

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
UNCOATED GROUNDWOOD PAPER FROM CANADA) 701-TA-584 and 731-TA-1382
) (PRELIMINARY)

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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation Nos.:
UNCOATED GROUNDWOOD PAPER) 701-TA-584 AND
FROM CANADA) 731-TA-1382 (PRELIMINARY)

Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Wednesday, August 30, 2017

The meeting commenced pursuant to notice at 9:30
a.m., before the Investigative Staff of the United States
International Trade Commission, Michael Anderson, Director
of Investigations, presiding.

1 APPEARANCES:

2 Staff:

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4 Information Officer

5 Sharon Bellamy, Records Management Specialist

6 Yasmyne Hilliard, Student Intern

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8 Michael Anderson, Director of Investigations

9 Elizabeth Haines, Supervisory Investigator

10 Calvin Chang, Investigator

11 Robert Casanova, Investigator

12 Vincent Honnold, International Trade Analyst

13 Amelia Preece, International Economist

14 Charles Yost, Accountant/Auditor

15 Michael Haldenstein, Attorney/Advisor

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1 Opening Remarks:

2 Petitioner (Stephen A. Jones, King & Spalding LLP)

3 Respondents (Elliot J. Feldman, Baker & Hostetler LLP)

4

5 In Support to the Imposition of Antidumping and

6 Countervailing Duty Orders:

7 King & Spalding LLP

8 Washington, DC

9 on behalf of

10 North Pacific Paper Company

11 Craig A. Anneberg, Chief Executive Officer, North

12 Pacific Paper Company

13 Robert W.A. Buckingham, II, Vice President of

14 Manufacturing, North Pacific Paper Company

15 Leo Thomas Crowley, Vice President of Sales and

16 Marketing, North Pacific Paper Company

17 Charles Anderson, Principal, Capital Trade, Inc.

18 Bonnie B. Byers, Senior International Trade Consultant,

19 King & Spalding LLP

20 Stephen A. Jones and Benjamin J. Bay - Of Counsel

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25

1 In Opposition of the Imposition of Antidumping and
2 Countervailing Duty Orders:

3 Morris Manning & Martin LLP

4 Washington, DC

5 on behalf of

6 White Birch Paper Canada Company NSULC

7 Papier Masson WB LP

8 FF Soucy WB LP

9 Stadacona WB LP

10 Bear Island Paper WB LLC, Inc.

11 Russell Lowder, Senior Vice President of Sales, White
12 Birch Paper Company

13 Donald B. Cameron, Julie C. Mendoza and R. Will Planert
14 - Of Counsel

15

16 Baker & Hostetler LLP

17 Washington, DC

18 on behalf of

19 Resolute FP Canada Inc.

20 Resolute FP US Inc.

21 Breen Blaine, Vice President, North American Paper
22 Sales, Resolute FP US Inc.

23 John Ovanessian, Vice President, National Account Sales
24 Team - North American Paper, Resolute FP US Inc.

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1 Jennifer Lutz, Senior Economist, Economic Consulting
2 Services, LLC

3 Elliot J. Feldman and Michael S. Snarr - Of Counsel

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5 Mowry & Grimson, PLLC

6 Washington, DC

7 on behalf of

8 Gannett Supply Corporation

9 Frank O'Toole, President, Gannett Supply Corporation

10 Elizabeth Allen, Vice President, Associate General

11 Counsel, and Secretary, Gannett Supply Corporation

12 Kristin H. Mowry and Jeffrey S. Grimson - Of Counsel

13

14 Sidley Austin LLP

15 Washington, DC

16 on behalf of

17 Catalyst Paper Corporation

18 Catalyst Pulp and Paper Sales, Inc.

19 Catalyst Paper (USA) Inc.

20 James Isaac, Vice President, Corporate Legal Counsel,

21 Catalyst Paper Corporation

22 Matthew Stapleton, Senior Vice President, Sales and

23 Marketing, Catalyst Paper Corporation; and President and

24 Chief Executive Officer, Catalyst Paper (USA) Inc.

25

1 Adam McGrann, President and Chief Executive Officer,
2 McGrann Paper Corporation

3 Neil R. Ellis and Justin R. Becker - Of Counsel

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5 Arnold & Porter Kay Scholer LLP

6 Washington, DC

7 on behalf of

8 Kruger Inc.

9 Francois D'Amours, Senior Vice President and Chief
10 Operations Officer, Kruger Inc.

11 David Angel, Executive Vice President and Chief
12 Financial Officer, Kruger Inc.

13 Gene Kruger, Vice President, Business Development,
14 Kruger Inc.

15 Michael Shor - Of Counsel

16

17 Rebuttal/Closing Remarks:

18 Petitioner (Stephen A. Jones, King & Spalding LLP)

19 Respondents (Elliot J. Feldman, Baker & Hostetler LLP; and

20 Donald B. Cameron, Morris, Manning & Martin, LLP)

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24

25

I N D E X

1		
2		Page
3	Opening Remarks:	
4	Petitioner (Stephen A. Jones, King & Spalding LLP)	11
5		
6	Respondents (Elliot J. Feldman, Baker & Hostetler LLP)	15
7		
8	Craig A. Anneberg, Chief Executive Officer, North Pacific	
9	Paper Company	20
10		
11	Robert W.A. Buckingham, II, Vice President of	
12	Manufacturing, North Pacific Paper Company	26
13		
14	Leo Thomas Crowley, Vice President of Sales and Marketing,	
15	North Pacific Paper Company	33
16		
17	Stephen A. Jones, King & Spalding LLP	38
18		
19	Charles Anderson, Principal, Capital Trade, Inc.	44
20		
21	Bonnie B. Byers, Senior International Trade Consultant,	
22	King & Spalding LLP	54
23		
24	John Ovanessian, Vice President, National Account Sales	
25	Team - North American Paper, Resolute FP US Inc.	114

I N D E X

	Page
1	
2	
3	Breen Blaine, Vice President, North American Paper Sales,
4	Resolute FP US Inc. 119
5	
6	Russell Lowder, Senior Vice President of Sales, White Birch
7	Paper Company 123
8	
9	Francois D'Amours, Senior Vice President and Chief
10	Operations Officer, Kruger Inc. 130
11	
12	Matthew Stapleton, Senior Vice President, Sales and
13	Marketing, Catalyst Paper Corporation; and President and
14	Chief Executive Officer, Catalyst Paper (USA) Inc. 133
15	
16	Frank O'Toole, President, Gannett Supply Corporation 137
17	
18	Adam McGrann, President and Chief Executive Officer,
19	McGrann Paper Corporation 142
20	
21	Jennifer Lutz, Senior Economist, Economic Consulting
22	Services, LLC 146
23	
24	
25	

I N D E X

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

	Page
Rebuttal/Closing Remarks:	
Petitioner (Stephen A. Jones, King & Spalding LLP)	205
Respondents - Donald B. Cameron, Morris, Manning & Martin, LLP	211
Michael Shor - Arnold & Porter Kay Scholer LLP	215
Elliot J. Feldman, Baker & Hostetler LLP	216

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

2 (9:32 a.m.)

3 MR. BISHOP: Will the room please come to order.

4 MR. ANDERSON: Good morning and welcome to the
5 U.S. International Trade Commission's conference in
6 connection with preliminary phase investigation anti-dumping
7 countervailing duty investigations number 701-TA-584 and
8 731-TA-1382 concerning uncoated groundwood paper from
9 Canada.

10 My name is Michael Anderson. I'm the director
11 of the Office of Investigations. I'll be presiding at this
12 conference. Among those present from the Commission on our
13 staff team are to my far right are Elizabeth Haines, our
14 supervisor investigator; and Calvin Chang, our investigator;
15 and Robert Casanova, another investigator; and then to my
16 left we have our attorney adviser Mr. Michael Haldenstein,
17 and our economist Amelia Preece; and our accountant auditor
18 Charles Yost; and finally our industry analyst Mr. Vincent
19 Honnold.

20 I understand that parties are aware of the time
21 allocations. And I would remind all the speakers to refer
22 to -- not to refer to any remarks, to refer to business
23 proprietary information. And in the benefit of the court
24 reporter, please speak into the microphone and also state
25 your name and your affiliation when you speak. They can't

1 always see your name tags at the table.

2 All witnesses must be sworn in before presenting
3 testimony. Any questions regarding time allocations should
4 be addressed with the secretary. Are there any questions?
5 Hearing none, Mr. Secretary, are there any preliminary
6 matters?

7 MR. BISHOP: Mr. Chairman, I would note that all
8 witnesses for today's conference have been sworn in. There
9 are no preliminary matters.

10 MR. ANDERSON: Thank you, Mr. Secretary. Let us
11 proceed with opening remarks.

12 MR. BISHOP: Opening remarks on behalf of
13 petitioner will be given by Steven E. Jones of King &
14 Spaulding.

15 Mr. Jones, you have five minutes.

16 OPENING REMARKS OF STEPHEN JONES

17 MR. JONES: Good morning, Mr. Anderson, members
18 of the staff. My name is Steve Jones, I'm from the law firm
19 King & Spaulding representing the petitioner North Pacific
20 Paper Company or NORPAC.

21 This case is about dumped and subsidized imports
22 of uncoated groundwood paper from Canada. The scope of the
23 imported articles subject to investigation includes paper
24 that has not be coated on either side, with 50 percent or
25 more of the cellulose fiber content consisting of groundwood

1 pulp and that weighs not more than 90 grams per square
2 meter. Because identical products are manufactured in the
3 United States and because clear dividing lines separate
4 uncoated groundwood paper from other types of paper, the
5 domestic like product should be defined co-extensive with
6 the scope definition.

7 The conditions of competition make the domestic
8 industry producing uncoated groundwood paper especially
9 susceptible to injury from unfairly priced imports. First,
10 uncoated groundwood paper is a price sensitive commodity
11 like product. The scope includes products of various
12 grades, basis, weights and brightnesses. There is an
13 identical competing import for every domestic product and
14 there is direct head to head competition between subject
15 imports and domestic producers all along the continuum of
16 the subject merchandise. Domestically produced and
17 imported products are highly interchangeable and sold
18 primarily on the basis of price.

19 Second, as the Commission is aware, paper
20 production is highly capital intensive. Producers seek to
21 run their paper machines as close to 24/7 as possible to
22 maximize production and minimize pre-unit fixed costs.
23 Therefore, domestic producers have no choice but to meet
24 lower import prices to maximize volume and capacity
25 utilization.

1 Third, like other paper products the Commission
2 has investigated, demand for uncoated groundwood paper is
3 declining due to the shift from printed to electronic
4 versions of written information. This has two important
5 ramifications, both of which make the domestic industry even
6 more vulnerable to unfairly traded imports.

7 First, buyers have increasing market power to
8 force price concessions from producers. And second,
9 producers have been forced to shutter capacity in order to
10 minimize oversupply and to maintain high operating rates on
11 remaining assets.

12 In this case, the fair and orderly reduction of
13 capacity has been distorted by Canadian subsidies and the
14 adjustment to lower demand has fallen disproportionately on
15 the U.S. industry.

16 Applying the statutory factors in the context of
17 these conditions of competition, there's a clear indication
18 that the domestic industry is materially injured by reason
19 of subject imports.

20 First, the volume of subject imports is
21 significant. In fact, imports from Canada account for a
22 majority of U.S. consumption and over 90 percent of total
23 imports. The Canadian owned producers have shuttered their
24 U.S. plants and relying on subsidies north of the boarder
25 have maintained a huge share of the market during the POI.

1 As recently as 2012, the domestic industry held about 60
2 percent of the U.S. market and that share is now about 40
3 percent.

4 Second, the subject imports have had extremely
5 adverse price effects based on published industry data and
6 confidential information from our clients, subject imports
7 have consistently under sold the domestic like product all
8 across the continuum of products. Based on import
9 statistics, the average unit value of subject imports
10 declined by 13 percent over the period of investigation.

11 The substantial volume and decreasing prices of
12 subject imports have both depresses and suppressed U.S.
13 prices. Customers use Canadian import prices to force price
14 concessions from domestic producers and necessary price
15 increases have not stuck.

16 Finally, the subject imports negative volume and
17 price effects have seriously impacted the domestic
18 industry's market share, output, employment, profitability,
19 and capital investment, domestic industry has suffered
20 declines in production employment and profits.

21 The significant presence of dumped and
22 subsidized imports at the expense of U.S. production is
23 accelerating the domestic industry's disinvestment in U.S.
24 production assets and its separation of U.S. workers.

25 Because the industry is already injured, there's

1 no need for the Commission to assess threat of injury, but
2 the announced and imminent shift of production from the
3 United States and Canada, the persistent underselling, the
4 excess capacity in Canada, and the massive government
5 subsidies all in the context of declining U.S. consumption
6 make clear that future injury is also imminent if duties are
7 not imposed to offset the unfair pricing and illegal
8 subsidies.

9 Thus, the Commission should reach affirmative
10 preliminary determinations in these investigations. Thank
11 you.

12 MR. BISHOP: Opening remarks on behalf of
13 respondents will be given by Elliot J. Feldman of Baker and
14 Hostetler.

15 Mr. Feldman, you have five minutes.

16 OPENING REMARKS OF ELLIOT FELDMAN

17 MR. FELDMAN: Thank you, Mr. Chairman, staff.
18 And good morning. I'm Elliot Feldman of Baker and
19 Hostetler. I'm here with my partner Mike Snarr. We
20 represent Resolute Forest Products. We are the largest
21 producer of uncoated groundwood paper in the United States.
22 We're also the largest producer in Canada.

23 Or Canadian colleagues have invited us to
24 introduce our collective case. Resolute U.S. is aligned in
25 this case completely with the Canadian respondents, not

1 because of Canada influence, but because of the commercial
2 realities of the continental business. We're about to
3 present eight witnesses speaking on behalf of four
4 companies, a major purchaser, a broker, and an economics
5 analyst.

6 You will hear the same themes in most of the
7 testimony, but each will add important elements to our
8 story. Our story is that our industry is in secular
9 decline. We all know it. We're all coping with it. We are
10 still all trying to make profits for our shareholders, while
11 keeping our customers in business.

12 We're part of a narrowly defined supply chain
13 producing products with few customers and no plausible
14 replacements. We're a continental North American industry.
15 Our companies make rational corporate decisions with a full
16 and painful appreciation of commercial realty. We're all
17 transitioning, while continuing to serve our customers.

18 Domestic industry is composed of all U.S.
19 products, not just NORPAC. Of all the companies in North
20 America, only one has filed these petitions. And you will
21 hear testimony that this company is on outlier. Our
22 company's all believe that these petitions could destroy our
23 industry and wipe out our customers.

24 The fourth estate remains the pillar of American
25 democracy. Wiping newspapers would be devastating to our

1 democracy. It would also kill jobs in Canada and in United
2 States by eliminating at once both the newspaper industry
3 and the paper industry on which newspapers are printed.

4 All four companies this morning will tell you
5 they are rapidly shutting down capacity in order to
6 eliminate over supply and bring supply into equilibrium with
7 demand. They are beating their retreat in the industry
8 advisedly and responsibly, prioritizing the process by
9 closing down the most inefficient and least profitable
10 machines and mills first. They have shown no regard for the
11 boarder.

12 More capacity has been shut down in Canada than
13 in the United States dictated by efficiency and
14 profitability and the sensitive appreciation for the
15 economic fragility of their customers.

16 You will hear that competition in this industry
17 is attenuated because there are important differences in
18 product quality and character. The Canadian and U.S.
19 products are not entirely alike and often are not
20 interchangeable. The lone petitioner's products do not
21 compete head to head with most of the Canadian companies.
22 And there's not lost market share to Canadian imports.
23 Indeed, the U.S. industry had not lost market share to
24 Canadian imports and Canadian imports have declined more
25 rapidly than consumption in United States.

1 Newspapers are a special business. They require
2 specific reliable, on time delivery. They depend upon
3 qualified suppliers. Different paper produces different
4 looks. News readers grow accustomed to the look of their
5 newspapers, which leaves newspapers to be loyal to certain
6 paper suppliers, as long as those suppliers can deliver
7 their product on time, reliably and competitively.

8 For these reasons as an example, the New York
9 Times has relied on the same paper supplier for many, many
10 years. You will hear about a major closure of a mill in the
11 United States Bear Island, by a Canadian owner. You will
12 learn that closure had nothing to do with the imports or the
13 border and everything to do with the rational process taken
14 hold in a declining industry.

15 Petitioner cannot blame any capacity closures in
16 the United States on import competition, nor can it claim
17 lost sales to imports. To the contrary, you will hear
18 reasons why petitioner may be struggling that have no
19 connection whatsoever to competition from Canada.

20 And you will hear that there is an important
21 geographic dimension to this business. Newsprint is the
22 largest product by volume in the scope of your
23 investigation. It sells close to where it is produced
24 because transportation costs and service requirements timely
25 delivery make distance sales uneconomical.

1 So in this largest segment of the business,
2 petitioners lone mill in the upper west corner of the United
3 States cannot reach into most of the continent. It's not
4 losing sales. It never had and never could have had them.
5 Our industry is dying. It remains in an important industry.
6 We're asking you not to be a partying to killing it. Thank
7 you.

8 MR. BISHOP: Would the panel in support of the
9 imposition of the anti-dumping and countervailing duty
10 orders please come forward and be seated?

11 Mr. Chairman, this panel has been seated. This
12 panel has 60 minutes for the direct testimony.

13 MR. ANDERSON: Thank you, Mr. Secretary. I want
14 to welcome the panel. Thank you for being here today and
15 for taking time out of your businesses to be with us. Just
16 for the benefit of everybody in the audience, we have -- the
17 Commission has two votes scheduled at 11 o'clock. So we
18 will proceed till about 10:50 and then recess so that those
19 votes can be conducted in this room. So I hope that's not
20 too disruptive to this panel and then we'll reconvene after
21 the vote. So again, welcome and please proceed with your
22 panel, Mr. Jones.

23 MR. JONES: Thank you, Mr. Anderson. Again for
24 the record, my name is Steve Jones. I'm from King &
25 Spaulding. I'm accompanied today by colleagues Bonnie Byers

1 and Ben Bay from King & Spaulding and also Chuck Anderson
2 from Capital Trade.

3 I'd like to just proceed with our first witness
4 who is Craig Anneberg from NORPAC.

5 Mr. Anneberg?

6 STATEMENT OF CRAIG A. ANNEBERG

7 MR. ANNEBERG: Thank you. My name is Craig
8 Anneberg and I am the chief executive officer for North
9 Pacific Paper Company or NORPAC, a position I've held since
10 October of 2016. Prior to becoming CEO, I served as
11 president and mill manager at NORPAC prior to that, I worked
12 37 years for Weyerhaeuser in a variety of positions including
13 research and development and a variety of engineering roles.
14 I've spent my entire career in the paper industry. We
15 appreciate the opportunity to be here today. Our trade
16 remedy petitions are really important to the survival of
17 our company. And we welcome the opportunity to provide you
18 with the information that will support an affirmative
19 preliminary injunction injury determination.

