SANDT: Roger Sandt from Sandt Products. No significant complaints.

MS. BRYAN: Okay. Thank you.

This question would be about the shipping advantages of the 48 gram versus the 55 gram. Maybe, Mr. Greene, you would like to address this. Is there any way you can quantify in terms of a reduce cost to shipping a container maybe of just 48 versus a container of just 55 or a percentage of how much more paper can be shipped in one container?

MR. GREENE: Well, the weight of the 48 gram is 15 percent lower than the 55 gram, and freight is
generally charged by weight. So your shipping costs
go down simply because of that.

MS. BRYAN: Okay. Thank you. That's very
helpful.

This question, I guess, is primarily for the
foreign producers, but also the converters, if you
want to add something. Has the exchange rate and the
value of the dollar had any impact on what prices you
can obtain in the U.S. in terms of your own currency,
and has that affected your desire to export to the
United States at all?

(Pause.)

MR. FRUEH: This is Willy Frueh from
Koehler. We do make, as we do now, make our budget
for the next year, and we do take a certain exchange
rate into consideration. We are a long-term player,
and there are times where our earnings are better and
times when the earnings are not that brilliant, but we
commit to supply our customers on a regular basis.

MS. BRYAN: Okay. Thank you.

MR. JAHS: Falk, counsel, Mitsubishi. Last
year, we had tried really to increase the prices when
we saw that the actually the exchange rate was
working, or starting to work, against us, so when it
got very unfavorable for the mill. We have really
succeeded. We have been very successful with price increases until the beginning of this year.

However, then, unfortunately, prices have dropped significantly. We have projected the price decreases have come out of the market. So we have tried to work against it; however, in some kind of way, due to the fact that, as Mr. Frueh said, we have a certain budget which we have to meet as well, and so we certainly had to come back into the market in some kind of way.

MS. BRYAN: Okay. Thank you. I appreciate that.

Another question for the converters who buy both imported jumbo rolls and domestically produced jumbo rolls of the same basis weight and convert them. Once the rolls have been converted, at that point, do you know anymore from which source the original paper came from? And, second part: If you do not keep track anymore, and you just sell it all, is it all the same price, regardless of whether jumbo rolls are sourced from?

MR. SCHWARTZ: Steve Schwartz with Rite-Made. We do have quality control numbers on all of the cartons we produce that can be tracked back to the mill source, but, in general, in our stock products,
we do not, unless there is some particular customer 
specify that he wants product only from a certain mill 
or some other mill, we ship those interchangeably but 
at the same basis weight. In other words, we would 
ship the domestic and foreign 55 gram interchangeably.

MS. BRYAN: And at the same price.

MR. SCHWARTZ: At the same price, yes.

MS. BRYAN: Anyone else have anything to 
add?

MR. GRANHOLM: Don Granholm from Nashua. We 
also, within particular basis weights, we substitute 
different manufacturers' paper interchangeably within 
this basis weight, but we also maintain stock numbers 
that we can tell whether it's a 48-gram product or a 
55-gram product. The pricing within a basis weight -- 
our pricing to our customers is constant, irrespective 
of which mill we bought the paper from.

MS. BRYAN: Okay. Thank you.

This is maybe sort of a hypothetical 
question, but I guess you've already addressed it. I 
was going to ask if you have, like, one of your 
customers having a quality problem with some of your 
paper, and they come back to you and say, "This one 
had an issue," I guess you can, like you said, you can 
track which source that came from. Is that correct?
Did I hear that correctly?

MR. GRANHOLM: Don Granholm, Nashua. Yes.

We can, based on a production number that we put on our external packaging, as long as the customer preserves that, we can know when it was produced and what materials went into it to help us track quality problems back to the root cause.

MR. SCHWARTZ: Steve Schwartz. I would clarify that you're specifically referring here to customer complaints that would be related to probably image quality rather than some factor resulting from the conversion process, and, yes, as I testified, we did receive some of those complaints, and we can track that back actually to the specific mill.

MS. BRYAN: Okay. Thank you.

MR. SANDT: Ms. Bryan?

MS. BRYAN: Yes.

MR. SANDT: Roger Sandt. On the last question, Don Granholm mentioned interchangeability. We have separate numbers for 48 and 55 gram. I think you were addressing just 55 gram in that question.

MS. BRYAN: For a specific basis weight.

MR. SANDT: As the other converters, we have tracking numbers on every carton. We can go back to who the manufacturer of the paper is, when we made it,

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et cetera.