20 NORPAC produces uncoated groundwood paper in our
21 mill in Longview, Washington. The Longview mill houses
22 three state-of-art paper machines and it has the capacity to
23 produce 770,000 metric tons of paper per year. The mill was
24 built in 1979 and until recently was owned by a joint
25 venture of Weyerhaeuser corporation and Nippon Paper

1 Industries. On November 1st, 2016, the mill was purchased
2 by 1 Rock Capital Partners, LLC.

3 Or mill is the largest in the United States,
4 producing uncoated groundwood papers, it employs about 360
5 people directly and many more indirectly who provide a host
6 of goods and services to the mill.

7 NORPAC has experienced significant negative
8 effects as a result of competition from dumped and
9 subsidized imports of uncoated groundwood paper from Canada.
10 Low priced imports from Canada have depressed our prices and
11 also undersell our uncoated groundwood paper in the United
12 States. Dumps and subsidized imports have caused prices in
13 the United States to fall significantly over the period of
14 investigation. And this unfair competition has
15 significantly eroded our profitability and our financial
16 indicators.

17 Uncoated groundwood paper is produced primarily
18 from groundwood pulp which is also known as mechanical pulp.
19 Uncoated groundwood papers include standard newsprint, high
20 bright paper, super bright paper, book paper, and directory
21 paper. Uncoated groundwood paper is typically used to
22 produce newspapers, advertising collateral, directories, and
23 books. This is a highly standardized product and there are
24 no significant quality characteristics that distinguish
25 paper produced by one producer from another.

1 Uncoated groundwood paper manufacturers in both
2 Canada and in the U.S. make uncoated groundwood paper in the
3 same basis weights and brightness levels. As such, uncoated
4 groundwood papers are highly fungible, commodity-like
5 products that are purchased almost exclusively on the basis
6 of price.

7 It is also important to understand the
8 production of uncoated groundwood paper is highly capital
9 intensive. For example, a green field public paper facility
10 with one paper machine would cost approximately \$700 million
11 to construct today. These millings are designed to run
12 continuously 24 hours a day, 7 days a week. And
13 profitability is dependent on maintaining high capacity
14 utilization rates.

15 When we run at lower operating rates, our
16 operating efficiency is significantly reduced and our costs
17 are significantly increased. When we can no longer sell our
18 uncoated groundwood paper profitably, we are forced to take
19 extended down time on our paper machines. If we are unable
20 to sell profitably over an extended period of time, we have
21 to shut machines down. And in fact, we just announced a
22 shut down this month.

23 The terrible market conditions brought about by
24 imports of low priced Canadian imports forced us to announce
25 on August 16th that we would be idling one of our three

1 paper machines in October. This will result in the
2 reduction of over 100 positions in the mill.

3 Demand is declining for uncoated groundwood
4 papers and for all printing and writing papers. This has
5 forced the U.S. industry to become as lean and efficient as
6 possible. And NORPAC as done everything in its power to
7 trim costs. For example, we have taken cost cutting
8 measures with respect to fiber utilization, chemical usage,
9 machinery liability and supply chain optimization, as well
10 as energy conservation projects.

11 However, despite all of our efforts to reduce
12 cost and despite the closure of several mills in the U.S.
13 and in Canada over the past five years subsidized Canadian
14 imports continue to depress and suppress prices, resulting
15 in deteriorating profitability and cash flow for our
16 company.

17 We've also had to put facility upgrades and
18 research development efforts on hold given the pricing
19 environment. These difficulties are described in greater
20 detail in a questionnaire response.

21 The reason that prices in the United States have
22 remained so depressed over the period of investigation is
23 largely -- large availability of Canadian supply and the
24 intense price competition by Canadian producers. In 2012,
25 U.S. producers held close to 60 percent of the U.S. market.

1 The 2014 however, U.S. producers market share plummeted to
2 about 40 percent a result of a jump in subject imports of
3 about a half a million tons, increase of 20 percent in a
4 single year.

5 And keep in mind, that this increase occurred in
6 the face of falling demand. U.S. producers were never able
7 to recover from the onslaught. And from 2014 until today,
8 2.3 million metric tons of uncoated groundwood capacity has
9 been shuttered in the United States.

10 There are now only two U.S. owned producers of
11 uncoated groundwood paper remaining. The numerous closures
12 throughout the industry are out lined in our petition. But
13 even more closures in the United States are imminent. As I
14 noted earlier, NORPAC will be shutting down one of our paper
15 machines, paper machine number 1 in October, which accounts
16 for about one-third of our capacity or about 250,000 tons.
17 Resolute just last week announced that it intends to shut
18 down two machines at its mill in Calhoun, Tennessee,
19 representing the idling of another 356,000 tons of capacity
20 and the loss of 222 jobs.

21 What's particularly galling about the Resolute
22 announcement however is that while closing down capacity in
23 the U.S., Resolute is reportedly reopening one of its idled
24 paper machine in its Alma mill in Quebec in order to service
25 its U.S. customers.

1 And this is not the first time we've seen
2 closures of U.S. capacity accompanied by the restart of
3 idled Canadian capacity. 2013 Resolute shut down another of
4 its paper machines in the Calhoun mill and at the same time,
5 restarted and idled groundwood paper machine at its mill in
6 Gatineau, Quebec. Like Birch which recently shuttered its
7 Bear Island mill in Ashland, Virginia, and plans to service
8 its U.S. customers solely from its three mills in Quebec
9 restarted two idled paper machines at its Stadacona mill in
10 2012 with the help of \$35 million in interest-free loans
11 from the Canadian government and the government of Quebec.

12 Canada now dominates the U.S. market not because
13 of any inherent advantage, but because of the massive
14 assistance that Canadian producers receive from their
15 provincial governments and the Canadian federal government.
16 The Canadian market for uncoated groundwood paper is less
17 than one-fifth the size of the U.S. market. And yet
18 Canadian producers now have more than 70 percent of the
19 North American capacity.

20 Canadian producers are thus by necessity highly
21 export oriented. And the United States is their most
22 important market. And to make the situation even worse, we
23 now have a new Canadian entrant into the market. Irving
24 Paper redirected one of its super calendared machines to
25 produce uncoated groundwood paper, which is a lower value

1 product than super calendar paper. When it entered the
2 uncoated groundwood market, Irving immediately followed the
3 lead of the established Canadian producers by selling below
4 prevailing levels in order to gain market share.

5 Any market share taken by Irving using dumped
6 and subsidized prices now or in the future is taken at the
7 expense of the domestic industry. In short, we have been
8 materially injured by dumped and subsidized imports from
9 Canada. Moreover, the future of the U.S. industry producing
10 uncoated groundwood paper is bleak, unless duties and
11 imports -- duties are imposed o offset the unfair trade from
12 Canada.

13 If we are not able to level the playing field in
14 the United States, the future of our mill is in jeopardy.
15 On behalf of NORPAC paper and our employees, we ask the
16 Commission to reach an affirmative preliminary
17 determination. I look forward to responding to your
18 questions. Thank you.

19 MR. JONES: Our next witness is Mr. Rob
20 Buckingham. Rob?

21 STATEMENT OF ROBERT W.A. BUCKINGHAM, II

22 MR. BUCKINGHAM: Thank you. My name is Rob
23 Buckingham and I'm the Vice President of Manufacturing for
24 NORPAC, a position I have held since March 2017.

25 As Vice President of Manufacturing I oversee the

1 day-to-day operations of our mill's three paper machines and
2 innovative pulp mills. Prior to my current position, I was
3 NORPAC's paper mill manager and worked in various production
4 management and engineering positions throughout NORPAC and
5 in several other integrated paper mills earlier in my
6 career. I have 29 years of experience in the paper
7 industry.

8 I would also like to thank you for the
9 opportunity to be here today. This case is critical to our
10 company and our employees. NORPAC's paper mill is world
11 class. We have some of the most efficient machines, a
12 highly trained and dedicated workforce, and ample supply of
13 fiber and ready access to other raw materials.

14 NORPAC's Longview, Washington, Mill has three
15 paper machines with 770,000 metric tons of total capacity.
16 With our machines we can produce the whole range of grades
17 of publication paper and newsprint.

18 Our mill has significant scale and flexibility
19 throughout our production process which allows us to
20 efficiently optimize our grade mix to meet the constantly
21 changing demands of our customers.

22 We are fully integrated with one of the largest
23 thermal mechanical pulp mills in the world, and we have an
24 onsite recycling facility.

25 NORPAC has been producing uncoated groundwood

1 paper since the mill started in 1979. We have continuously
2 invested in technical upgrades to optimize the efficiency of
3 our operations, developed high-performance work systems,
4 delivered recognized top-quality products to a challenging
5 market, and have introduced innovative manufacturing
6 techniques to keep us at the top of our game.

7 Uncoated groundwood paper is used to produce a
8 variety of products, including newspapers, newspaper
9 inserts, promotional mailers, advertising circulars, coupon
10 fliers, books, and directories.

11 Almost all uncoated groundwood paper produced in
12 our mill is sold and shipped to our customers in roll form.
13 Uncoated groundwood paper is produced from a mechanical
14 pulp, chemical pulp, mineral fillers, and other additives.

15 Chemical pulp, typically added for a strength
16 reinforcement for some grades, can either be produced by the
17 paper producer or it can be purchased on the open market.
18 The mechanical pulp is typically bleached to improve the
19 optical properties of the paper.

20 In the furnished area, the different pulps and
21 fillers are combined, mixed, cleaned of defects, and
22 transferred to the paper machine under pressure. Paper
23 manufacturing begins at the head box of the paper machine
24 when a pressurized pipeline of turbulent liquid slurry
25 mixture, which is about 99 percent water, and 1 percent pulp

1 and filler, is changed from a pipeline flow to a laminar
2 flow.

3 Depending on the machine design, the dilute stock
4 leaves the head box and is either injected between two
5 fast-moving forming fabrics, or is spread out on top of a
6 single moving forming fabric. The forming section initially
7 forms the stock into a wet web which is made up of pulp
8 fibers mixed with water, filler, and additives.

9 In the forming section, the water drains away and
10 fibers are retained on the surface of the fabrics that is on
11 a finely woven mesh in an absolutely even layer.

12 The forming fabrics, or wires, are specially
13 designed to balance the retention of as much of the diverse
14 fibers as possible, while letting the water drain in a
15 manner that achieves the desired sheet appearance.

16 Water is collected throughout the paper-making
17 process for reuse. The direction of the fiber in the paper
18 is determined in the forming section where strength,
19 opacity, formation, and two-sidedness can also be affected.
20 Various process chemistries can be added to enhance the
21 equipment and forming fabric design effects.

22 As the stock water mixture reaches the press
23 section, the wet web is now approximately 80 percent water.
24 The pulp is vacuum transferred into the wet presses using
25 speed differential onto a press belt, a type of conveyor

1 belt.

2 The presses squeeze the water out of the wet web
3 into the press felts. The press felts absorb water from the
4 paper web and the water is removed from the felts on their
5 return up to the press roll web. The water can then be
6 processed for reuse.

7 As the mixture exits the press section, the
8 solids/water ratio is approximately 45 to 55 depending on
9 the press design. Pressing improves fiber bonding by
10 squeezing the fibers closer together, and also the bulk,
11 stiffness, and surface smoothness of paper are influenced.

12 The paper web is then pulled into the drying
13 section which consists of steam-heated cylinders that
14 evaporate more water. After going through the drying
15 section, the paper has the moisture content of 5 to 10
16 percent depending on the grade.

17 Drying requires a large amount of steam which is
18 typically produced in an integrated power plant of the mill
19 or purchased from a local power plant. The drying section
20 affects the moisture content and thus the stretch and curl
21 of the paper. After drying, groundwood paper is pulled
22 through the calendar step and squeezed to target thickness
23 and smoothness.

24 Then key paper quality parameters are measured by
25 a device that traverses across the width of the rapidly

1 moving sheet of paper. At the end of the paper machine, the
2 paper is pulled from the calendars and wound on the parent
3 reels.

4 The paper is then further tested for quality
5 attributes from which to make sell/no-sell decisions at the
6 winder. The paper reels are then processed through a winder
7 that slits them to ordered customer roll size that are then
8 packaged for shipping to customers.

9 NORPAC produces a full array of uncoated
10 groundwood papers, from newsprint to high bright and super
11 bright papers to book papers. All of these products are the
12 same basic physical characteristics, are made in a variety
13 of brightness levels, basis weights, calipers to serve a
14 customer's particular need and budget.

15 Higher brightness levels are achieved by adding a
16 higher percentage of high bright fillers, chemistry, and
17 bleached pulp to the slurry mix. High-bright papers and
18 regular uncoated groundwood paper are interchangeable and
19 can be used in the same way on the same printing presses,
20 and for the same type of publications and printed materials.

21 Book papers, a type of high-bright paper, are
22 made to very strict tolerances for the caliper of the paper
23 as this is at an end use where strict consistency and color
24 and caliper are critical.

25 We make all types of high-bright paper and

1 regular uncoated groundwood on the same machinery and
2 equipment, using the same workers and using the same inputs.

3 As Craig noted, paper production is highly
4 capital intensive. Given the need to cover high fixed
5 costs, paper producers have an economic incentive to run
6 their paper machines constantly and at maximum reliable
7 rates.

8 The complexity of managing and operational
9 considerations of the machine also incentivize consistent
10 operation in order to minimize employee safety risk and
11 deliver reliable product quality and repeatable customer
12 delivery performance.

13 The machines are designed to run 24/7 with
14 planned scheduled shutdowns for preventive maintenance.
15 They cannot simply be turned on and off without encountering
16 potential technical problems upon restart without incurring
17 significant costs.

18 From an operational benchmark perspective, NORPAC
19 is a world-class manufacturing facility that can compete
20 effectively with any other producer in North America. Our
21 machines consistently rank in the top tier of the Pulp and
22 Paper Products Council Operating Efficiency Benchmarking
23 results.

24 Regarding cost management, our teams consistently
25 implement energy conservation measures, redesign our work,

1 and have invented numerous new grades and have been the
2 first to innovate the use of Douglas Fir Wood and groundwood
3 products.

4 But we really cannot compete with the deep
5 pockets of the Canadian Government. Unfairly traded imports
6 from Canada are taking a heavy demoralizing and economic
7 toll on our company.

8 As Craig mentioned, two weeks ago, even after
9 years of innovative cost reductions and development of new
10 products, we had to announce that we were idling one of our
11 three paper machines. This heart-wrenching act will impact
12 not only our employees and their families but also our
13 suppliers, customers, contractors, and their families that
14 have worked together to create a world-class enterprise that
15 are proud to be affiliated with.

16 That is the end of my presentation. I would be
17 happy to answer your questions.

18 MR. JONES: Thank you, Rob. Our next witness is
19 Tom Crowley.

20 STATEMENT OF LEO THOMAS CROWLEY

21 MR. CROWLEY: Thank you. My name is Tom Crowley.
22 I am Vice President of Sales and Marketing for NORPAC, a
23 position I have held since June 2014. As Vice President of
24 Sales and Marketing I oversee the sales and marketing of all
25 of our paper products in both our domestic and export

1 markets.

2 Prior to my current position, I was Senior Vice
3 President of Sales and Marketing at Catalyst Paper, and
4 before that I was Vice President of International Sales at
5 Abatibby Consolidated. I have 25 years of experience in the
6 paper industry.

7 Imports of uncoated groundwood paper from Canada
8 serve the entire range of end uses in the U.S. market, and
9 we compete against these imports in every product category
10 and at every one of our major accounts.

11 We are under constant pressure from our customers
12 to lower prices, and our customers frequently invoke
13 Canadian pricing to get us to lower our prices. Uncoated
14 groundwood paper is a highly standardized product. For this
15 reason, uncoated groundwood paper is both fungible and
16 highly price sensitive.

17 The imports from Canada are completely
18 substitutable with the uncoated groundwood paper made by
19 domestic producers. It may be that the Canadian producers
20 who will testify this afternoon will seek to differentiate
21 their product from ours, but our experience has been that
22 there is no significant use application for which we do not
23 compete. Moreover, the quality of uncoated groundwood paper
24 produced in the United States is identical to uncoated paper
25 produced in Canada.

1 Imports from Canada also serve the entire
2 geographic U.S. market, and we compete with those imports
3 throughout the United States and at all of our customers.
4 In order to serve our markets east of the Rockies, we
5 maintain warehouses in Chicago, Illinois, and Chambersburg,
6 Pennsylvania.

7 As others have noted, demand for uncoated
8 groundwood paper is in secular decline as a result of
9 primarily the replacement of paper with online purchasing
10 and advertising and the rise in popularity of digital media.

11 In our sales negotiations with customers we
12 attempt to emphasize our product quality and reliability.
13 Unfortunately, our customers are under intense pressure to
14 reduce their own costs and want us to lower prices.

15 All our major customers also have imports from
16 Canada as a supply option. The U.S. market is essential to
17 each of the Canadian producers and they must sell most of
18 their volume in the United States.

19 To make sales, the imports from Canada routinely
20 undersell us; thus, we have had to reduce prices to maintain
21 sales volumes.

22 As has been noted, the production of uncoated
23 groundwood paper is highly capital intensive, and paper
24 machines are not designed to be turned off and on. Every
25 producer wants to run 24/7, and this fact has undeniable

1 implications for competition for sales among uncoated
2 groundwood producers. In short, producers are loathe to
3 lose volume and will sacrifice profit margins to keep paper
4 machines running.

5 As shown in our questionnaire response, we have
6 done just that. The current market conditions which were
7 created by imports from Canada preclude reasonable
8 profitability.

9 Uncoated groundwood paper is sold to paper
10 merchants and to end users. End users include newspaper
11 publishers, commercial printers and retailers. Regardless
12 of the purchaser, however, uncoated groundwood paper is
13 ultimately shipped directly to the printer or print
14 facility. This is true for both U.S. produced uncoated
15 groundwood paper and uncoated groundwood paper imported
16 from Canada.

17 Customers' buying power for uncoated groundwood
18 paper has grown more concentrated over time, particularly in
19 the newsprint segment. The concentration and buying power
20 is a result of several factors, including, one, a reduction
21 in the number of news publishing companies; two, the
22 reduction in the number of printed pages per publication;
23 three, mergers and consolidations in the newspaper industry;
24 and number four, the increased use by independent publishers
25 and distributors of buying groups who band together to

1 negotiate uncoated groundwood paper prices.

2 Given the excess supply in the market for
3 uncoated groundwood paper, this increased concentration of
4 demand has made it even easier for customers to demand lower
5 prices from us.

6 While uncoated groundwood paper is sometimes sold
7 under contract, contracts generally do not specify a fixed
8 prices or volume, and in reality volume projections change
9 and prices are frequently renegotiated.

10 The market for uncoated groundwood paper is very
11 transparent with respect to prevailing prices. Several
12 publications, including RICI and Real-time provide price
13 ranges in their reports. And as a salesman, I usually have
14 a very good sense of what prices are being offered in the
15 market.

16 We also face a new challenge from the fact that
17 Canadian paper producer Irving Paper started to produce and
18 export to the United States both newsprint and high-bright
19 papers in about the middle of last year.

20 As the new entrant, Irving has been very
21 aggressive in the market, offering extremely low prices in
22 order to gain market share. Moreover, although there are a
23 number of recently announced uncoated groundwood capacity
24 closures in the United States, I think the impact of these
25 closures on the market overall is still uncertain.

1 In announcing the shutdown of two uncoated
2 groundwood paper machines at a pulp mill in Calhoun,
3 Tennessee, the Resolute is also reported to be reopening
4 idled uncoated groundwood machine at their mill in ALAC,
5 Quebec. Similarly, when White Birch announced it was
6 shuttering its Bear Island Mill in Ashland, Virginia, RIC
7 reported that it would be shifting that production--White
8 Birch would be shifting that production to its three
9 Canadian mills.

10 I cannot talk publicly about our specific
11 performance results, but it is well known that current U.S.
12 market prices are not producing adequate operating returns.
13 We have had to lower our prices to meet competition from
14 dumped and subsidized Canadian producers which significantly
15 reduced our revenue over the Period of Investigation.

16 We finally reached the point where unfortunately
17 we have been forced to shut down one of our three paper
18 machines. Relief from the unfair imports from Canada is
19 essential to returning reasonable pricing to the U.S.
20 market. Absent relief, underselling by subject imports will
21 continue and U.S. market prices will continue to be
22 depressed to injurious levels.

23 I appreciate your attention and am looking
24 forward to your questions.

25 STATEMENT OF STEPHEN A. JONES

1 MR. JONES: Again for the record, Steve Jones from
2 King & Spalding. I would like to make a few comments at
3 this time about the domestic like-product definition in the
4 investigation.

5 As we discussed in the Petition, the Commission
6 should define the domestic like-product in this case to be
7 coextensive with the scope definition.

8 For purposes of this testimony, I will refer to
9 the products within the scope definition as uncoated
10 groundwood paper. When determining the domestic
11 like-product, the Commission looks for clear dividing lines
12 among possible like-products and disregards minor
13 variations. For a continuum of products of various grades
14 and sizes with no clear dividing lines like we have here,
15 the Commission will treat that continuum as a single
16 like-product rather than arbitrarily subdividing it.

17 As an aside, we think the questionnaire responses
18 support our position and show conclusively that there is no
19 bright line between regular uncoated groundwood and
20 high-bright uncoated groundwood as defined in the
21 questionnaire; nor do we think that the questionnaires
22 contradict our position that uncoated groundwood paper in
23 general is different from other forms of paper.

24 I pause at this point to ask Ms. Haines--we've
25 put some samples up there for the staff to look at. And

1 these are products within the scope, within the domestic
2 like-product that we are proposing of different brightness
3 levels.

4 And I think it is a good, a good visual
5 presentation of the similarities among the products within
6 the continuum of products in this like-product definition.

7 The Commission generally makes the like-product
8 determination based on six factors which indicate in this
9 case that there is one like-product consisting of all items
10 covered by the scope. I would also point out that the
11 continuum of products covered by the scope of these
12 investigations is a category of paper that is entirely
13 distinct from paper products that have been found to
14 constitute single like-products in prior investigations
15 conducted by the Commission, including cases involving
16 super-calendered paper, uncoated freesheet, certain coated
17 papers, and lightweight thermal paper.

18 And within each of those prior cases, the
19 Commission recognized that there could be a range of bright
20 nesses, basis weights, and prices within the like-product
21 definition. Thus, these prior cases support a finding of a
22 single like-product in this case.

23 With respect to the six factors:

24 First, uncoated groundwood paper shares the same
25 physical characteristics and uses, and it differs from other

1 types of paper. Uncoated groundwood paper is available in a
2 continuum of grades based on brightness, basis weight,
3 caliper, and smoothness, and includes standard newsprint,
4 high-bright newsprint, super-bright paper, directory paper,
5 and book publishing paper.

6 Standard newsprint is used for newspapers,
7 newspaper inserts, promotional mailers, advertising
8 circulars, coupon fliers, directories, catalogues, paperback
9 books, and magazines.

10 High-bright simply has a higher brightness and
11 overlaps with standard newsprint for many of the same end
12 uses.

13 Directory paper overlaps with standard newsprint
14 with respect to brightness, but it typically has a lower
15 basis weight. It is used to produce phone books and other
16 types of directories, catalogues, and inserts. Book grades
17 are optimized for the production of trade books and
18 workbooks, and generally have higher brightness levels than
19 standard newsprint but similar brightness levels to
20 high-bright paper.

21 There is significant overlap among the various
22 grades with respect to end use.

23 Second, uncoated groundwood paper is generally
24 not interchangeable with other types of paper. Coated
25 freesheet is heavily, stiffer, and has a superior finish to

1 uncoated groundwood and it is used for higher end
2 publications and brochures, calendars, point-of-sale
3 displays, books covers, and direct mail card.

4 Uncoated freesheet is primarily used as copy
5 paper. Super-calendared paper has some interchangeability
6 with high-bright uncoated groundwood paper for use as
7 advertising materials such as newspaper fliers and inserts
8 that have short lives, but the Commission has determined in
9 prior investigations that any such interchangeability is
10 limited.

11 Uncoated groundwood papers are also less suitable
12 for high-quality printing of graphic material, particularly
13 in higher resolutions and in color, compared to
14 super-calendared paper, and coated groundwood or coated
15 freesheet.

16 Third, all grades of uncoated groundwood paper
17 are sold in the same channels of distribution to end users
18 and merchants or brokers.

19 Fourth, customers and producers generally view
20 uncoated groundwood paper as a distinct category from other
21 types of paper. Uncoated groundwood paper is lighter and
22 therefore more desirable for uses where weight and mailing
23 costs are a consideration. It also tends to yellow over
24 time, which differentiates it from freesheet papers that are
25 used in applications where the quality of the printed

1 material needs to be preserved.

2 Uncoated groundwood paper is also distinct from
3 super-calendered paper which has superior photographic
4 qualities and is used in higher quality graphic
5 applications.

6 Fifth, the paper machines that produce uncoated
7 groundwood papers are not used to produce other types of
8 paper. Uncoated groundwood paper machines do not have
9 super-calendering equipment. While uncoated groundwood
10 paper can be produced on coated groundwood machinery, it is
11 very expensive and usually only done under exceptional
12 circumstances such as when coating equipment is idle or
13 unable to keep pace with the rest of the machine's
14 production.

15 Uncoated groundwood paper is also differentiated
16 by the pulp used in the production process. Freesheet paper
17 is also called wood-free papers and use mainly chemical
18 pulp, while uncoated groundwood paper uses groundwood pulp.
19 Chemical pulp is generally more expensive than groundwood
20 pulp.

21 While super-calendered paper can be made with
22 groundwood pulp, it requires a filler--typically clay or
23 talc--that is not present in uncoated groundwood paper in
24 order to achieve the desired glossy finish of
25 super-calendered paper.

1 As a result, when uncoated groundwood paper is
2 produced in the same manufacturing facilities as other types
3 of graphic paper, the production lines are typically
4 distinct.

5 And finally, prices for uncoated groundwood paper
6 are generally lower than prices for other types of paper
7 because uncoated groundwood paper is less costly to produce,
8 and used for applications that are disposed of after a
9 shorter period of use. Thus prices for uncoated groundwood
10 paper generally are lower than prices for coated and
11 uncoated freesheet, coated groundwood, or super-calendered
12 paper.

13 To conclude, the Commission should define the
14 domestic like-product to be coextensive with the scope of
15 the investigation. The scope constitutes a continuum and
16 any attempt to divide the continuum into more than one like
17 product would be arbitrary to the record.

18 Our next witness is Chuck Anderson. Chuck?

19 STATEMENT OF CHARLES ANDERSONMR.

20 MR. ANDERSON: Good morning. Today I'd like to
21 highlight some of the key conditions of competition in this
22 industry and then lay out some of the facts and economic
23 analysis that support an affirmative finding of current
24 injury.

25 But first just a few words about the product

1 itself. Uncoated groundwood paper is what I would call a
2 mildly differentiated commodity. As you can see from Slide
3 1 and also from the samples that are being sent around here,
4 it's really sold in a finite number of combinations of basis
5 weights, brightnesses, grades and forms. These combinations
6 form a fairly well defined continuum.

7 But I think it's important to remember in this
8 hearing that uncoated groundwood is more than just
9 newsprint. In fact, as the aggregated questionnaire
10 response data shows, high bright products are a large part
11 of the overall U.S. market. While uncoated groundwood does
12 come in various flavors, it falls very much on the commodity
13 end of the spectrum of product types.

14 Unlike copy paper, there's no consumer-branded
15 strategy for differentiating one producer's uncoated
16 groundwood from another. Indeed, there's no economically
17 meaningful difference between the U.S. producers' uncoated
18 groundwood offerings and subject imports. This is confirmed
19 by the two recent decisions by Canadian-owned uncoated
20 groundwood companies, to cease productions in the U.S. mills
21 and transfer that production to Canada.

22 Another salient characteristic of this product
23 is its high degree of price transparency. As you'll see on
24 Slide 2, pricing information for uncoated groundwood is
25 readily available from multiple sources, including RIC1 and

1 Real Time. Import stats, of course, provide another
2 important public source of pricing information. Because
3 price information is readily available and can change in a
4 short period of time, prices in this industry generally are
5 not fixed. Customers in all segments of the uncoated
6 groundwood market have a ready source of information on
7 price levels and trends, and in periods of oversupply will
8 not lock themselves into fixed price contracts.

9 With those product characteristics in mind,
10 now I'll turn to the key conditions of competition. Let's
11 start with demand. This is a market in which overall demand
12 is highly concentrated and has become moreso over the POI.
13 The concentration is particularly pronounced in the
14 newsprint segment.

15 As you've heard from Mr. Crowley, this
16 increasing concentration is a result of a number of
17 developments, including the mergers and consolidations in
18 the newspaper publishing industry, the reductions in the
19 number of pages printed, and the increasing use of buying
20 groups by even small distributors so that they can achieve
21 basically the same volume type of market power that the
22 larger buyers get.

23 When you have a market where both the buyers
24 and sellers are concentrated, the buying power will shift
25 dramatically in favor of one group or the other, depending

1 on the supply-demand balance. This is especially true in an
2 industry that is characterized by high fixed costs. Because
3 the uncoated groundwood market has been oversupplied for
4 some time, buyers are in the driver's seat and use their
5 power to force price reductions.

6 Another key element of U.S. demand, as you've
7 heard from everyone, is that it is in decline. The
8 Commission is familiar with the reasons for falling demand,
9 as the same forces are at play in other sectors in the paper
10 industry that have come before this agency.

11 Reduced to its essential element, the decline
12 can be attributed to the shift in final consumer and
13 industry preference from printed to electronic versions of
14 written information, be it in the form of books, newspapers
15 or advertisements. As the Commission has found many times,
16 a declining market is a condition that leaves the U.S.
17 industry vulnerable to injury from dumped and subsidized
18 imports.

19 The rate of decline is more pronounced in the
20 lower value added segments of this industry, including
21 newsprint and directory paper. The high bright segment is
22 holding up a bit better. Notwithstanding these long-term
23 trends, there remains a significant market for these
24 products in the U.S. for the foreseeable future.

25 One final point on demand. Later today, you

1 may hear that there are two regional markets for uncoated
2 groundwood, the east coast and the west coast, which
3 Canadians largely serving the east coast market and the U.S.
4 industry supplying the west coast. Such a simplistic
5 characterization of the uncoated groundwood market is highly
6 misleading.

7 First, it ignores the reality that the
8 important high bright segment of the market, a segment
9 that's not small, is national in nature. NORPAC and other
10 producers sell high bright products to all regions in the
11 United States. Even for newsprint, there's no clear east
12 coast/west coast divide. The largest newsprint customers,
13 including Gannett and Dow-Jones, have printing operations
14 spread across America and purchase newsprint on a
15 nationwide basis.

16 Further, if prices on one coast deviate too
17 far from prices on the other, arbitrage will kick in and
18 shift supply. Finally, Canadian ungrounded, uncoated
19 groundwood presence in the U.S. market is not limited to one
20 coast or the other, and until recently U.S. producers have
21 operated on both sides of the country.

22 As shown in Slide 3, the import data clearly
23 shows uncoated groundwood entering all along the 5,500 mile
24 border between Canada and the United States.

25 Turning now to supply. As you've heard, this

1 is a highly capital intensive industry. To reduce average
2 unit cost and generate a profit, all producers seek to run
3 paper machines as close to 24-7 as possible. These paper
4 machines typically are dedicated exclusively or primarily to
5 uncoated groundwood production.

6 While they can be operated at less efficiency
7 to produce other products or sometimes converted to produce
8 other products, the repurposing is expensive and it makes no
9 sense to incur these costs or produce other products under
10 suboptimal conditions if other paper markets are similarly
11 oversupplied.

12 A second salient supply factor is that
13 capacity changes are lumpy when compared to total market
14 demand. With a typical modern paper machine capacity of
15 250,000 tons per year and annual U.S. demand at around four
16 million tons, the closure of one machine can eliminate in
17 one fell swoop a large chunk of total capacity.

18 Thus, the closure of one standard machine
19 should have a significant impact on the supply-demand
20 balance. In a declining market of an industry that must run
21 24-7, there has to be regular and orderly reductions of
22 capacity. The burden of adjustment, however, should be
23 determined by relative comparative damage that is not
24 distorted by subsidies or other forms of unfair trade.

25 The evidence does suggest that such forces are

1 at work. Within North America, over the past five years
2 adjustment to lower demand has fallen disproportionately on
3 U.S. producers. As shown in Slide 4, since 2012 we
4 calculate that two-thirds of North American capacity
5 reductions have occurred on the U.S. side of the border.
6 Not only are plants north of the border been less likely to
7 close, a few Canadian plants have restarted producing
8 uncoated groundwood during the POI, as Slide 4 also shows.

9 Over the same time period, no additional
10 uncoated groundwood mill capacity has permanently reopened
11 in the United States. Particularly damage to the U.S. mills
12 has been the entry of Irving, a new Canadian uncoated
13 groundwood producer. As you've heard, Irving has been
14 offering exceptionally low prices to gain a foothold in the
15 U.S. market, and we think it telling that Irving has
16 announced its exit from the U.S. market as soon as these
17 cases were filed.

18 Which brings me to the role of subject imports
19 in the U.S. market. As you've heard, Canada has built an
20 uncoated groundwood industry that is heavily dependent on
21 exports. Slide 5 in front of you illustrates this
22 dependence. The domestic market in Canada is so small that
23 without exports, the Canadian industry as currently
24 constituted could not survive.

25 As Asian and other potential export markets

1 have become more competitive, the U.S. market has become
2 more and more important to Canadian producers. In the
3 Canadian industry, again I emphasize, is not located only on
4 the east coast. As shown in Slide 6, a significant portion
5 of total Canadian production is on the west coast. These
6 mills compete directly with U.S. west coast mills in the
7 western newsprint market.

8 To gain a better understanding of what is
9 happening to subject imports in the U.S., we think it's
10 useful to go back to 2012, when Canadian volume began its
11 upward climb. Since then, as the graph in Slide 7 shows,
12 the Canadian mills' share of the U.S. market has grown from
13 around 40 percent to 60 percent. Thus Canada now accounts
14 for the majority of total U.S. consumption.

15 And now injury. First, volume. Over the POI
16 U.S. shipment volumes have fallen. The sheer magnitude of
17 Canadian import volumes must be a major determinant of the
18 health of the U.S. industry. With such high market share,
19 given the other conditions of competitions I have described,
20 including oversupply, high fixed costs and price
21 transparency, it's hard to see how anyone could make an
22 argument that Canadian imports have not caused material harm
23 to the U.S. industry.

24 On a more micro level, there is substantial
25 evidence of lost sales, as listed in the petition and will

1 be discussed in more detail in our post conference brief.
2 U.S. mills have been seeking to sell more to U.S. customers,
3 but have been priced out of the market by Canadian imports.
4 These involuntary reductions in U.S. shipments have led to
5 substantial mill closures and reductions in U.S. capacity.

6 With respect to price effects, one of the
7 first factors that jump out at you when you look at the data
8 is the steady decline in U.S. prices over the POI. As shown
9 in Slide 8, the public data shows a steady drop in Canadian
10 AUVs from 2014 to 2016. We believe that the confidential
11 pricing data will mirror this trend.

12 While I can't go into great detail in this
13 public setting, I think it's safe to say that the
14 questionnaire response data is consistent with intense price
15 competition between Canadian import sources and U.S.
16 producers. NORPAC's inability to realize the price increase
17 it announced in April 2017 is evidence of this intense price
18 competition.

19 During much of the POI, NORPAC's gross profits
20 have been unacceptable and at levels that are unsustainable.
21 In light of the recent closure announcements of the
22 Canadian-owned U.S. mills which it cited for operating
23 performance, we expect that the situation for the total U.S.
24 industry will be no different. Thus, there's no doubt that
25 there's been a subject import-driven price cost squeeze.

1 In a commodity market characterized by high
2 priced transparency and prices that react quickly to changes
3 in volumes, there's simply no way that the Canadians'
4 subsidized volumes entering the U.S. cannot have had a major
5 depressing impact on U.S. prices. As Mr. Crowley has told
6 you, customers invoke Canadian prices to jawbone down U.S.
7 prices. Either way, the U.S. producers lose either through
8 lower prices or lower volumes, and as the questionnaire data
9 shows, both trends are downward.

10 Now just a few words about impact, as shown in
11 Slide 9, based on NORPAC's experience declines in volumes
12 and prices have manifested themselves in the following
13 indicators of injury, declines in U.S. production over the
14 POI and the major fall off of U.S. shipments in the first
15 quarter of 2017, major drops of prices across the board,
16 unacceptable profit levels, curtailment of investment in R&D
17 and process improvements. And perhaps most importantly,
18 multiple plant closures which, as we speak, are manifesting
19 themselves as yet more reductions in production, operating
20 capacity and employment.