MS. BRYAN: Okay. Thank you.

This is an issue, I believe Mr. Schwartz brought up earlier, that you can fairly easily pass along price changes to your customers.

MR. SCHWARTZ: Steve Schwartz. I didn't use the words "fairly easily." What I indicated was that, absent external factors, the base paper cost is a pass-through cost of the finished goods. Obviously, no customer wants to see his prices increased. It is a time-consuming process for our administrative and sales staffs to do this.

Essentially, my point was that, over time, absent external factors, a higher price for the jumbo rolls or a lower price does not necessarily mean that you will do better or worse.

In a short-term situation, if you have a fixed-term contract with a customer, if prices decrease, you get a benefit. If mill prices increase, then obviously you do worse. But as all of my jumbo mill suppliers know, I am generally supportive of their efforts to increase prices.

MS. BRYAN: Okay. Thank you.

MR. ENDSLEY: Yes, Ms. Bryan.

MS. BRYAN: Yes.
MR. ENDSLEY: Doug Endsley. I have a different business model than the other converters in the fact that 90 percent of the product that we produce we give free to the grocery stores, and we raise our revenue by selling advertising on the back of the register receipt tapes. So I'm very sensitive to prices since we're giving it away free.

MS. BRYAN: Right. I didn't mean by my question that the market would be insensitive to price; just if you can pass along price changes down the road.

I have just one final product-related question. This is, if you want to print something on the back, I guess, or on the front in color ink rather than just black ink, does that impact which basis weight of paper you require, or does it not matter? That has no bearing on that decision.

MR. GRANHOLM: Generally speaking, it doesn't really impact anything.

MS. BRYAN: Okay. Okay. Thank you. That's all I have.

MR. CARPENTER: Ms. Klir?

MS. KLIR: I would like to thank this panel also for their testimony. Before I get to a more specific question, I apologize. I may not have all of
the questionnaires with me, but if any of you who have testified have not filled out a questionnaire, please do so. Like I said, I don't know what the status is at this point because things are moving quickly, but we would appreciate that.

I actually just have one question for post-conference, and it's one that I posed earlier. This would be for counsel and for Mr. Dougan, and you may have been planning on doing this anyway, but I just want to make sure you have an opportunity to please analyze the reported profitability of coaters and the reported profitability of converters and discuss the factors affecting revenues and costs, any of the factors that account for any of the differences in profitability between the coaters and converters, as well as between the various coaters. That's all. Thank you.

MR. DOUGAN: I would be happy to do that. Thank you.

MS. KLIR: Thanks. That's all I have for now.

MR. CARPENTER: Mr. Forstall?

MR. FORSTALL: Thank you, Mr. Carpenter, and also thank you to this panel for your testimony.

We heard testimony in the earlier panel that
lightweight thermal paper was a commodity, and I just wanted to get particularly you, Mr. Greene, and Mr. Frueh and also Mr. Jahns, your thoughts as to whether or not you agreed with that assessment of this particular product.

MR. FRUEH: This is Willy Frueh from Koehler. We do produce a lot of thermal paper in lightweight, and this is probably over 80 percent of all thermal paper that we produce is the lightweight thermal paper.

We do not consider this product a commodity because we know how important it is to keep the constant quality level of this product to constantly optimize the product, and we know exactly where the differences lie between our products and the products of our competition, and, at the end of the day, these advantages in the quality decide if you make your business with a customer or not.

So, for us, this is a very critical product, and also very quality sensitive.

MR. FORSTALL: Thank you.

MR. JAHNS: This is Falk Jahns. I just can only confirm what Mr. Frueh has said, that we are speaking here really about specialty paper grades, high-technically performing grades where you need...
special requirements.

You need to keep a very close focus on certain features for the paper, for example, smoothness, so that you don't have an abrasion on the print head, that you don't have any deposits, because, in the end, if a claim because of poor paper quality comes up, it's becoming very, very expensive. So we are really speaking here about a very sensitive paper, more or less, and not about a commodity like, let's say, cut-sized papers.

MR. FORSTALL: Thank you.

Mr. Greene, I think you spoke just briefly about some of the things that allow Koehler to maintain its presence in the U.S. market, and one of them, I think, was the fact that you had a better image, a darker image, I think you said. That gets back to your actual coating formulation that is actually on the paper.

MR. GREENE: Yes.