21 Once again we expected the aggregated U.S.
22 industry data will tell the same story. The dire strait of
23 the U.S. industry cannot be explained fully by any other
24 factor or factors in combination. U.S. demand, while
25 trending downwards, remains well above U.S. capacity. Over

1 the POI, there's no clear trend in raw material price
2 movements.

3 While U.S. industry export performance has
4 also deteriorated, export shipments are but a fraction of
5 total U.S. producer shipments. Finally, non-subject imports
6 are small in relation to the total market. The only factor
7 that can begin to explain the negative performance of the
8 U.S. industry is the overwhelming market presence of subject
9 imports, product that is identical to that offered by U.S.
10 mills but at increasingly lower prices. Thank you.

11 MR. JONES: Our final witness is Bonnie Byers.
12 Bonnie.

13 STATEMENT OF BONNIE BYERS

14 MS. BYERS: Thank you. Bonnie Byers from King
15 and Spalding on behalf of Petitioner NORPAC. As you've
16 heard from our witnesses here this morning, the domestic
17 industry producing uncoated groundwood paper is clearly
18 suffering present material injury. A review of the factors
19 related to threat, however, demonstrates just how vulnerable
20 the domestic industry is to material injury in the future,
21 particularly in light of the secular decline in demand for
22 uncoated groundwood papers.

23 First, Canadian producers are highly export
24 oriented and the United States is far and away Canada's most
25 important market. Public data indicate that exports alone

1 account for about 82 percent of total Canadian shipments,
2 with exports to the U.S. alone accounting for about 50
3 percent of total Canadian shipments. Thus, the U.S. is not
4 just an attractive market, it is the critical focus for all
5 Canadian producers.

6 Second, there will inevitably be an increase
7 in the market share of Canadian imports in the imminent
8 future. As you've heard this morning, Canadian producers
9 Resolute and White Birch are shuttering capacity in the
10 United States and moving that production to Canada. For
11 example, reports indicate that Resolute, after shutting down
12 two of its uncoated groundwood machines in Calhoun,
13 Tennessee, will restart one of its paper machines in Alma,
14 Quebec that had been idled since 2015, in order to supply
15 the U.S. market previously served by the Calhoun mill.

16 The shift in production from the United States
17 to Canada will invariably result in an increase of exports
18 to the U.S. The Canadian market is very small and cannot
19 absorb additional domestic capacity. Therefore, Canadian
20 producers will seek to maintain and even increase their
21 absolute volume of shipments to the U.S., as well as their
22 market share.

23 Excess capacity among Canadian producers, as
24 reported in industry publications, is also evidence that
25 Canadian producers could readily increase exports to the

1 U.S. Third, the domestic industry has had to contend with a
2 new entrant into the market in form of Irving Paper. Irving
3 Paper previously produced only super calendared paper in New
4 Brunswick.

5 In 2016, after the CVD order on SC Paper went
6 into effect however, customers began to report that Irving
7 had started to produce newsprint and high bright papers, and
8 that it was offering these products at very low prices in
9 the U.S. market. Having to compete with a new market
10 entrant keen to grab market share has already caused injury
11 to the producers of the domestic like product. But it also
12 threatens additional injury in a declining market.

13 Fourth, imports from Canada have already
14 depressed and suppressed U.S. producers' prices for the
15 domestic like product, and are likely to continue to do so.
16 Subject producers have already demonstrated the ability and
17 willingness to lower prices for subject merchandise and
18 undersell the U.S. like product. The adverse price effects
19 from which the domestic industry already suffers will only
20 be exacerbated, leading to further declines in market share,
21 capacity, capacity utilization, employment, revenues,
22 operating income, cash flow and return on investment.

23 Finally, Canadian producers receive
24 significant levels of countervailable subsidies, including
25 several export subsidies. Moreover, many of these subsidies

1 that they receive are input subsidies, like low cost
2 stumpage and reduced electricity rates. These subsidies
3 unofficially lower the cost of Canadian producers, and
4 threaten additional material injury to unsubsidized U.S.
5 producers who have to compete with them.

6 Moreover, since some of the subsidies provided
7 by the Canadian government have been aimed at incentivizing
8 Canadian uncoated groundwood producers to either keep mills
9 open or even to restart mills that had been idled. For
10 example in 2012, the government of Quebec gave White Birch a
11 \$35 million interest-free loan to restart that company's
12 idled mill at Stadacona. In sum, the domestic industry,
13 while suffering present material injury, is also threatened
14 with additional injury in the imminent future. Thank you.

15 MR. JONES: Thank you all everyone for your
16 attention this morning. That concludes our presentation,
17 and we'd be pleased to answer your questions. Thank you.

18 MR. ANDERSON: Thank you Mr. Jones, and to all
19 witnesses, thank you for your testimony. We'd now like to
20 turn the time over to our investigator for questions.

21 MR. CHANG: Good morning everyone, and again
22 thank you for taking the time out of your busy days to
23 present your presentation. I'm learning a lot about paper,
24 so that's good. So along those lines, I just want to start
25 off fairly simple. So throughout the presentation I've

1 heard groundwood pulp, chemical pulp, fillers quite a few
2 times.

3 So I just want to get a sense of more
4 specifically, you know, what those things are. Is there
5 different types of groundwood pulp? Are there different
6 types of chemical pulp and what specifically are these
7 fillers?

8 MR. BUCKINGHAM: So since we're going to go
9 simple, we'll go with me. The groundwood pulp, it's a very
10 generic broad name. Mechanical pulping and thermal
11 mechanical pulping is a type of refining pulp where
12 basically the chips come in between two large motor plates,
13 and we basically spin the plates, they're steel. The chips
14 are in there and we basically grind the chips into coarse
15 fibers and then we do it again, to get it down to the fiber
16 level. So that's refining mechanical pulp, a subset of
17 groundwood pulp.

18 There's also stone groundwood that used to be
19 prevalent and was the original cause of the name groundwood,
20 and it was basically the same kind of thing. Basically
21 you're mechanically grinding the fiber. So the chip comes
22 in and 95 percent of it comes out on the paper machine.

23 Chemical pulp, there's a couple of different
24 kinds of chemical pulp. Mostly what we're talking about in
25 our industry is called craft chemical pulp. Basically the

1 chips come in, they are cooked with caustic, very high
2 temperature and the extractives or glue that's in the
3 microfibers are pulled out, washed out and all that's left
4 is the semiules and hemi-seimules of the fiber, and that's
5 what's transported forward for bleaching and use. It's a
6 longer fiber, it's stronger.

7 So that's where in my testimony I talked about
8 using it as a strength reinforcing fiber. Naturally the
9 groundwood pulp, which uses most of the tree, is cheaper.
10 And so in a very cheap product, you want to get the cheapest
11 pulp you can in order to give the best deal to the customer.

12 Fillers basically have -- they could be very
13 bright, and they have different particle sizes and designs
14 and geometries, and you introduce them at the paper machine
15 and either in a thick stock or thin stock area of the
16 machine, and it combines chemically with the fibers along
17 with chemical additives to be retained into the sheet of
18 paper.

19 What it does is it has -- it impacts how the
20 light reacts with the paper. So does it look white, can you
21 see through the paper? Those are the kind of optical
22 properties that fillers mostly influence. When we talk
23 about fillers like for SC, those are different type particle
24 size or flat, and they interact more with very hot, very
25 high pressure calendars that are called super-calendars.

1 So depending on what you're trying to do
2 optically and/or service finish, you choose different
3 fillers and different particle sizes.

4 MR. CHANG: Okay, great. That's very
5 informative. So that kind of segues into my next question
6 about the production process. So in your testimony you
7 talked about the various different kinds of uncoated
8 groundwood paper and newsprint, high bright, super high
9 bright, book publishing. So I want to get a sense from you,
10 you know, what are differences if any in terms of producing
11 those various grades of paper?

12 Is there a difference in the starting point,
13 aka the pulp mix, the quote-unquote "recipe used" before it
14 goes into the machine, or is there some sort of adjustment
15 as it's going through the machine, or is there an adjustment
16 at the end of the process? So if you can clarify that for
17 me, that would be great.

18 MR. BUCKINGHAM: Sure. Rob Buckingham
19 speaking. It all starts with the wood and starts with the
20 chips and in the industry there's different kinds of wood,
21 depending on the region that you're manufacturing in. So
22 the characteristics do start differently. So given that
23 then from a manufacturing design point of view, you design
24 what kind of bleaching process that you install into your
25 mechanical pulping system.

1 So once you have the chips, then you apply the
2 bleaching in the pulp area, and so for every grade that we
3 make, we start with deciding what chips we're going to make,
4 how much bleach chemical to add and what level of pulp
5 brightness we're going to get to. And then when we take it
6 to the machine, then we decide how much filler to go with
7 the different brightness furnishes that we add, and then we
8 decide how much filler to add and how much retention and
9 type of retention chemical to add to make sure the fillers
10 stay with the sheet.

11 And then we go further down the machine and if
12 we need to add optical dyes or, you know, ultraviolet
13 sensitive dyes that also have a print appearance effect. So
14 again, every stage of the machine that we're going down.
15 But we can turn the capability on and off for the existing
16 machines that we have with the existing pulp processes with
17 the same people and the same technology. We just work with
18 different intellectual, you know, property and different run
19 instructions to make the different grades, and we do it on
20 the fly.

21 MR. CHANG: So if I understand correctly, it
22 sounds like there's no like adjustment to the -- so the
23 hardware, the machine itself, it's just more or less
24 adjusting the amount of pulp or the amount of chemical pulp
25 that goes into the machine as it's going through a

1 continuous production process?

2 MR. BUCKINGHAM: Yeah. For all the uncoated
3 groundwood paper that we make, that is true.

4 MR. CHANG: Okay, and so ultimately what comes
5 out of the end of that continuous process, because as I was
6 going through the petition I noticed there was a
7 machine-finished paper. And so if you could explain to me
8 exactly what that is, because the petition also noted the
9 machine-finished paper that's produced I guess for certain
10 customers if they want to have a certain customization, and
11 is it a commercial product. I'm just trying to get a grasp
12 of exactly what that is.

13 MR. BUCKINGHAM: So machine-finished is --
14 again I'm sorry, Rob Buckingham again -- is basically very
15 general term, much like uncoated groundwood in terms of a
16 subset of many grades of paper, and it basically signifies
17 that you're doing the calendaring, which is towards the end
18 of the process. You're doing the calendaring on the machine
19 and getting the relative smoothness and thickness and
20 surface properties of the sheet.

21 It's differentiated from, for example, a high
22 gloss sheet or a high shiny sheet that you see like in SC
23 and other market segments that we're not talking about
24 today.

25 MR. CHANG: So is that machine-finished, could

1 I view it as like newsprint or something like that, or as
2 high bright?

3 MR. BUCKINGHAM: It's all very similar,
4 because the printing presses and the applications that these
5 products are used on are very similar. So the
6 machine-finished is used in all the different brightnesses.
7 The brightnesses of different products are what's different,
8 not the finish very significantly.

9 MR. CHANG: Okay. So to make sure I
10 understand exactly what's going on, so all right let's say
11 you decide to make high bright paper. So you, you know, the
12 employees -- and you weren't involved in the production
13 process, okay. They understand, okay, we need a certain
14 amount of bleach product, we need a certain amount of
15 groundwood, and a certain type of filler.

16 So it goes to the machine, goes to the press,
17 dries out, goes through that whole continuous production
18 process. So at the very end of it, you have a finished
19 product that is high bright paper. Is that correct?

20 MR. BUCKINGHAM: Rob Buckingham again, and
21 yes that's correct.

22 MR. CHANG: Okay, all right. Just wanted to
23 get that clear. So there's nothing in terms of that
24 production process or in terms of producing let's say the
25 various different types of paper. There's nothing that's

1 done outside of that continuous process, or is there any
2 component that is done outside that process?

3 MR. BUCKINGHAM: It's all part of the same
4 continuous process.

5 MR. CHANG: Okay, and so I know, I'm sure you
6 guys touched on this earlier in your presentation, so sorry
7 if I misheard it. But could you, and maybe it might be
8 easier to address in a post-conference, but could you
9 provide a breakdown of kind of the percentage of, you know,
10 your overall production, that is newsprint, high bright, all
11 these different types of paper, just so that we can get a
12 sense of maybe where the quote-unquote "bread and butter" is
13 of your guys' business, if it's focused on a particular type
14 of uncoated groundwood paper?

15 MR. BUCKINGHAM: Certainly, and yes the
16 post-conference brief would be the better place to do that.

17 MR. CHANG: That's what I figured.

18 MR. BUCKINGHAM: Yeah.

19 MR. CHANG: So one thing that I thought was
20 interesting was I took a look at your website, and I noticed
21 that there are different lengths for -- I think it was book
22 publishing, high bright and newsprint. So I was just
23 curious as to why the website was designed that way. Is it,
24 you know, is it just a marketing tool or is there a specific
25 reason behind that?

1 MR. CROWLEY: It is trying to make it -- oh
2 sorry, Tom Crowley. It is to make it easy for the kind of
3 customers that might come looking for our product. So for
4 instance if you're a book publisher, you're not really
5 interested in newsprint normally. So we wanted -- we
6 oriented the website to the end users that are most typical,
7 the users of our product. So book publishers, to make it
8 easier for book publishers, come and look at our book
9 publisher papers.

10 As Rob described, they're made in the same
11 way, same process, but they have some specific like caliber
12 unique qualities to it. The shade of it is cream in some
13 cases. So there are some differentiations that the end user
14 would be interested in. Same with the -- if you're an end
15 user that is making inserts for the Sunday newspaper and you
16 want a high bright paper, we wanted to make it easy to find
17 our version of that high bright paper. So that's why we
18 differentiated it like that.

19 MR. CHANG: Okay. So I guess that kind of,
20 you know, leads in my next question. So the various
21 customers. So it seems like based on your answer to my
22 previous question, certain type of customers are more
23 inclined to purchase certain kinds of uncoated groundwood
24 paper. So if I'm a book publisher, would I even consider
25 purchasing any kind of newsprint, or would I just be

1 focusing on a certain type of uncoated groundwood paper?

2 MR. CROWLEY: Tom Crowley. The answer is that
3 book publishers are a bit unique, right, because they have
4 very specific caliber requirements, to make sure that it
5 fits inside their book, right, the spine of their book. So
6 they are unique. They probably wouldn't -- they do buy some
7 non-caliber specific grades, so there is some of that.

8 But it's more oriented toward
9 caliber-specific. Most other buyers, as we've seen, can
10 span the gamut. So they might if you can buy newsprint and
11 high brights and any of those grades in the continuum,
12 depending what your needs are.

13 MR. CHANG: Okay. So I guess a more generic
14 publisher would be inclined to purchase the various, like
15 multiple types of the paper. But I guess would they have --
16 I mean would they have different reasons or end uses or
17 purposes for buying, let's say, high bright versus super
18 bright versus newsprint?

19 Because I mean publishers are probably more
20 broad. I'm sure they have their hands in different
21 business. So if you can just kind of give me a sense of
22 that.

23 MR. CROWLEY: Sure. Tom Crowley. I think the
24 answer to that is depending on what their -- some products
25 lend themselves to a brighter, higher priced product, and

1 they might lend themselves to that product because they're
2 trying to -- the advertising that they're doing says, you
3 know, it's a higher quality and they're willing to spend
4 more to generated, to generate sales or to generate
5 readership.

6 So they look at the continuum and say look, I
7 have all these products for my printing presses that are --
8 and I can run all these products. So depending on what I'm
9 trying to achieve with my advertising, my supplement, my
10 advertising vehicle, my product, I might choose to either
11 spend less newsprint or I might choose to spend a little bit
12 more to attract readers, attract advertisers and consumers.

13 MR. CHANG: Okay, great. Thanks. So a couple
14 more questions. So you know, throughout the presentation,
15 you know, there's been a lot of discussion about the change
16 in demand and sort of how the customers' buying power has
17 increased as a result, mostly because of the presence of
18 digital media. A lot of the major newspaper companies have
19 their own, you know, mobile apps and more and more people
20 are using Kindles to read their books.

21 And so I'm sure the industry to a certain
22 degree has anticipated, you know, the impact of those new
23 players in the media industry. So I guess the question I
24 have is what ultimately ended up happening in the industry
25 the last few years, is that something beyond what you had

1 anticipated? If so, could you explain why? Also, it looks
2 like we're about out of time. So if you can hold your
3 answer for after the recess, that would be great. Thank
4 you.

5 MR. ANDERSON: Thanks. So as I stated
6 earlier, we can reiterate that question if there's a long
7 pause here. But we need to recess for about 10 or 15
8 minutes for an 11:00 vote. You're welcome to stay in the
9 room, take a break. We'll call to order after the vote is
10 over and then we'll reconvene this panel. So thank you very
11 much for accommodating the vote.

12 (Whereupon, a brief recess was taken.)

13 MR. BISHOP: Will the room please come to
14 order.

15 MR. ANDERSON: We'll reconvene now and so we
16 just want to thank everybody for their patience, and you saw
17 a preview of what the Commission does at the end of these
18 investigations. Tentatively, this proceeding will be voted
19 on, on September 22, so you've got a little advance view
20 into how the Commission operates during votes.

21 So now we'll turn the time back over to Mr.
22 Chang and continuing questions.

23 MR. CHANG: So for the interest of the panel,
24 I'll repeat, to the best of my abilities, the question that
25 I had gone to recess.

1 So I was mentioning your testimony and
2 presentations, and also note in the petition demand for
3 uncoated groundwood paper has been declining for the past
4 few years and I'm sure largely due to the presence of
5 digital media, as I'm sure you guys have been aware. And I
6 would assume that the industry, as a whole, more or less
7 anticipated to some degree the impact of the digital media
8 on the uncoated groundwood paper industry; but I wanted to
9 get a sense from you whether the current changes were more
10 or less aligned to what you had expected or whether they
11 exceed what you had expected and if you can go into a little
12 bit of details as to why it hadn't been what you had
13 expected. That'll be great.

14 MR. CROWLEY: Certainly, the decline that we've
15 seen over the POI is expected because it's in line with what
16 has been happening for a quite a long time in the industry
17 and NORPAC's response to that -- Craig Anneberg will talk
18 more about this, but has been to innovate and move up the
19 value chain. So in 2000, for example, it was primarily a
20 newsprint producer long before I arrived and now you have a
21 broad array of higher-value grades that NORPAC produces,
22 including our most recent innovation, which is a groundwood
23 copy paper. So it's been a constant shift away from
24 newsprint -- to make less newsprint and to make higher-value
25 grades on the same machines.

1 MR. ANNEBERG: We can provide some of this
2 information in our post-conference brief, but we've been
3 watching electronic substitution for a long time, probably
4 around Year 2000, even a little bit before you could sort of
5 see this coming on. But we started diversifying away from
6 newsprint you know in the early 1990s up to 2000. Maybe we
7 made six or seven different grades of paper, but by
8 2003/2004, we started moving into other grades, higher
9 brightness grades, some of the grades that Rob Buckingham
10 was mentioning earlier with fillers and other technology
11 we've added to our machine to where today we make over a
12 hundred different grades of papers that go into a number of
13 different markets.

14 In addition, I think we recognize that as demand
15 for, in particular, newsprints were declining we needed to
16 continue to invest in technology, keep our equipment to the
17 latest processes we could, whether it was in the pulp mill,
18 the TMP mill, or on the paper machines so that we could
19 continue to reduce our costs. I think Rob can speak a
20 little bit about specifically what we've done in that area
21 of innovation.

22 MR. BUCKINGHAM: As we said in our testimony, I
23 mean, these are big, fast machines. You'd want to keep them
24 running 24/7, so all of what we're talking about we are
25 doing on the fly. So we started in 2000 with newsprint and

1 different kinds of newsprint to different geographical
2 diversity and then we've moved to different uncoated
3 groundwood grades. And again, using the recipe changes
4 we've talked about -- and any time we looked at the capital
5 project or improvement project we would look at how could
6 we make the total asset more efficient, and not only one
7 machine, but the whole mill.

8 So when we look at how we manage the mill, we're
9 always looking at the total cost optimization of the mill in
10 terms of scheduling, in terms of how we product the products
11 and how we coordinate the production of the products, but in
12 the end it starts at the chips and comes all the way to the
13 warehouse. We're going to coordinate a manner of all three
14 machines all at the same time. There are days when we have
15 newsprint on one machine and the 92 brite, the cut size
16 product that Tom spoke of on another machine and we have a
17 mid brite on the third machine. All three machines can make
18 newsprint, can make uncoated groundwood, high brite, and up
19 into the super brites.

20 MR. JONES: If I could just add quickly in the
21 context of falling demand, the shift to the hi-brite
22 products is especially significant because in the uncoated
23 groundwood market and in the context of demand decline, the
24 demand for hi-brite is not declining nearly as quickly as
25 the demand for newsprint, and so NORPAC is not the only one

1 that's trying to move into the higher value products. All
2 the Canadian manufacturers are doing that as well and they
3 can all do it.

4 And there's competition between NORPAC and other
5 domestic producers and the Canadian producers all along the
6 continuum in all parts of the United States. And
7 especially, with respect to hi-brite, NORPAC has its forward
8 warehouses in Chicago and Chambersburg, Pennsylvania to
9 supply nationwide uncoated groundwood paper to all customers
10 throughout the U.S. This is not a West Coast/East Coast
11 thing. NORPAC can supply everybody in the United States,
12 especially, with the hi-brite. The hi-brite NORPAC is
13 unquestionably a national producer and that's a significant,
14 significant part of their business.

15 MR. CHANG: Great. Thanks for stepping in there
16 cause that was going to be my follow-up question. So just
17 to confirm, would you say the majority of the demand
18 decrease is that primarily newsprint or have you seen
19 similar trends in the non-hi-brite in the context of the
20 conversation of types of paper?

21 MR. CROWLEY: The newsprint is clearly dropping
22 and declining at a rate faster than the hi-brite paper
23 demand, but both area declining.

24 MR. CHANG: So to follow up on the demand
25 question and some of the adjustments that your company has

1 been making to address those changes, have there been any
2 specific changes in our operations or cost-cutting moves
3 that you've made that have been in direct response to the
4 Canadian imports, if you could elaborate on that?

5 MR. BUCKINGHAM: Sure. As I said in my
6 testimony, we've installed capital to improve our ability to
7 use all kinds of wood chips in the region, including the
8 cheapest wood chip available, that we've been able to, with
9 the combination of the chip properties, the equipment, and
10 how we put the pulp and the paper together, be able to make
11 all the products in our portfolio. We've optimized our
12 energy usage. I mean TMP is a large usage of energy. We've
13 optimized that. We continuously conserve. We've come up
14 with innovate, first-of-its-kind process innovations to
15 reduce how much electricity is used to generate the thermal,
16 mechanical pulp. We are very tactical of when we us and how
17 we use the recycle pulp capability and we can use that as a
18 differentiator -- a micro differentiator in terms of
19 recycled contain or not in terms of, again, trying to
20 provide not only the cost reduction, but the value add that
21 some customers wish to have.

22 We've also been working with our employees in a
23 very collaborative manner to look at how we can change our
24 work and reduce how many employees are worked, but it's in a
25 collaborative, cooperative way and our head count has been

1 reduced; however, it's attrition and any time there's an
2 opportunity we look and say do we need to add that cost or
3 not. And again, the whole thing -- we can't do all the
4 things that we do without our operators and our teams and so
5 it's the whole -- when I say high performance work system,
6 it's everybody involved in order to achieve minimum cost to
7 go after the issues with the micro markets of newsprint and
8 the high brites.

9 MR. ANNEBERG: Can I just add one thing to that?

10 I was listening to Rob. I think, in addition, one change
11 we've made is maybe on the distribution side, supply chain
12 management, as we've expanded beyond maybe the West Coast
13 with our marketing and sales. I think Tom Crowley mentioned
14 in his testimony that we've set up regional distribution
15 centers in the Midwest and the East Coast to broaden our
16 footprint.

17 And you know even though we're out in the
18 Pacific Northwest, we have great access to transportation --
19 Interstate 5, north and south from Seattle to San Diego.
20 It's great for moving up and down the West Coast. In
21 addition, rail is a great advantage to us in the West,
22 shipping to Chicago, even into the Midwest or into the East
23 Coast, very reasonable transportation rates. And because of
24 the reliability of our equipment -- and Rob has done a lot
25 of work on making sure that our mill is reliable, we can

1 forward stock product in the Midwest and the East Coast so
2 that customers can have it readily available.

3 MR. JONES: Just real quick, I think as came
4 through in Mr. Buckingham's testimony and Mr. Anneberg,
5 NORPAC has done everything they can. They've done a lot of
6 things to try to reduce cost, become more competitive,
7 maximize their competitiveness, but despite their best
8 efforts, the imports from Canada that are unfairly traded
9 have created a market situation that has just recently lead
10 NORPAC to announce the closing of one of their machines.

11 So despite all their efforts, despite all of the
12 cost-cutting measures and state-of-the-art practices they
13 can employ, the dumped and subsidized imports have made the
14 market situation unsustainable.

15 MR. CHANG: Alright, just a couple more
16 questions, so I just have one quick question about the scope
17 and this is probably just more to clarify a little bit of
18 confusion, probably mostly on my end, so apologies.

19 So there is one section of the scope that
20 defines groundwood pulp. So it says "Groundwood pulp
21 includes all forms of pulp produced from a mechanical
22 process, such as thermal mechanical process, TMP, chemical
23 thermal mechanical process, CTMP, or bleached thermal
24 mechanical process, ECTMP, or any other process, other than
25 the bleach craft process."

1 So if I recall from previous answers to
2 questions and testimony, the hi-brite, and I'm assuming the
3 super brite as well, incorporates bleached craft pulp. So I
4 just want to clarify, so I'm assuming just the groundwood
5 pulp is these processes, but not just -- you're essentially
6 trying to differentiate the groundwood pulp from the
7 chemical pulp in this definition. Is that the right
8 understanding?

9 MS. BYERS: Yes, that was our intention.

10 MR. CHANG: Okay.

11 MS. BYERS: There is a tiny bit of craft pulp
12 that is used to produce the higher brightness levels. It's
13 for strength and paper formation, but generally speaking,
14 what's used is groundwood pulp, yes.

15 MS. CHANG: Okay. So it's like a separate
16 ingredient in addition to the groundwood pulp which creates
17 the characteristics of that particular product?

18 MR. BUCKINGHAM: Yes. From a manufacturing
19 point of view, it has its role, especially as you add more
20 fillers and you are trying to get the higher brightnesses.
21 But as also was stated it can be tend to be on the higher
22 cost side, so we try to optimize that at every level of
23 grade, but the majority of the component of all of the
24 uncoated groundwood is definitely mechanically-related
25 pulp.

1 MR. CHANG: Okay, great. And you noted in the
2 presentation it's also -- I think it's mentioned in the
3 petition as well that NORPAC was recently acquired by One
4 Rock Capital Partners and so this is probably more
5 appropriate for post-conference, but if you could elaborate
6 as to what that new acquisition will mean for the company
7 moving forward in terms of its operations and in terms of
8 what sort of markets they're going to try and focus on in
9 the next few years. That'd be great.

10 MR. ANNEBERG: Yes, NORPAC originally was a
11 joint venture with a U.S. company and then a company in
12 Japan and we were a stand-alone company from both of those,
13 so we've always sort of been an independent company. Even
14 though we had an owner in Washington, we were set up as a
15 stand-alone joint venture. So when Weyerhaeuser and Nippon
16 decided to spin off the NORPAC operation, it was a natural
17 for a company, a private equity company to come in like One
18 Rock and make a purchase of NORPAC.

19 When One Rock came in, they left the managing
20 team in place, so we really are functioning today just like
21 we did under previous ownership. I think, if anything, the
22 private equity people, especially, with the managing
23 partners that I work with are very knowledgeable on
24 papermaking, papermaking processes from some the experiences
25 they've had in some of their previous roles. And so when we

1 talk to them about technical aspects of pulp and
2 papermaking, they understand what we're talking about. They
3 understand the capital intensity and things like that. They
4 have brought investment to the mill. And we, in fact, have
5 brought in a new product line that took capital investment
6 for some sheeting equipment and hiring some new employees, a
7 market that's more stable than the newsprint market and so
8 that's, I think, from my perspective watching the transition
9 from old ownership to new ownership that's what I see.

10 MR. CHANG: Alright, thank you. That's all the
11 questions I have.

12 MR. ANDERSON: Thank you, Mr. Chang. And now
13 we'll turn the microphone over to our attorney, Mr.
14 Haldenstein.

15 MR. HALDENSTEIN: Thank you. Good morning.
16 Thanks for coming in to tell us more about this product. I
17 have a question about the range of the products being sold.
18 Is it pretty much limited to the samples that were
19 distributed this more or is there like a hundred products?
20 I thought I heard a reference to a hundred different
21 products?

22 MR. ANNEBERG: I did say that we make a hundred
23 different grades, but Tom, maybe you want to talk about the
24 different products we sell.

25 MR. BUCKINGHAM: I'll give it a shot. So I get

1 to make them all, so I get to count them really in detail.
2 The last count I had is 191 active grades across the three
3 machines that we produce, 180 of them are uncoated
4 groundwood. So the things that differentiate the grades
5 from the customer point of view are the things that we spoke
6 of -- what's its brightness, what's its basis weight, and
7 what its caliber and then the numerical combination of
8 those. So when Craig says, hey, about a hundred grades he's
9 talking families of grades, but within the family of grade
10 we're having a lot of smaller grades and little changes to
11 try and again deliver to our customers exactly what they
12 want and when they want it.

13 In the way that I described before on the fly.

14 MR. ANDERSON: This is Chuck Anderson. I'd just
15 sort of like to add that, you know, even though those
16 numbers sound impressive, as you can see from the samples, I
17 think the samples are pretty representative as to the sort
18 of, the range of the products that you're talking about and
19 their fairly narrow range when it comes to the brightness
20 level and the basis weights.

21 So I still see this as a mildly differentiated
22 commodity. It's nothing like bearings where you have maybe
23 50,000 different products produced by one manufacturer. So
24 even though, you know, there may be a few different grades
25 and types, it's fairly limited.

1 MR. JONES: If I could just add also, the
2 Canadian producers can produce all of these products as
3 well, with maybe one exception, a very minor exception. The
4 Canadian producers produce all the products along the
5 continuum and there's competition head-to-head for all the
6 grades, so just to second what Chuck said, it sounds like a
7 lot, but it's really a pretty narrow range of products in
8 the market.

9 MR. HALDENSTEIN: So do your customers call up
10 and have a particular grade in mind that they prefer and
11 order that, and it's made to order? Or do a lot of them
12 just take what's in the warehouse?

13 MR. CROWLEY: Customers have a specific product
14 that they have, that they like, that is right for that
15 particular end use, and right for their printing press. And
16 so they will call up and ask for that product specifically.
17 And sometimes we have that product.

18 Many times we will, if it's a customer in the
19 Midwest or East, we will know their recurring buying
20 patterns, so we will stock product that we know they buy on
21 a regular basis and forward stock that inventory so that
22 it's readily available.

23 MR. HALDENSTEIN: Thank you. Now the three
24 pricing products that are being used, are those high-bright,
25 super-bright and newsprint? Is that an accurate way to

1 describe them?

2 MR. CROWLEY: Could you repeat the question?

3 Sorry.

4 MR. HALDENSTEIN: The pricing products that are
5 being used. Are those super-bright and high-bright and
6 newsprint? Or is that not super-bright? I wasn't sure.

7 MR. JONES: That's correct. There's a newsprint
8 product, a high-bright product and super-bright product.
9 Those are the three products.

10 MR. HALDENSTEIN: Thank you. And those products
11 account for most of the shipments of this product? Is that
12 correct?

13 MR. JONES: I certainly think that they're
14 representative. I don't have the data in front of me and
15 can't tell you whether it's most or what the percentage is.
16 But it's certainly a representative mix of what's in the
17 market.

18 If anything, if I could add, if anything, it
19 understates the non-newsprint products. We didn't include a
20 lot of the -- there's newsprint, and then there's a couple
21 of non-newsprint products. Again, I don't have the data in
22 front of me, and we'll look at this for post-conference,
23 but, you know, if we were to add more products, I think the
24 relative shares of newsprint versus non-newsprint would look
25 more similar.

1 MR. HALDENSTEIN: Would you say that there are
2 just a few purchasers of this product? Or there's a large
3 number of purchasers? How would you describe the market?

4 MR. CROWLEY: So a little bit, it depends,
5 certainly as in my testimony, for newsprint to newspaper
6 publishers, there are a few purchasers, relatively few
7 purchasers that control a high, high percentage of newsprint
8 purchases. Once you move into the high-brights, there are
9 more purchasers, but it's still a relatively consolidated
10 number of purchasers in the grand scheme of things. I mean,
11 our universe of customers is probably a few hundred, to give
12 you order of magnitude. Not thousands or tens of
13 thousands.

14 MR. HALDENSTEIN: Thank you. Is there
15 seasonality in demand for these products?

16 MR. CROWLEY: The answer is yes, to some degree.
17 Certainly -- and it really depends on the end use. So, for
18 example, when you think about retail inserts, that retail
19 business is more heavily weighted to the Fall season, you
20 know, the Christmas, Thanksgiving season, so you can imagine
21 it's smoothed out -- our experience is that has smoothed out
22 a little bit over the years, 'cuz you now have Mother's Day
23 and some other things in the front-half of the year.

24 But generally it's a little bit more weighted
25 towards the back-half, around the holidays. Book publishing

1 tends to be, if it's school book publishing, it tends to be
2 first half of the year and then textbooks are becoming--not
3 textbooks, sorry--trade books are becoming more like -- a
4 little bit more like retail in that a lot of the trade books
5 are gearing up for Christmas sales, you know, holiday sales.

6 So a lot of that book printing is done in the
7 summer, so we tend to have a heavy seasonality in the book
8 business in the summer, and then newsprint tends to remain
9 fairly flat. So when you even it all out for us, you know,
10 all the puts and takes, it tends to be fairly flat for a
11 producer like NORPAC that's in all those grades.

12 MR. HALDENSTEIN: Thank you. With respect to
13 the related parties, does Petitioner have a position on
14 whether they should be excluded from the domestic industry?

15 MR. JONES: Mr. Haldenstein, we have no plans at
16 this time to argue for the exclusion of any related parties
17 from the domestic industry. We reserve the right to review
18 the data and change our mind on that. But as of this time,
19 we do not plan to argue for that.

20 MR. HALDENSTEIN: Thank you. Also, can you
21 address the different trends in subject imports versus
22 non-subject imports and why non-subject imports are
23 increasing?

24 MR. ANDERSON: I'll take a shot at that. There
25 is a slight increase in non-subject imports, but you're

1 talking about such a small base--I believe it's in the tens
2 of thousands of tons in a market that's four million--that
3 it's not really that significant.

4 I'm not sure what's driving it. It could be a
5 grade mix issue, the particular grades. But the volumes are
6 so small that it's not really a material impact on the
7 overall market in the United States.

8 MR. HALDENSTEIN: Are unit values useful in this
9 investigation? Is there differences in the product mix
10 coming in from different countries? Do you have a position
11 on that?

12 MR. JONES: We think that the average unit value
13 of imports as shown in the official import statistics, our
14 slide -- I can't remember which number that is, we have a
15 slide on that -- shows the average unit value for all the
16 products that are included in the scope, and we think that
17 is useful.

18 We're looking at a -in our view--one like
19 product and we think that the average unit value of the
20 products combined show, or support our argument, which is
21 that there has been a significant price decrease of subject
22 imports across the board during the period of investigation.
23 And we think that the pricing product data will support that
24 as well.

25 I don't think the data are quite complete yet,

1 but certainly in our post-conference, and assuming we get
2 the little bit of data that I think are still out there to
3 complete the analysis, we think that the more
4 product-specific data will be consistent with the AUVs as
5 well.

6 MR. HALDENSTEIN: Thank you. That's all the
7 questions I have.

8 MR. ANDERSON: Thank you, Mr. Haldenstein. And
9 now we'll turn over to our economist, Ms. Preece.

10 MS. PREECE: Okay, thank you again. I'm excited
11 to be here and excited to have this weird product that's
12 just shrinking so rapidly. The incredible shrinking
13 product.

14 You've told us you've adjusted to falling demand
15 by shifting into different products, but I've worked in a
16 number of paper products and the only one that hasn't been
17 shrinking was paper for cash registers. So you know, it's,
18 you know, even if you're moving through this market, you're
19 still facing this horrible shrinkage.

20 And so my real question is, what determines
21 which paper mills will be closing, since they got to close,
22 given this 10% per year, which is what you said in your
23 thing. So what determines which mills close and we'll start
24 with that. Thank you.

25 MR. ANNEBERG: The decision to close a paper

1 machine is a very difficult and complex decision to make,
2 especially when you realize, like Rob Buckingham was
3 mentioning, you know, you're dealing with people and jobs.
4 And not just the jobs of the people that are working in the
5 mill, but the suppliers to the mill, anybody that's
6 affiliated with an operation. There's just a lot of
7 customers and employees and suppliers that are impacted on
8 that.

9 So the decision to shut down a paper machine is
10 not an easy one. It's also one that you have to be fairly
11 certain that there is no other alternative. So you're
12 always looking for, okay, what else might we be able to do?
13 And you look at a number of different scenarios or potential
14 outcomes that may or may not happen.