MR. FORSTALL: Mr. Endsley, I think you and also perhaps Mr. Schwartz mentioned that you had multicolor presses, and I just wanted to ask you specifically, what kind of presses do you use? Are they rotary flexils? What is typically used in the industry? Are your presses any different because

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you're doing things a little bit differently and maybe
want a little bit higher-end look for your
advertisers? Are your presses any different than what
some of the other converters would have?

MR. ENDSLEY: Yes. This is Doug Endsley.
We've got four presses. They are all offset printing,
roll to roll. Due to the fact that we're printing on
the slickness of the thermal paper, we have to use
ultraviolet inks, and we have to cure those.

MR. SCHWARTZ: Steve Schwartz with Rite-
Made. Yes. Mr. Endsley does have a different
application.

We operate three presses. We have a fourth
on order. These are wide-web, high-speed,
flexigraphic presses using water-based inks with
currently three-color capability. We'll have four-
color capability on the new press when it's delivered
next year.

MR. FORSTALL: Thank you.

In fact, I would invite all of the
converters, in your post-hearing briefs, if you could
spend a little time talking in detail about your
production process and just how it works in terms of
what the flow is. Presumably, if you're printing a
receipt, you're going to print that first before you
slit it, but I just want to make sure I have some idea of how the flow works once you get the paper into your plant, from the point you get it into the plant to when you get it out of the plant as a finished product.

There was testimony early on -- I think, Mr. Greene and Mr. Granholm, you both had some testimony involved. I got a little confused as to who the price leader in the U.S. market was. It sounded to me, from your testimony, that when things are going up, the Europeans are leading the way, and when things are going down, the U.S. domestic producers are leading the way. So I just got a little confused about who the price leader was at any given time.

MR. GREENE: Richard Greene. I think you've got it right.

MR. FORSTALL: I thought you might feel that way.

Mr. Carpenter, I have no further comments or questions.

MR. CARPENTER: Thank you. Ms. Mazur?

MS. MAZUR: Thank you all very much for coming, particularly in a preliminary phase investigation. It's usually pretty difficult to get respondents or any firms to really come to testify.
before us. The fact that we have such a comprehensive participation today, we very much appreciate. The Commission very much appreciates. With that, I have no questions. Thank you.

MR. CARPENTER: I just have a couple of quick follow-up questions.

First of all, on like product, Ms. Jeong, you made the argument about expanding the like product beyond the 70 grams, and, Mr. Burns, I believe you indicated that if you compared 68 and 72 grams, no one would be able to tell the difference between the two.

My question is, in response to Mr. Bernstein's question when he went around the table asking what other products converters were making, I didn't hear much, if anything, between 55 grams and 80 grams. I was wondering if we could just go back to that for a second, and if I could ask the converters here, do you make anything between 55 and 80 grams?

MR. SCHWARTZ: Steve Schwartz with Rite-Made. Not at this time, no.

MR. ENDSLEY: Doug Endsley. I do not either.

MR. GRANHOLM: I'm not aware, at this time, of what specific products we might have in the range that you just stated, but I would have to check to
find out.

MR. SANDT: We don't do anything in that range at Sandt Products.

MR. CARPENTER: Thank you. Mr. Burns?

MR. BURNS: I know that Hansel makes 55, 56, 60, 65, 75, 78, 80, up to 150 gram, top coated and non-top coated.

MR. CARPENTER: Would it be possible, in a post-conference brief, for you to provide us, for those products that were more than 55 grams and less than eight grams, if you could just give us an estimated percentage of your total production that's accounted for by those products.

MR. BURNS: Yes.

MR. CARPENTER: Thank you. The one factual point that I think I heard all of the parties agree to was that there were no nonsubject imports. I just wonder if I could get a response from counsel for the Respondents here. Would you agree, then, that the Bratsk decision by the Federal Circuit is not applicable in this particular case?

MR. EMERSON: Reserving our right to bring it up later, at this moment, I don't know that we would be putting forward a significant Bratsk argument right now.
MR. SILVERMAN: I don't understand why you
don't want to talk about Bratsk. To me, it's an
interesting case.

MR. CARPENTER: If you have anything further
you would like to state in your post-conference
briefs, feel free to.

Mr. Silverman, in your opening statement,
you indicated that the U.S. industry, I believe, had
been seeking imports from Europe in 2006 and 2007.
The domestic industry didn't seem to be aware of what
you might be speaking about. If you have any further
information about that, could you provide that in your
post-conference brief?