15 And when you finally get to the point where you
16 just say, that's the decision, you need to be sure. Because
17 it is, unlike maybe other industries, you can't just turn a
18 paper machine on or off. Maybe for a day or two, or a week
19 for a planned shutdown or that sort of a thing, but once you
20 decide you're going to shut down a paper machine, make an
21 announcement, employees start looking for other places to
22 work, customers start looking for other places to decide to
23 get paper.

24 So it's a very difficult decision. I don't know
25 if I want to get into the financial aspects. We could in a

1 post-conference brief, I suppose.

2 MS. PREECE: Thank you. I know sometimes it's
3 not just a few people. It can be a whole town that closes
4 if basically this is the main industry in a town. And it
5 can be devastating, but this devastation is coming to
6 somebody because when you're shrinking by 10% a year in
7 demand, that is, you know, you can't play your way out of
8 that.

9 MR. BUCKINGHAM: So we've done a lot of work to
10 get -- at the end of the day, we're in a business and the
11 business is to make money, and there's all these very
12 tangible factors you have to look at, and intangible factors
13 that Craig was talking about. Same thing at the industry
14 level.

15 But what we're talking about, for not only
16 NORPAC, but for those in the U.S. industry is, when those
17 decisions are made across the industry, it needs to be based
18 on a fair level assessment on profitability associated with
19 unsubsidized costs to make the paper and to make the
20 products that we're making, and that's our fundamental
21 concern.

22 MS. PREECE: Thank you very much. It's a real
23 interesting question. Okay, you talked a little bit before
24 about the different kinds of paper and how newsprint was
25 being particularly badly hit. If you can't do it in the

1 conference, I'd like you to do it in your briefs, but I
2 would like to have your estimates of how much demand is
3 declining in the basic categories.

4 You know, I think you had super-bright. You had
5 four categories on each of those. 'Cuz I do not want to,
6 you know -- yeah, those guys. Books, high-bright newsprint,
7 directory, okay, that's enough. So how much is it declining
8 in each of those, so that we can sort of see what's going on
9 for the whole industry. That'd be really helpful.

10 MR. JONES: Ms. Preece, we'll be happy to
11 address that in the brief.

12 MS. PREECE: That'd be great. And I'd also like
13 that from the Respondents as well, if I don't get around to
14 asking them that question separately.

15 Oh, when I was working on the case on uncoated
16 free-sheet paper, they were changing from making paper to
17 making pulp for diapers, basically? Fluff. That's it.
18 Fluff for diapers. It was very exciting. And that meant
19 that they were reducing employment a lot, but they were
20 still --

21 The first step of the process was still
22 continuing to be -- is there any product that you could be
23 producing with the uncoated groundwood that is in the market
24 that -- is there a secondary possibility that you could move
25 into? Or anybody else in the industry who is making brown

1 wood could move into?

2 MR. ANNEBERG: So in the pulp industry, the
3 craft pulp industry as you were mentioning, there are
4 different plays that pulp mills can do. They can use pulp
5 for paper-making. They can use the pulp fibers in diapers
6 and things like that, in a variety of different
7 applications. But in the groundwood business, because of
8 the type of pulp that we make, it's very difficult to use
9 that in anything other than the uncoated groundwood grades
10 that we are making.

11 Maybe in some super-calendar grades or things
12 like that, but in our category, the thermal-mechanical
13 process that Rob Buckingham explained, can really only be
14 used in these sorts of grades on these paper machines as we
15 are today. But we are always looking for different things
16 to make, and that's why we make all the different grades we
17 do.

18 MS. PREECE: Yeah, I mean I'm not saying you
19 should be doing anything like that, but I'm just, you know,
20 this was what the industry was doing, and so I wanted to
21 know if you could, and obviously it sounds like you can't.
22 So that's interesting. Unfortunate, but interesting.

23 We did talk a little bit about non-subject
24 imports. I would like to have an estimate from you of how
25 much of the industry is non-subject imports in your brief.

1 I don't want it here. That's too boring a number. Just the
2 most recent period. I'm not interested in sort of a
3 changing. I just want to know what's going on right now.

4 In your slides, you said that the price
5 availability, transparent price availability from real-time
6 and receipt. And it may be transparent, but it's not
7 inexpensive. And we're cheap. So you know, government has
8 to save money somehow.

9 So we would like you to provide us with that
10 information about the changes in the price since the
11 beginning of the period. Monthly, fine. That would be
12 really helpful for us in your brief. And the other thing
13 was, you use wood to make this product in various forms.
14 You were saying you were trying to use Douglas Fir now.

15 Is there any published information about the
16 price of that kind of wood that you're putting into your
17 product? Just to have a price for the cost. You know,
18 that's one of the things I'm supposed to do is look at the
19 cost. So if you have information on that, that's publicly
20 published or something like that, I would like to have a
21 series. Monthly is fine. That'd be helpful. In your
22 brief.

23 MR. JONES: We'll look and see what we can find
24 and provide it in the brief.

25 MS. PREECE: Yeah, if it's not available, then

1 just let me know it's not available. I mean, all I need to
2 do is due diligence kind of thing. If it's there, I want to
3 put it in, if it's not there, then I don't have to worry
4 about it.

5 MR. JONES: Understood.

6 MS. PREECE: Yeah, that's my life. I have a
7 very happy life that way. In the questionnaires, I was told
8 that super-calendar, uncoated free sheet and coated paper
9 were substitutes for uncoated groundwood paper. All of
10 these products cost more than uncoated groundwood paper, is
11 that true? I don't know. This is a question.

12 MR. JONES: I believe that is generally true. I
13 would hate to be absolute about something like that, but I
14 think as a general statement, that is correct.

15 MS. PREECE: Okay. And you're also talking in
16 this forum that electronic media is a substitute for
17 uncoated groundwood paper?

18 MR. JONES: The publishing industry has
19 increasing used digital media instead of printed paper to
20 reach their customers. So a general trend in the industry
21 has been a general trend in the industry for a long time.

22 MR. BUCKINGHAM: So in the end, the publishers
23 -- it's all about content, whether it's advertising content
24 or journalistic content, and the publisher have a choice
25 whether to put it on paper substrate or digital media, so

1 from our perspective, it's a substitute for paper, but from
2 a publisher perspective, they can choose where to put that
3 content, and they make those choices based on their business
4 view of effectiveness.

5 MS. PREECE: Do you think that the fact that
6 electronic media is so widely available and becoming
7 increasingly so, has made it more difficult to increase the
8 price of particular newsprint in this market?

9 MR. ANNEBERG: So demand for newsprint has been
10 in decline, if you're just speaking strictly around
11 newsprint, and that's why there's been a number of closures
12 around North America. I think, you know, one thing we're
13 trying to point out is that we would like an even playing
14 field when there is a decline, because we think we can be as
15 competitive as anybody else in the industry.

16 If you look at the price of paper -- for
17 instance, a newspaper, this is the Wall Street Journal.
18 It's \$4.00 a copy. The price of paper is a few cents in the
19 total production, distribution of a newspaper. It is, you
20 know, an expense. We don't think it's the largest expense
21 and --

22 But the industry, the paper industry needs to be
23 profitable as well, if we're going to continue to produce
24 products in the U.S. It's interesting -- we had a book
25 buyer in the plant last week that said they were actually

1 seeing the trend in electronic books sort of now level out,
2 that reading paper books by paper, you know, there was a big
3 trend lower for a period of time, that does seem to be
4 leveling out.

5 What will happen to newspapers? Will there be a
6 balance with electronic media and paper? Time will tell.
7 Maybe the rate of decline will lessen in the future. We can
8 speculate.

9 MR. ANDERSON: Just to add. I think it's
10 important to point out, again, that the cost of the
11 newsprint in a newspaper is just a fraction of the total
12 cost. It's not newsprint prices that are leading to the
13 decline of the publishing industry, nor is it gonna be
14 newsprint prices which hasten that decline.

15 So those are bigger forces at work. And
16 newsprint prices are really not that critical of a factor.
17 So the argument that, essentially, we'll be the, you know,
18 the tools of our own demise by bringing a trade case, I
19 think is a pretty specious case that no one's been able to
20 -- I think it's gonna be very difficult to demonstrate that.

21 MS. PREECE: Okay, if you could help me with
22 this -- I think you did in your questionnaire, tried to
23 estimate the cost of newsprint as a share of the total cost
24 of a newspaper. But if you have anything to add to that, I
25 would appreciate it.

1 Obviously, we're not usually talking about the
2 retail price of newspapers because most people buy by
3 subscription and the price tends to be quite different for
4 those people. So that would be, based on that kind of
5 level, not a Wall Street Journal \$4.00 thing.

6 MR. JONES: We'll look at that and whatever more
7 we have to add, we'll put it in our brief.

8 MS. PREECE: Yeah, that'd be very helpful.
9 Thank you. Are there requirements for recycled material in
10 some states for newspaper or any of the other products you
11 are selling?

12 MR. CROWLEY: So, I could be wrong on this, but
13 California, I think, has still on the books, a demand for
14 newsprint with recycled content. But simply, there is not
15 enough recycled newsprint content with 40% recycled content
16 available, so the buyers in California are able to get
17 around that by simply declaring "it's not available."

18 So the general answer is that we see very few
19 requirements for recycled content. There are customers who
20 choose to buy paper products with recycled content for their
21 own reasons. And we have a recycle plant and we make paper
22 with recycled content and we like to meet those customers'
23 demands when they choose to buy paper with recycled content.

24 MS. PREECE: Okay. That's -- I find that a
25 little confusing. If you can get it, but you can get it.

1 That's an interesting -- okay. Oh yeah, here is one. Has
2 the reduction in demand for all types of paper affected the
3 price of your inputs?

4 MR. ANNENBERG: Input costs, we've been able
5 to maintain relatively flat, without the impact on inflation
6 or anything like that, correcting for inflation. Whether
7 it's our labor costs, our chemical costs, our fiber costs,
8 you know, costs do move up and down. For instance, fiber a
9 lot of times is correlated with housing starts and things
10 like that, and in particular at our plant we have a large
11 saw mill that is right on our property. So we get wood
12 chips directly from them.

13 For others, maybe they have to go further and
14 pay a higher transportation cost. But for us, our input
15 costs over this period have been relatively flat.

16 MS. PREECE: Okay. I think I've asked all the
17 questions I want to ask for now. Thank you very much.
18 You've been very helpful.

19 MR. MICHAEL ANDERSON: Mr. Yost.

20 MR. YOST: Yeah, good morning. Thank you very
21 much for your testimony this morning. I found it extremely
22 helpful. Mr. Annenberg, if it's any consolation, I'm one of
23 those helping to maintain book sales in paper form.

24 MR. ANNENBERG: Thank you very much.

25 MR. YOST: So I'm kind of leading the charge

1 to maintain that plateau. I can't say the same thing though
2 about newspapers. So coming near to the end of the staff, I
3 found that most of my co-workers and colleagues have asked
4 the questions that I had, so I just have a couple left.

5 Mr. Buckingham, I think you said you can use
6 any type of pulp in the process, in the production process?
7 Did you mean any type of -- did you mean any type species of
8 tree? Well, that gives you the wood chips and the fiber that
9 you need or --

10 MR. BUCKINGHAM: So we have local regional
11 choices. So our cheapest regional chip choice is Douglas
12 fir. That's a local species. But then there's also Western
13 Hemlock, and then there could be -- if you went a little
14 further with more transportation, you could go higher cost.
15 You could go to pine. But we typically, depending on grade,
16 look at the most local species, whether that be hemlock or
17 whether it be Doug fir.

18 So that's what I mean in terms of being able
19 to choose which species depending on grade, because we are
20 able to do that with our process.

21 MR. YOST: Okay. Coming off of two of the
22 Commission's five softwood lumber investigations, I have a
23 passing familiarity with the lumber industry. But would you
24 say that it's a buyer's market for pulp for wood chips, or
25 is it pretty much matched between the sellers of wood chips

1 and fiber and the buyers of those items for pulp?

2 MR. ANNENBERG: In our area, right now I would
3 say it's in balance. I think pulp mills are running strong,
4 so that the demand is there. At the same time, housing
5 starts, while they haven't been as strong as maybe they were
6 pre-2007, they've been relatively strong. So most saw mills
7 are running full or nearly full, so there's plenty of
8 availability.

9 MR. YOST: Okay. I have a question regarding
10 you've mentioned several times high fixed costs. But you've
11 also mentioned cost savings. Is there a contradiction in
12 being able to achieve cost savings, with still having high
13 fixed costs?

14 MR. ANNENBERG: We do have high fixed costs.
15 I think the costs that we have been able to manage are the
16 ones that we have more control over, like our energy costs,
17 our fiber costs. Like Rob was mentioning, just our ability
18 now to use Douglas fir, which is the predominant species in
19 the Northwest has allowed us to move from more expensive
20 pine and Western Hemlock to a lower cost species.

21 So there's a number of these areas where we
22 have control of our costs, that we have been able to reduce
23 our costs.

24 MR. BUCKINGHAM: But may I complement that?
25 From a fixed cost point of view, I want to go back to the

1 picture of a paper machine. When you -- our paper machines
2 are 30 feet wide. They're as long as a football field and
3 they take up three stories. So to get that amount of -- and
4 there's like over 100 different 30 foot wide rolls on the
5 machine, and there's multiple pieces of clothing which are
6 plastic, and all of those things would be considered fixed
7 cost.

8 So it takes a lot just to get it started, the
9 electricity to turn it, the amount of steam it takes just to
10 heat up the air that's also used to evaporate in the dryer
11 section we talked about. So there's the basic fixed cost,
12 which are like the people, the buildings, the capital,
13 depreciation, those kind of things.

14 But then there's that -- even in the
15 components of the variable cost, you've got to use at least
16 half to almost three quarters just to get the machine
17 running, and then once you get the machine running where you
18 really get value in economy of scale is in that top 25
19 percent of production. But if you're taking a machine up
20 and down, up and down, it takes a while to get these
21 machines up and going and lined out to where they need to go
22 depending on grade.

23 So we work on everything. Mostly we're
24 working more on what we can control. Then the last thing
25 you want to do is what we're having to do right now, which

1 is deal with our fixed costs by shutting down the machine
2 and then shutting down the appropriate variable costs.

3 MR. ANNENBERG: This is Craig Annenberg. I
4 think on the fixed cost side, I'd also add that's why we
5 want to run our machines full, so we can spread those fixed
6 costs across more volume or more tons.

7 MS. BYERS: This is Bonnie Byers. Let me just
8 add one point too. It's not just NORPAC that has high fixed
9 costs. This is an industry that has very high fixed costs.
10 All the producers all over the world buy from a handful of
11 equipment suppliers. They're all paying for exactly the
12 same equipment and paying presumably the same prices. So
13 this is a factor that faces not only U.S. producers but also
14 the Canadian producers.

15 MR. YOST: Okay. In post-conference brief,
16 would you put some numbers behind the cost savings? I've
17 noticed some of the changes in the questionnaire data. So
18 if you could document those, that would be quite helpful and
19 indicate when you put the numbers on, indicate where those
20 -- where those cost categories are classified, raw
21 materials, overhead, other factory costs directly,
22 etcetera.

23 MR. JONES: Steve Jones. Mr. Yost, we'd be
24 happy to do that in a brief.

25 MR. YOST: Okay. I also noticed there were

1 some other costs or other expense, other income. If you
2 could document those as well, give us a little flavor for
3 how those -- the cost impairment and the other income came
4 about and how they were calculated, that would be very
5 helpful.

6 MR. JONES: We will do so.

7 MR. YOST: Now I think you mentioned that it
8 costs about 700 million to build a Greenfield mill with one
9 paper machine. Can you give us an estimate, a rough
10 estimate of what would it cost to replace a paper machine at
11 a brownfield mill, and would it make sense to do so?

12 MR. ANNENBERG: We could do that
13 post-conference. We could give you an idea of what those
14 costs would look like.

15 MR. YOST: Okay. If it doesn't make sense to
16 put in a new paper machine at a brownfield mill, would it
17 make sense to do incremental changes, improvements in a
18 paper machine at that mill?

19 MR. ANNENBERG: Yeah. I think when I talked
20 about 700 million, that was for the pulping capacity, the
21 paper machine, the warehouse associated with that, all the
22 parts and pieces. If you were just to parse those out
23 individually like replace the pulp mill or replace the paper
24 machine, I think we can segregate those costs for you, so
25 you can understand what a brownfield might look like.

1 MR. YOST: Okay. Thank you very much. That
2 completes my questions. Again, I thank you very much for
3 your testimony and I look forward to seeing the briefs.

4 MR. MICHAEL ANDERSON: Thank you, Mr. Yost.
5 Mr. Honnold.

6 MR. HONNOLD: Thank you. This is Vincent
7 Honnold, Office of Industries. This is a request for
8 counsel. In your post-conference brief, could you please
9 provide any information or any anti-dumping or
10 countervailing duty measures in effect on Canadian exports
11 of uncoated groundwood paper to any third countries.

12 MR. JONES: Steve Jones. Mr. Honnold, we will
13 do that in a brief.

14 MR. HONNOLD: Okay, thank you. We've talked
15 about this a little bit. Imports of uncoated groundwood
16 paper from third countries in the U.S. Can you tell me a
17 little bit which countries they're coming in from, any
18 particular geographic regions that they're concentrated in,
19 and what kind of pricing you're seeing from these imports,
20 or whether they're really not a factor at all in the
21 marketplace?

22 MS. BYERS: This is Bonnie Byers. I think we
23 are seeing again, just a very low level of imports and they
24 are from mostly Europe. Finland is one, Germany is another.
25 Generally speaking, those AUVs tend to be higher than the

1 prices we're seeing from Canadian.

2 MR. HONNOLD: And just one other thing, any
3 particular regions that they're concentrated in, the east
4 coast I assume or maybe --

5 MS. BYERS: I'd have to take a look at that.
6 I don't think we've looked at ports of entry, but we can
7 certainly do that for the post-conference.

8 MR. HONNOLD: Okay, thank you. You kind of
9 already touched on this. Let me ask this again. Looking
10 forward over the next three to five years, how do you see
11 demand in the United States for uncoated groundwood paper,
12 and whether there could be some -- you sort of hinted maybe
13 some differentiation between the various grades looking
14 forward.

15 MR. CROWLEY: So I think it's -- it would be
16 hard to argue that it's not going to be more of what we've
17 seen recently, because it's hard to pick out what would
18 really change necessarily that would cause demand to slow
19 down. But as Mister -- sorry, this is Tom Crowley by the
20 way. As Mr. Annenberg noted, you know, we're dealing with
21 factors that are really hard to predict.

22 Readership, what does a newspaper reader, you
23 know. Is there going to be a core level of newspaper reader
24 that wants to get his or her newspaper every day. Is there
25 ^^^^ like we've seen in the book, five years ago if you had

1 said e-readers, everybody predicted, were going to take over
2 the world and there were going to be no printed books left.

3 Well now e-readers represent only about 25
4 percent of all book sales, and they've plateaued and they're
5 actually slightly down. Printed book sales are up. So
6 there are factors that's a little hard, you know, to really
7 definitively predict, because we don't have a crystal ball.

8 With that said, like I started, I think it's
9 hard to argue that demand is going to -- maybe demand
10 decline will moderate for most of these grades. But it's
11 hard to argue that it's going to do anything other than
12 continue to decline, and it's just a matter of rate of
13 decline.

14 MR. HONNOLD: Okay, thank you. Imports of
15 uncoated groundwood paper from Canada have traditionally
16 played a large role in the U.S. market. What's changed in
17 the last three to five years with respect to their role in
18 the marketplace?

19 MR. JONES: Mr. Honnold, Steve Jones. As you
20 recall from our presentation before the questioning began we
21 provided, and I think it's on Slide No. 7, a graphic
22 presentation of imports from Canada and domestic production
23 over the past five years. You can see the jump from 2013 to
24 2014 of imports from Canada at that time.

25 So I think that's a good graphic presentation

1 of what's happened, and our position is that the imports
2 from Canada increased from '13 to '14 and have maintained a
3 significant position in the U.S. market, significant
4 absolutely and also significant as a share of consumption
5 from '14 through '16 and into the interim period.

6 And they've used government subsidies in order
7 to be able to charge lower prices in the United States, and
8 gain market share through unfair pricing. Gained and
9 maintained their significant position in the market, again
10 through subsidized and dumped pricing practices. I'd stop
11 there and let any of the NORPAC folks add anything if they
12 have anything. No? Okay.

13 MR. HONNOLD: Okay, thank you. Just a couple
14 more questions. Your paper machine one which you've shut
15 down, would you consider starting it up again if market
16 conditions warranted, or is that a permanent shutdown?
17 Maybe you want to answer that in a post-conference brief --

18 MR. ANNENBERG: If I can answer that in a
19 post-conference brief, that would be great.

20 MR. HONNOLD: There was something in a press
21 report saying you're possibly looking at converting it to a
22 lima board.

23 MR. ANNENBERG: We are looking at other
24 options. What we aren't going to do is unbolt the machine
25 and sell it or scrap it for scrap metal. We're going to

1 keep our options open and this is one of those options that
2 we're waiting for an outcome.

3 MR. BUCKINGHAM: The only thing -- Rob
4 Buckingham. The only other thing I would say, like the
5 commenter was maybe lima board, we've done some work on that
6 with groundwood pulp and with, you know, the recycled assets
7 that we have. While the machine was able to get the basis
8 weight kind of close kind of thing, there is some things
9 that are fundamentally different associated with the pulp
10 that's used for lima board.

11 So it's not just -- it's not as direct as some
12 of the other things we've been doing, by moving from
13 newsprint into uncoated groundwood, those kind of things.

14 MR. HONNOLD: So I guess you're saying it
15 would be more expensive?

16 MR. BUCKINGHAM: It would be significantly
17 more expensive, and you've seen in the trade, you can see
18 people that are talking about moving white paper and the
19 brown paper and the kind of money they're talking about.
20 It's not small.

21 MR. ANNENBERG: This is Craig Annenberg. I
22 mean the capital investment to do that would be significant.
23 So obviously we would need to be certain that we could make
24 a positive return on that investment.

25 MR. JONES: Steve Jones. Just to add a legal

1 point on that, repurposing of a machine or a shift of a
2 machine to another product in our view would be injurious to
3 NORPAC, injurious to the industry as a whole, and that's
4 what the Commission found in the uncoated free sheet case,
5 that the repurposing that Ms. Preece referred to earlier of
6 a machine from an uncoated free sheet machine, uncoated free
7 sheet production to production of fluff pulp was a
8 manifestation of injury to the industry, because the
9 machines are designed to produce a product or a range of
10 products.

11 In this case, NORPAC's machines are designed
12 to produce uncoated groundwood paper. Any type of
13 repurposing would necessarily include additional cost and in
14 our view would be injurious.

15 MR. HONNOLD: Okay, thank you. One last
16 question. Do you have a competitive disadvantage selling
17 into the Midwest, South or East of the United States, given
18 the freight costs for any particular grade of uncoated
19 paper?

20 MR. ANNENBERG: I think what we typically
21 would think about is we think we're very competitive in the
22 Midwest and the East Coast with our uncoated groundwood
23 grades. We've done a lot of work on the supply chain, the
24 distribution, working out grade sequences on the paper
25 machine to be as efficient as possible, to keep our

1 inventories low and yet be able to service the customer in
2 the way that they need to be serviced, even though we're two
3 or three thousand miles away.

4 It all starts with the reliability of our
5 paper machines, and that's something that if you look in the
6 industry and you look at how reliable the NORPAC machines
7 are, they are highly reliable. We've done a lot of work to
8 make sure we can -- we have very few interruptions.

9 And unlike maybe other mills and machines, we
10 aren't required to take annual shutdowns. Typically a paper
11 mill or a paper machine may be down for two weeks or three
12 weeks at a time while a recovery boiler is rebuilt. We
13 don't have any of those constraints.

14 So we can run 365 days, you know, 24-7. Yes,
15 we'll take a day or two out for scheduled maintenance, but
16 we don't have extended long periods. I would say that
17 higher margin uncoated grades allow us to transport the
18 product further, and with the price of newsprint today,
19 typically we keep that a little closer to home, up and down
20 I-5, you know, Seattle to LA.

21 But we also ship to Dallas and other areas of
22 the country, and if we feel that if we had a level playing
23 field, we would be very competitive and could afford to
24 increase our volume domestically in the U.S., and afford to
25 move further east than we do today.

1 MR. JONES: Steve Jones, Mr. Honnold. I'd
2 just like to add, and I think Craig just touched on it,
3 NORPAC would like the opportunity to compete on a level
4 playing field and supply the entire U.S. market. They
5 believe they can under conditions of fair trade, and they'd
6 like the opportunity to do that.

7 MR. HONNOLD: Thank you. That concludes my
8 questions.

9 MR. MICHAEL ANDERSON: Thank you, Mr. Honnold,
10 and the staff has just a few follow-up questions and we'll
11 start with Mr. Chang.

12 MR. CHANG: Yeah. I just had just a few, just
13 a couple of follow-up questions. So one throughout the
14 presentation, you noting that there's a high level of
15 substitutability, standardization between the various grades
16 of paper that we've discussed throughout this conversation,
17 and yeah, Dr. Feldman in his opening statement noted that,
18 you know, the Canadian and U.S. products are not entirely
19 alike. They're not interchangeable, and that NORPAC's
20 products do not compete with the Canadian products. So I
21 was wondering if you guys could comment on his statement.

22 MR. CROWLEY: Well, we believe we do, and
23 every day we're competing with competitors, U.S.
24 competitors, Canadian competitors, and I can't think of one
25 instance where we've been excluded from negotiation because

1 we're a U.S. producer. There's something about being a U.S.
2 producer that would inhibit our ability to make the product
3 or compete.

4 MR. CHARLES ANDERSON: And this is Chuck
5 Anderson. I just would want to add that, you know, this
6 case is not just about NORPAC alone. It's about the total
7 U.S. industry and whether the total U.S. industry competes
8 with the Canadian industry. In that regard I would urge you
9 to do a customer overlap analysis. We'll provide one in our
10 post-conference brief which will show you, I think, intense
11 competition across all grades.

12 MR. JONES: Steve Jones, Mr. Chang. I'd also
13 note that in the recent announcements made by White Birch
14 and Resolute with respect to the closing machines in the
15 United States, they both stated that they would ship that
16 production to Canada, thus I think confirming and I don't
17 think it really needs confirmation, but confirming that they
18 can produce the same products in Canada that they produce in
19 the United States, and plan to continue supplying their
20 customers going forward.

21 MR. CHANG: One last question. So this in
22 regards to our earlier conversation about One Rock Capital
23 Partners. You had mentioned that they had made some
24 investment in your mills. This might be more appropriate
25 for post-conference, but if you could provide a little bit

1 more specificity as to what that investment is and, you
2 know, what the main goal of that investment will be.

3 MR. JONES: Mr. Chang, Steve Jones. We'd be
4 happy to address that in a brief.

5 MR. CHANG: All right. Those are all the
6 questions I have. Thank you.

7 MR. MICHAEL ANDERSON: Thank you, Mr. Chang.
8 And just two or three brief follow-up questions that I have.
9 I really appreciate the chart that was provided, which is on
10 page five of your slides. Mr. Anderson, Chart No. 4, I
11 would just ask for the post-conference it would be very
12 useful for us if you could provide dates of these actions,
13 either the reduction or the additions and specifically
14 within the Period of Investigation that we're looking at.
15 That would be very, very helpful if you could make that kind
16 of adjustment.

17 MS. BYERS: This is Bonnie Byers. We'd be
18 happy to provide that.

19 MR. MICHAEL ANDERSON: I guess we know who's
20 doing the work afterwards.

21 (Laughter.)

22 MR. CHARLES ANDERSON: I was going to admit to
23 that but --

24 MR. MICHAEL ANDERSON: Okay, and then two
25 other brief questions. Mr. Crowley, I was very interested

1 in your comment about the concentration of buying power, and
2 you particularly mentioned buying groups.

3 I know we've gathered some information through
4 our questionnaire process, but if there's anything you'd
5 like to share about the role of buying groups, how that has
6 changed over the POI or not changed, and whether that's a
7 large part of your customer base and how that's impacted
8 prices either now or in your post-conference brief, that
9 would be very helpful for us.

10 MR. CROWLEY: Yeah. We'd be happy to provide
11 that information in a post-conference brief.

12 MR. MICHAEL ANDERSON: Okay, thank you. And
13 then lastly, obviously price is a very highlighted idea and
14 contentious issue here, and we're dealing with a product and
15 a market where demand is going down. If there's anything in
16 the post-conference brief or now that you could provide, any
17 kind of literature, any kind of analysis that correlates the
18 drop in demand with prices, so that we can disentangle that
19 from the allegations that the prices are being suppressed by
20 imports, that would be very helpful.

21 We have the challenge of trying to determine
22 the role of declining demand versus the allegation of dumped
23 imports and those price impacts. So anything more you can
24 point to analytically that would help us disentangle those
25 or separate those two, that would be very helpful.

1 MR. JONES: Mr. Anderson, Steve Jones. We
2 will address that post-conference.

3 MR. MICHAEL ANDERSON: Okay. Thank you very
4 much, and with that, I want to thank you all for your time
5 and indulging in our questions. It's been very helpful and
6 helped us gather some very important information for the
7 record. We'd like to recess for a half an hour and
8 according to that clock, just under a half an hour. Return
9 at 12:45. Thank you very much.

10 MR. JONES: Thank you.

11 (Whereupon, a luncheon recess was taken.)

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1 A F T E R N O O N S E S S I O N

2 MR. BISHOP: Will the room please come to order.

3 Mr. Chairman, the panel in opposition to the
4 imposition of the antidumping and countervailing duty orders
5 have been seated. This panel has 60 minutes for the direct
6 testimony.

7 MR. ANDERSON: Thank you, Mr. Secretary. Welcome
8 to our afternoon panel. Thank you for being here. And
9 again just a reminder, during the questions if you'll please
10 state your name and when you're testifying for the benefit
11 of the Court Reporter. We're not quite in the round here,
12 but with the square it's a little bit hard for the Reporter
13 to see.

14 So again, thank you for being here today and I
15 will turn it over to the panel to proceed.

16 Mr. Feldman?

17 MR. FELDMAN: Thank you, Mr. Chairman. I am
18 Elliot Feldman. Good afternoon. Everybody who wrote their
19 text that says "good morning" will have to revise them.

20 I will just make sure that we are moving in the
21 order we intend. We are going to start with the U.S.
22 producer that is aligned with the Respondents in this
23 matter. We are going to move roughly east to west. We're
24 going to begin with the companies, and then we are going to
25 move to the broker and the purchaser. And we will finish

1 with our economic consultant.

2 So we will begin with Mr. Ovanessian.

3 STATEMENT OF JOHN OVANESSIAN

4 MR. OVANESSIAN: Good afternoon. I am John
5 Ovanessian, Vice President for the National Accounts Sales
6 Team, North American Paper of Resolute Forest Products of
7 the United States.

8 I welcome the opportunity to speak to you today
9 and thank you for it. Resolute is the largest producer of
10 uncoated groundwood paper in the United States. We are an
11 American company. Resolute opposes the Petition. We urge
12 the Commission to recognize and understand that Resolute
13 cannot be easily dismissed from the industry in the United
14 States because of its affiliation with production of the
15 subject merchandise in Canada.

16 Resolute is the oldest continuous producer of
17 uncoated groundwood paper in the United States. For more
18 than a century the paper industry in North America has been
19 continental, with companies operating on both sides of the
20 border.

21 There have been more trees in Canada, more people
22 in the United States, more raw materials and natural
23 resources in Canada, more consumers in the United States.
24 To the paper industry, the border has always been invisible.
25 Superficially, Resolute's opposition to this Petition may

1 seem strange, but in fact it is the only position that makes
2 sense.

3 Superficially the imposition of trade barriers
4 reducing competition from Canada may seem attractive to any
5 producer in the United States, but such an appearance is
6 deceptive and, well, superficial.

7 It would hasten a decline in consumption, putting
8 our customers out of business. We have no other potential
9 customers. If we were to price our customers out of
10 business, we would put ourselves out of business.

11 We are a diversified North American continental
12 forest products company. The subject merchandise in this
13 investigation is what economists call "secular decline."
14 Market opportunities to sell our product are disappearing,
15 and we have no illusions. This market will not be coming
16 back. Nonetheless, we have customers we must supply and
17 shareholders for whom we still make a profit.

18 We still fortunately have people who read
19 newspapers printed on paper, but we do understand that there
20 is a rapid movement away from the printed page towards
21 electronic devices that reproduce the printed page.

22 Demand for paper to print newspapers and inserts
23 to newspapers is in permanent decline, as is demand for the
24 paper historically required by publishers and advertisers.
25 We have entered a new era. We know it. We're adjusting to

1 it.

2 There are essentially three ways in which we can
3 cope with the secular decline in demand for newsprint, paper
4 for newspapers, publishing, fliers, and directories. Yes,
5 directories. When did you last use a telephone book?

6 First, we can reduce supply by reducing
7 production. Because paper mills, to be profitable, need to
8 run at capacity 24 hours a day, supply reduction means
9 shutting down paper machines and mills.

10 We need to bring supply into equilibrium with
11 demand, which is the only way we can maintain prices
12 necessary for this declining industry to remain profitable.

13 Supply and demand needs to be in balance.

14 Second, we can diversify our product and improve
15 it. But no matter how good our uncoated groundwood paper
16 may become, demand for it is not destined to grow nor even
17 level off. So we are aggressively transitioning even as
18 some changes require very significant capital investments.

19 We have been converting and investing in tissue,
20 for example saving nearly 500 jobs in Calhoun, Tennessee,
21 that would have been lost had we simply shut down uncoated
22 groundwood paper capacity there.

23 Third, we can export. All the demand for
24 uncoated groundwood paper is declining everywhere in the
25 world. In some places such as Mexico and Latin America,

1 they still rely mostly on the printed page. We still have
2 markets there.

3 We can protect jobs in the United States by
4 making products we can sell abroad. Resolute's production
5 of subject merchandise in the United States has been in
6 Tennessee, Georgia, and Mississippi.

7 The natural resource input is southern yellow
8 pine, a wood with short fibers that when turned into
9 newsprint cannot achieve the brightness and strength
10 characteristics of paper produced from Canadian spruce.

11 Consequently, Resolute's customers in the
12 Northeast and Midwest, New York Times, The Boston Globe,
13 Chicago Tribune, will not buy our Southern product. There
14 is no American production other than Resolute's in the
15 Southern part of the United States.

16 There, they want and will accept our U.S.
17 product, while in the Northeast our customers will accept
18 only Canadian product. Our customers in the South and
19 Southeast, generally small-town newspapers and commercial
20 printers, accept our products because we can deliver it
21 reliably and on time.

22 We also know they cannot afford to pay much more.
23 We foresee only modest price rises that are adjusted--that
24 are adjusting supply to demand. We know too that if prices
25 were to rise very much or very fast, our customers would

1 shift to lower basis weights to save money.

2 Our southern mills cannot produce lower basis
3 weights from southern yellow pine. The move would force our
4 southern mills out of business. We inevitably would close
5 more than we could afford to convert. There would be no
6 local supplier of newsprint, which would lead inevitably to
7 greater American dependency on Canadian product, exactly the
8 opposite of what the Petitioner seems to think would happen.

9 During the period 2014 to 2016, exports to
10 Mexico, Central and South America represented 18 percent of
11 our production from our mills in the Southern United States,
12 and 24 percent of the newsprint.

13 If Canadian imports were reduced artificially in
14 the United States, not by market forces, they would be
15 diverted to exports. Exports from our southern mills would
16 surely lose out internationally to the Canadian product.
17 And without those exports from our southern mills, the
18 survival of those mills would be in question.

19 The small town newspapers in the South and
20 Southeast of the United States, with no one to supply them
21 with affordable newsprint, would also be in jeopardy.

22 We know our business and our customers. These
23 fears are not made up. The only possible income--outcome
24 that might seem favorable to the Petitioner would accelerate
25 the decline in consumption while reducing Canadian supply in

1 the United States.

2 Resolute's survival in the United States, the
3 largest producer of subject merchandise in the United
4 States, would be at risk because the new artificial
5 imbalance of supply and demand would disadvantage Resolute's
6 southern mills, the only place in the United States where
7 Resolute produces the subject merchandise and where Resolute
8 is the only producer.

9 For these reasons, it only makes sense for the
10 U.S. to oppose the Petition. Thank you.

11 STATEMENT OF BREEN BLAINE

12 MR. BLAINE: Good afternoon. Thanks for the
13 opportunity to speak with you today. My name is Breen
14 Blaine. I'm Vice President of North American Paper Sales
15 for Resolute Forest Products.

16 Resolute Forest Products, an American company
17 incorporated in Delaware, is the leading producer of
18 uncoated groundwood paper in Canada, as well as the leading
19 producer in the United States.

20 Resolute, on both sides of the border, opposes
21 the Petition you've received because it interferes with
22 market forces and misrepresents the commercial realities of
23 the paper business on this Continent.

24 Resolute is an integrated North American
25 continental forest products company, and the paper business

1 is continental. We make decisions on a continental, not a
2 national, basis.