MR. SILVERMAN: Sorry about the confusion.
I think our friends from Mitsubishi will give you
chapter and verse, and they testified to it, that
there was some misunderstanding that I didn't say had
been imported. I said, in my opening, that they were
seeking imports, and they were seeking imports, as
Eric Emerson indicated a few minutes ago, and he can
repeat it, it was not just one shipment; it was
through 2000. I'll let you say it.

MR. EMERSON: This is Eric Emerson from
Steptoe & Johnson. This is the letter that we'll be
submitting with our post-conference brief, a request
from Appleton for supply of -- I believe it was 10,000
metric tons per year, starting in 2006. I don't
remember the specific date of the letter but through,
I believe, 2008, and that's what Mr. Silverman was
referring to.

As Mr. Jahns testified, the offer was
declined so there was no supply from Mitsubishi, but
that's what we were referring to.

MR. CARPENTER: Okay. Thank you very much.

Just one other question. Mr. Frueh, you had
stated, I believe, that prices in the United States
are lower than in most of Koehler's export markets.
Do you have any theories as to why that would be the
case?

MR. FRUEH: This is Willy Frueh from
Koehler. All I can say is that when I look at the
figures, this is the fact, and, I guess, to a certain
extent, due to competition in various markets, and in
all of the markets, clearly, demand is going up. We
have seen east Europe this year growing at 40 percent,
so this is significant.

MR. CARPENTER: Would you say that the level
of competition is more acute in the United States than
in some of your other export markets?

MR. FRUEH: I wouldn't say that. The
players are different, but it's about the same.

MR. CARPENTER: Thank you.

Any other questions from staff?

(No response.)

MR. CARPENTER: Okay. Once again, thank you very much for your patience with our questions. You've been very helpful.

This conference has run a very long time already. We still have the closing statements. Would it be possible to -- this is for counsel -- would it be possible to move directly to the closing statements, or would you like a couple of minutes to prepare?

MR. SILVERMAN: Just give us two minutes.

MR. CARPENTER: Okay.

MR. SILVERMAN: I hope he speaks loud because we've got to hear him.

MR. CARPENTER: We'll begin with Mr. Dorn, and, Mr. Silverman and others, you can be thinking about your response during that time. We'll take just a couple of minutes to exchange parties. Thank you.

(Whereupon, a short recess was taken.)

MR. CARPENTER: Please proceed, Mr. Dorn, whenever you're ready.

MR. DORN: Thank you. During his opening,
Mr. Silverman said that we've gerrymandered the scope to exclude the profitable segment of the business. What we did in our scope was we focused on the imports that were causing the problem. We focused on the commodity-type, lightweight thermal paper because those are the imports coming in. If we had expanded the scope, Mr. Silverman would have said, "Why are you including products we don't even ship to the United States?" So we've targeted the problem.

With respect to the like product issue, the question is, which product made in the United States best matches up with the product that's within the scope of the investigation? So the product that's subject to investigation is all 70 or under.

Which product made in the United States matches up with the best, which is most similar physical characteristics and uses? It's obviously the product made in the United States that's 70 grams or less.

In terms of a clear dividing line, this is clearly an easy case because we've got admissions that, in the United States, you only have product made, 55 or lower or 80 and above. We don't have a situation where we've got minor variations on either side of the line. This is a clear dividing line.
Finally, no one disputes the like product definition for the preliminary investigation.

There is also no dispute about the volume of imports or the increase in the volume of imports. That's where you begin your analysis in looking at the impact of the imports. You look at the volume, and we've got no dispute there. Imports increased 60 percent from 2004 to 2006. Imports have over half of the U.S. market: clearly significant.

Turning to price effects, I didn't hear anybody claim that imports have not affected domestic prices. Mr. Dougan is an economist. You're not going to have him come up here and say that if imports supply 50 percent of the market, they are not having any price effect. Of course, they are having a price effect, just by given the degree to which they have penetrated the market.

You also heard a lot of testimony about the commodity nature of this product and the standardization and the consolidation of SKUs. So it's a price-sensitive product.

Mr. Burns testified that 2006 was a tough pricing market year. Mr. Jahns testified that prices are down in 2007. Mr. Jahns also admitted, as Mr. Schonfeld testified, that Mitsubishi prices to the
U.S., irrespective of exchange rate. So if the value of the dollar goes down, that doesn't affect Mitsubishi's prices because they are committed to be here for the long term, as Mr. Jahns testified, whatever the exchange rate is. That's called "dumping."

There is no dispute that costs have gone up. There is no dispute that demand has been very strong and growing. In fact, there is no dispute that all of the ingredients were there for prices to go up substantially from 2004 to date in tandem with a growing U.S. market, a substantially growing U.S. market.

With respect to adverse impact, I thought Mr. Dougan's presentation was illuminating. Let's think about it a minute. He is looking at the segment reporting for all thermal paper produced by Appleton, which includes lightweight thermal paper and high-value-added, heavy thermal paper.

What it tell us is that on high-value, heavyweight thermal paper, Appleton is making money. Virtually no import competition with respect to high-value-added, heavyweight thermal paper.

Where is it losing money? It's losing money on lightweight thermal paper, which is where all of
the imports are coming in. The imports are lightweight thermal paper, not heavyweight thermal paper.

So what Mr. Dougan has done is explain exactly the cause and effect of the increasing imports of lightweight thermal paper that are the target of this petition.

A couple of other points. With respect to the supply situation in 2006, I think one of the witnesses hit it on the head when he said it was "an artificial tightness." There was never any allocation of customers by Appleton. The little spike in supply, which I think another witness on the other side alluded to, was common to all suppliers, not just to Appleton, and, as Mr. Schonfeld testified, Appleton worked through that problem quite nicely.

With respect to the testimony regarding security printing, that's a niche market. It's an outlier, and it really doesn't change anything with respect to the value-added issues.

Rite-Made's quality comment, as far as Appleton knows, that issue is isolated to Rite-Made's machines, not the machines of other converters. You might want to ask Rite-Made if it had a problem on its end as opposed to blaming Appleton for something that
would affect the quality of the product.

The comment was made about requesting a product from Mitsubishi, a request made by Appleton, and the timing of that request is illuminating because it was made at the time that they were considering $100 million investment, a good time to do a little market intelligence to see what pricing was from other countries, and, of course, they didn't buy a ton of paper from Germany or any other European source.

Mr. Silverman made a point in his opening remarks. I think he said the Commission has never excluded the processors from the domestic industry except in agricultural cases, and that's just not true.

We'll certainly address that in our post-conference brief, but even in the *Thermal Transfer Ribbons* case, of course, ultimately, in the final, the Commission accepted the converters in the industry. In the preliminary determination, it excluded them, and we think the facts are a lot stronger for excluding the converters here than in the *Transfer Ribbons* case.

This has been a difficult case to argue today because we have so little information in terms of the questionnaires. We look forward to -- them

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over the next few days, and we'll be addressing all of
the questions you have raised this morning and this
afternoon. Thank you very much.

MR. CARPENTER: Thank you, Mr. Dorn.

Mr. Silverman? Mr. Dougan?

MR. SILVERMAN: What I would like to do is
allow Mr. Dougan to finish some key points from his,
and since we have a good half an hour to go, we'll fit
it all in.

MR. CARPENTER: Okay.

MR. DOUGAN: Thank you. I would like to
start by addressing some of the points that Mr. Dorn
just made.

I believe he mischaracterizes my testimony
and the evidence supporting it. I did not state that
Appleton was making money on its higher weights and
losing money on the lower weights. All I pointed out
was that the thermal paper segment overall was making
money. All we know for sure is that the thermal paper
segment overall is making money. So the
characterization that they are losing money on the
lower grades and making money on the higher grades is
theirs, not mine.

To this end, this is one of the reasons that
the staff should apply close scrutiny to the
Petitioners' questionnaire. The financial entry data presented in the U.S. producers' questionnaires are different, sometimes significantly so, from the data presented in the petition. The actual data are confidential, but we asked that the staff look into this.

The magnitude of the differences suggests more than small rounding error, and Petitioners' questionnaire did not provide an explanation for these discrepancies. These inconsistencies should be of concern to staff.

First, Appleton is the sole Petitioner, and its results speak directly to the strength of the alleged injury case.

Second, lightweight thermal paper is produced by Petitioners on the same facilities and the same equipment, and thus any reporting of these results represents an allocation exercise. There are several different methods that can be used for allocation, and staff should ensure that Petitioners have performed such allocations as reasonably and as accurately as possible.

So, given this, there is ample reason for staff to be concerned about the consistency, if not the accuracy, of the financial data, and the economic

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record presents strong reasons for staff to verify
Appleton's U.S. producers' questionnaire before making
a decision as to whether to proceed with this
investigation.

If I can have one more thing, I did not
discuss price effects because any of the data
available on this are confidential and not on the
record, but we will discuss this in the post-
conference brief, and I think the results, with
respect to subject imports from Germany, will be quite
different than Mr. Dorn is thinking.

MR. SILVERMAN: Well, if you sit here and
listen to what's transpired today, I think it's
important to figure out what's really going on in this
market. Surely, you didn't get information from
Appleton because they are not a converter. They are
not a customer. They testified about things that they
don't have firsthand knowledge of.

You compare the testimony by their converter
witnesses with our converter witnesses. Where is
their substantial evidence on all of the important
measures of causation?

Now, one thing we know, during the period of
investigation, including the interim period, our
witnesses have testified that prices were going up.
It's not your typical case, not your typical case. Prices are going up from imports. Second, demand is healthy, strong, increasing. You don't get that in many cases when people come in and say they are vulnerable or they are materially injured. There is no doubt about that. We've given you substantial information in the testimony and in written submissions that you will get, or have gotten, showing the value added by the converters. Just waving their hands and saying, "Oh, no. We have better numbers," is not substantial evidence on the record. We have substantial evidence on the record that converters employ lots of people with lots of equipment and make significant value added to the product.

Now, I think it's also significant, when you talk about prices, not to forget the hidden company, which is Kanzaki. We had testimony from a number of witnesses today saying Kanzaki is the low-price leader. They pushed the price down.

Let's not forget the impact of Kanzaki as a low-price leader because that's germane when you're trying to determine who causes price declines or price suppression. We heard testimony that Koehler itself, as late as August, issued a substantial price
increase, and what happened? Kanzaki didn't go up. Appleton only went part of the way. Is that price suppression? Is that adverse price effects by reason of imports? Absolutely not. That's why this case is so different from the average case that you get.

But on turning away customers, we heard testimony today that Kanzaki was not reliable. One converter said they were in and out of the market. That's a form of turning people away and unreliability.

We had testimony from our converters about being put on allocation and not getting their quantities. They admitted it. Well, it was only three to four months. If you're running a business, somebody says, "Well, it's only three or four months," maybe you have to find another supplier that's more reliable, and if Kanzaki is in and out of the market because it's not really that important a product for them, maybe you have to find some other source of supply.

Now, of course, Appleton has an answer to that: Go to Germany and get your product. They wanted to do that, and we have testimony on it today, and they haven't denied it. Not I, but Mitsubishi will submit documents to prove exactly what they did,
and it wasn't for one truck load; it was for substantial quantities through 2007-2008. Now, why would they ask for that? Because they have underutilized capacity, you want to give the workers more work.

Something is funny, and this case smells. That's an important element of it that I hope the Commission will take seriously. Even though it's a prelim., you're not barred from getting into this kind of detail, especially if there is extra time.

Then I think, really, the lightning bolt -- if that wasn't a big enough lightning bolt, I think you have to think about a company that comes to you and claims they are materially injured or threatened with material injury, vulnerable -- you know that word. They tell you that, and then they come up with $100 million investment. Give me a break.

What is that? If you're vulnerable, if you're materially injured, how do you get people to give you $100 million to expand the market, to expand the capacity? Something doesn't fit. It just doesn't fit, and, as my economics teacher used to say, "The market speaks."

Forget that testimony and remember, they got $100 million to expand capacity on this product.
Nobody is vulnerable and gets $100 million to expand their capacity, and we see from their public filings what their investments have been over the last couple of years -- compared to this.

That's why I say this case needs serious further inquiry because of these inconsistencies that just don't make sense. This case is one that calls out for the negative. Thank you very much.

MR. CARPENTER: Thank you, gentlemen. On behalf of the Commission and the staff, I want to thank the witnesses who came here today, as well as counsel, for sharing your insights with us and helping us develop the record in these investigations.

Before concluding, as you're aware, the Department of Commerce has postponed initiation of these investigations. Therefore, the deadline for the submission of corrections to the transcript and for briefs in the investigations has been moved to Thursday, October 18th.

If briefs contain business-proprietary information, a public version is due on October 19th.

Because of Commerce's postponement of initiation, staff will notify the parties of the schedule for the remainder of the investigations as soon as it becomes finalized. Thank you for coming.

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This conference is adjourned.

(Whereupon, at 3:08 p.m., the preliminary conference in the above-entitled matter was concluded.)
CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Lightweight Thermal Paper

INVESTIGATION NOs: 701-TA-451 & 731-TA-1126-1128 (Preliminary)

HEARING DATE: October 10, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary Conference

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: October 10, 2007

SIGNED: LaShonne Robinson
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).

SIGNED: Carlos E. Gamez
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I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Tammy Brodsky
Signature of Court Reporter

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