3 We understand perfectly that the business we're
4 in is dying, replaced by digital and electronic devices.
5 Demand for newspapers, books, and directories is in decline,
6 and consequently so is the paper they're printed on.

7 Economics are elementary. If we were to continue
8 producing paper for fewer customers, we would put too much
9 supply into the marketplace and drive down prices. And
10 there's no solution to the decline in demand. The only
11 logical solution has been to reduce supply.

12 Reducing supply can of course raise prices, and
13 we believe the modest price rise can be absorbed as demand
14 comes into balance with supply. Resolute's customers,
15 however, cannot afford the cost of trade remedies. Forcing
16 demand to run ahead of supply, compounded by tariffs,
17 normally raises prices, but there inevitably are casualties
18 when the market restores balance.

19 Many of our customers would be casualties, and
20 this is not an industry with alternative customers. Killing
21 the newspapers by pricing them out of newsprint and inserts,
22 and for that matter small commercial printers and
23 publishers, would make no sense.

24 The paper business is determined by costs. To
25 reduce supply, we must reduce production, which means to

1 reduce capacity. And priority for reducing capacity must be
2 on the least efficient machines and mills, and those facing
3 the greatest transportation costs.

4 We don't care whether the mills are in the United
5 States or in Canada. The priority is to shut down the least
6 productive or costliest operations wherever they are.

7 Since 2014, more of the inefficient and
8 least-profitable mills and machines have been in Canada.
9 Resolute has shut down in Canada numerous mills and machines
10 producing uncoated groundwood paper, radically reducing
11 Resolute Canada's capacity.

12 Resolute closed more capacity in Canada than in
13 the United States during this period because the Canadian
14 mills and machines subject to closure were among Resolute's
15 least efficient and most distant to markets.

16 The radical reduction in productive capacity in
17 Canada led to a decline in Resolute Canada's exports to the
18 United States from 2014 to 2016. Closure decisions had
19 nothing to do with the border and everything to do with the
20 only way to make profit making paper, which is to drive down
21 costs. And Resolute was part of a larger trend in North
22 America and around the world.

23 In North America, Canadians' capacity to produce
24 uncoated groundwood paper was reduced from 2014 through 2016
25 by 910,000 tons. Capacity in the U.S. was reduced by

1 735,000 tons.

2 Canada's productive capacity in this industry
3 thus fell 20 percent more than the capacity in the United
4 States. Put another way, Resolute reduced its Canadian
5 capacity by 28 percent while reducing its capacity in the
6 United States by less than 20 percent. The Canadian
7 industry suffered more than the U.S. industry from the
8 secular demand decline.

9 Many newspapers prefer newsprint produced from
10 the Northern forests because the longer fibers make for
11 brighter and stronger papers. Resolute cannot sell its U.S.
12 production in the North because newspapers such as The New
13 York Times, Chicago Tribune, Boston Globe, have strong
14 preferences for the Canadian product. Because newsprint
15 must be delivered on time and transportation costs are
16 significant, newsprint sells closest to where it is made.

17 The reality of the North American market, at
18 least in Northeastern and Northern Midwest regions of the
19 United States, Canadian newsprint is the only viable product
20 on offer. Attempts to drive it out can only drive the
21 buyer, newspapers, out of business. Such attempts as in
22 these petitions cannot improve the situation of American
23 producers of uncoated groundwood paper. To the contrary,
24 thank you.

25 MR. FELDMAN: Mr. Lowder?

1 STATEMENT OF RUSSELL LOWDER

2 MR. LOWDER: Good afternoon. I am Russ Lowder,
3 Senior Vice President of White Birch Paper Company. I have
4 been in the business for 24 years, and with White Birch for
5 9 years. Before that, I worked for Gannet for 15 years.

6 My primary responsibility at White Birch is
7 global sales and marketing. While I was at Gannet, my
8 primary responsibility was directing global paper
9 procurement.

10 White Birch is a U.S. company and long-time
11 producer of uncoated groundwood paper in the United States
12 and Canada. Our corporate headquarters is located in
13 Greenwich, Connecticut.

14 White Birch built our Bear Island facility
15 located in Ashland, Virginia, in 1979 and has operated it
16 continuously until June of this year when the economics of
17 that mill forced us to close it. I will discuss this later
18 in my testimony.

19 We continue to operate plants in Canada, FF
20 Soucy, Papier Masson, and Stadacona, each of which import
21 their own products into the United States. Our U.S.
22 facility does not, and never has, imported newsprint or
23 other uncoated groundwood paper from those Canadian mills.

24 In our Canadian facilities, roughly 95 percent of
25 our production consists of uncoated groundwood paper,

1 primarily newsprint, high-bright, book paper, and directory
2 paper. In 2016, we exported approximately 45 percent of our
3 production to the United States, and roughly 40 percent to
4 other export markets such as India, Asia, Europe, Central
5 and South America.

6 All participants in the industry agree that the
7 paper industry has been experiencing a long-term structural
8 decline in demand for its products for years. The drop in
9 demand has been particularly precipitous since 2014 with
10 demand declines in the neighborhood of 10 percent per year.
11 This is due primarily to the decline in readership from
12 newspapers generally, and a decline in demand for printed
13 newspapers and books as digital media gains greater market
14 share.

15 This observation is not new, but it is a fact of
16 life in our industry and the dominant condition of
17 competition. This structural decline in demand is not
18 limited to North America. It's a worldwide phenomenon that
19 has impacted the uncoated groundwood paper industry
20 globally.

21 As a result, there have been reductions in
22 uncoated groundwood paper capacity in Canada, the United
23 States, Asia, and Europe as the industry deals with the
24 demand declines.

25 In recent years, the shutdown of capacity in

1 uncoated groundwood paper has been greater in Canada than
2 that in the United States. Efficient producers attempt to
3 operate at 100 percent of capacity on any existing
4 production line. This means that the only way to reduce
5 capacity is to take market-related downtime, shut down paper
6 machines, or even close entire facilities.

7 Since demand is not going to increase, the only
8 means to maintain efficient capacity utilization and
9 reasonable pricing is to reduce capacity. Each producer
10 understands that it must maintain a careful balance between
11 demand and supply in order to maintain prices.

12 For instance, we tracked the ratio of shipments
13 to capacity as reported by the Pulp and Paper Products
14 Council. The North American industry right now is composed
15 of only a few players. Price levels are increasing now
16 because so much of the capacity has been taken out of the
17 market with recent closures in Canada, the United States,
18 and the rest of the world.

19 At White Birch, we have reduced our North
20 American capacity by over 20 percent by closing our Bear
21 Island facility in June of this year. While NORPAC points
22 to the closure of the Bear Island facility as an indication
23 of injury from Canadian imports, while nothing could be
24 further from the truth. In fact, just the opposite is true.

25 Without the ability to supplement our production

1 from our Canadian mills, we would of had to have closed Bear
2 Island much sooner than we did. Our decision to close Bear
3 Island is part of a worldwide trend to reduce capacity as
4 demand declines.

5 By taking out our higher cost, less efficient
6 capacity, it strengthens the industry in both the United
7 States and Canada. The decision to close Bear Island had
8 nothing to do with import competition. Rather, it was one
9 company's decision to rationalize its operations by
10 eliminating the highest cost paper machine.

11 In looking to maintain balance between supply and
12 demand and the condition of steeply declining demand, we
13 make our decisions based on our evaluation of the cost and
14 quality of production amongst our mills.

15 Bear Island was closed for several reasons. As
16 Petitioner noted, Bear Island was a relatively high cost
17 mill. It was by far White Birch's highest cost mill. Bear
18 Island consisted of a single paper machine that was designed
19 to operate using roughly 80 percent virgin southern yellow
20 pine wood chips, and roughly 20 percent recycled fiber from
21 old newspapers, ONP.

22 SYP fiber is not as strong as white wood fiber
23 available in Canada and the U.S. Pacific Northwest. ONP
24 adds strength but compromises the optical qualities of the
25 paper, brightness, and good ink adhesion. In addition, ONP,

1 which was considered a low-cost input at the time Bear
2 Island was constructed, today is actually relatively
3 high-cost input because most recycling operations no longer
4 sort newspapers well from glass and plastic, and because
5 reduced newspaper consumption has reduced the supply of ONP
6 for recycling.

7 The bottom line is that paper coming out of Bear
8 Island was more prone to breaking during the printing
9 process than that of most of our competitors due to the SYP
10 and ONP content.

11 To be clear, Bear Island could not make the
12 higher value, higher bright quality. Thus, Bear Island was
13 confined to production of newsprint because the maximum
14 brightness it could achieve was roughly 57.

15 The quality disadvantages at Bear Island were
16 compounded by the recent trend towards lower basis weight
17 papers. Given the fiber supply available, we cannot produce
18 quality paper at a basis weight below 45 gram. And even our
19 45 gram basis weight paper was increasingly rejected by our
20 customers.

21 We will provide additional details and
22 documentation of these quality issues in our post-hearing
23 brief. The combination of declining demand, quality issues,
24 and relatively high costs made the production of newsprint
25 at Bear Island unsustainable, and we made the difficult

1 decision to close that facility.

2 The decision to close Bear Island had nothing to
3 do with imports from Canada. To the contrary, we were able
4 to prolong the life of the Bear Island facility by
5 supplementing Bear Island's output with paper made in one of
6 our Canadian facilities when Bear Island's quality problems
7 threatened to disrupt our supply to major customers. If we
8 hadn't had those imports, Bear Island would have been closed
9 much earlier than it was.

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

16 Let me talk a little bit about why the vast
17 majority of the Bear Island sales were limited to the
18 southern region of the United States. I have already
19 explained the problem with SYP chips, but the other issue is
20 that freight costs limit the ability of producers to sell
21 into markets of greater distance.

22 Freight is a particularly important issue with
23 newsprint given the low value of the product. So regional
24 markets for newsprint dominate. However, even for
25 high-bright paper, book paper, freight is a significant

1 component of total cost.

2 Finally, I would like to say a few words about
3 NORPAC. We looked at buying NORPAC in 2016 before it was
4 sold to the current ownership, so I have some familiarity
5 with their operations.

6 From my recollection of that time, our assessment
7 was that NORPAC's operations faced a number of challenges
8 that had nothing to do with imports.

9 First, NORPAC's operations are dependent upon
10 third-party service contracts to be able to operate the
11 mill. For example, they share a chip pile with other
12 facilities. They do not own one of their boilers. And they
13 are dependent on outside suppliers for at least some of
14 their steam and for effluent treatment.

15 NORPAC experienced a downside of that arrangement
16 this past spring when it was forced to shut down its paper
17 machine over an effluent issue experienced by one of those
18 third-party providers.

19 Second, NORPAC's business plan at the time,
20 dependent upon shifting substantial capacity from newsprint
21 to uncoated pre-sheet, or copier paper, where they believed
22 they would be able to achieve higher margins. This does not
23 appear that this strategy has been fully executed.

24 Third, the company had what appeared to us to be
25 very low prices in its exports, particularly to India, and

1 they seemed to have an unusually high volume of off-grade
2 transition paper generated when switching from one product
3 to another, which has to be sold at discounted price.

4 Since we at White Birch are very experienced in
5 the newsprint business, we understood the significant
6 challenges the facility would face going forward, and it had
7 nothing to do with Canadian imports.

8 Thank you.

9 MR. FELDMAN: Francois D'Amours.

10 STATEMENT OF FRANCOIS D'AMOURS

11 MR. D'AMOURS: Good afternoon. My name is Francois
12 D'Amours. I am the Senior VP and CEO of Kruger Publication
13 Paper Division. We produce uncoated groundwood on the
14 eastern Canada at mills in Quebec and New Foundland.

15 I have been with Kruger for five years, and in
16 the industry for a total of 29 years. I would like to make
17 two points in my testimony today.

18 First, I would like to address the rapidly
19 declining demand for newsprint in the U.S. and Kruger's
20 response.

21 Second, I will explain why Kruger and other
22 eastern Canadian mills do not compete with NORPAC and, more
23 broadly, why competition between U.S. and Canadian producers
24 is heavily attenuated.

25 First, it should be common ground and on all

1 witnesses today that the central problem facing our industry
2 is declining demand. The growth of digital media has
3 sharply reduced the demand for newspapers, and thus
4 newsprint and printed advertising circulars.

5 This has adversely impacted newspaper economies
6 as well. Overall demand in North America has been dropping
7 an average of 8 to 11 percent per year over the last 15
8 years. The result of this spectacular decline is that North
9 American consumption of newsprint collapsed from 13.5
10 million tons in 2001 down to 3.6 million tons as of today, a
11 reduction of 73 percent.

12 Fewer newspapers are being printed with fewer
13 pages. This presents cost and margin challenges to all
14 newspaper producers. They are increasingly and very rapidly
15 moving to lower business weight papers, which produce more
16 pages per ton and offer handling and transportation
17 efficiencies.

18 Kruger has responded both by reducing capacity
19 and by delivering a quality and reliable lower weight
20 product. We shut down one paper machine at the end of 2014,
21 removing 90,000 tons. In March of this year, we fully
22 converted our largest and most efficient newsprint machine
23 to non-subject line of work production. This removed an
24 additional 216,000 tons of newsprint capacity.

25 We have removed more than 30 percent of our

1 capacity from the market in the last three years. Further,
2 we planned again to remove an additional 200,000 ton of
3 newsprint capacity and replace it with non-subject products.
4 That would bring to 60 percent our capacity reduction since
5 2014.

6 Next, I want to explain why uncoated groundwood
7 is not commodity product with head-to-head competition
8 focused on price. Indeed, I don't think we compete against
9 NORPAC at all.

10 First, newsprint distribution costs are too
11 expensive to ship across the continent. We estimate
12 shipping costs to be between \$150 and \$250 to ship across
13 continent; compares to a normal \$60 to \$80 per ton for
14 eastern Canadian mill, or eastern mill.

15 There are eastern and western markets, and we
16 don't see NORPAC at all in eastern press rooms. These
17 markets have different pricing.

18 Second, as I mentioned, the market is
19 increasingly moving to lower business weight, 40 grams for
20 example, instead of the more traditional 45 grams. Low
21 business weight paper have grown from half a percent in our
22 business in 2014 to 20 percent today.

23 Southern U.S. Producers which rely upon southern
24 yellow pine as their feedstock are either not able to
25 produce low business weight newsprint, or to produce it as

1 efficiently as Canadian producers.

2 Third, major publishers do not change suppliers
3 lightly, and they certainly don't do so in response to small
4 price changes. The fiber used in the production process
5 impacts the characteristics of the paper, mainly strength,
6 opacity, brightness. These characteristics impact not
7 only the appearance of the finished newspaper but also the
8 reliability of the paper through the presses.

9 These are certainly good reasons why 35 years
10 after introducing our sheet to Gannett on color presses at
11 USA Today, we still are their principal supplier.

12 Thanks for your consideration.

13 MR. FELDMAN: Mr. Stapleton.

14 STATEMENT OF MATTHEW STAPLETON

15 MR. STAPLETON: Good afternoon. My name is Matt
16 Stapleton. I am president of Catalyst Paper USA based in
17 Seattle, Washington. Our company imports and distributes
18 paper, including uncoated groundwood paper produced by our
19 parent, Catalyst Paper Corporation, in British Columbia.

20 I've been with Catalyst for 18 years in various
21 sales and sales management positions. Prior to entering the
22 paper industry, I served as a lieutenant in the United
23 States Navy. I'm one over a thousand Catalyst employees who
24 are U.S. citizens working in the United States.

25 I'd like to start today by providing an

1 historical perspective of Catalyst and its role in
2 satisfying U.S. market demand for over a century. Catalyst
3 has been producing newsprint in Canada since 1912.

4 In the early 1990s, Catalyst entered into the
5 machine finish and super calendar grades. Currently,
6 Catalyst operates three paper mills in British Columbia, at
7 Crofton, Port Alberni, and Powell River, offering a wide
8 range of coated and uncoated paper products. Catalyst also
9 operates mills in Maine and Wisconsin, producing non-subject
10 paper products. The three BC mills primarily serve both the
11 Canadian and U.S. markets.

12 As we have seen, demand for directories,
13 newspaper, retail inserts, and general commercial printing
14 has been in a circular decline for many years. In response,
15 Catalyst has idled and shut down paper machines and mills,
16 closing its least efficient equipment throughout North
17 America. Since 2010, Catalyst has shut down the Elk Falls,
18 BC paper mill in July 2010, the Snowflake, Arizona mill in
19 2012, and most recently paper machine number nine at the
20 Powell River BC mill in December 2014. These capacity
21 reductions equaled 926,000 tons. These closures are
22 difficult, but the reality is that due to their
23 inefficiency, these paper mills and machines are unable to
24 compete in a market facing an irreversible decline in
25 demand.

1 Next, I'd like to discuss the subject of product
2 comparability. The products covered by this case involves
3 three distinct grades with limited comparability --
4 directory, newsprint, and machine-finish high bright.
5 Regarding directory paper, in particular, this product is
6 used only for printing phone books, business directories,
7 and very large catalogs. The product characteristics are
8 such that the directory paper cannot be substituted for the
9 newsprint or high bright.

10 Catalyst is the largest supplier of directory
11 paper in North America. And to my knowledge, NORPAC does
12 not and has never produced directory paper.

13 Now I'd like to discuss what differentiates
14 Catalyst from NORPAC, our value proposition. Catalyst
15 customers rely on our quality and breadth of products and
16 services, reliability of supply, and the runability of our
17 products. Catalyst has one of the broadest product
18 portfolios of any supplier in the printing and writing paper
19 sector. Moreover, we have multiple mill sites with
20 multiple paper machines able to produce many of our products
21 across production platforms. This flexibility ensures that
22 in the event of production disruption we can continue to
23 satisfy customers' needs.

24 By contrast, NORPAC has a single mill and it is
25 public knowledge that it faced supply disruptions when the

1 mill had issues with its affluent treatment plant earlier
2 this year. This requires customers to find alternate
3 sources with limited notice. In at least one case, which I
4 will also discuss further post-conference, caused one
5 customer to move its future supply needs to Catalyst.

6 Finally, I'd like to address Catalyst's
7 competition with NORPAC, our largest competitor in the West
8 Coast in the uncoated groundwood paper market. NORPAC
9 entered both the high bright market as well as the newsprint
10 market long after Catalyst, causing us to lose market share.
11 To gain market share for high bright paper products, we
12 believe NORPAC undercut Catalyst and other competitors'
13 prices. And even as to newsprint, during the period of this
14 investigation, NORPAC undersold Catalyst taking some of our
15 sales away. Again, I will supply more details
16 post-conference.

17 Finally, we believe our success in converting
18 our opportunity into sales is not due to lower prices, but
19 rather our ability to offer a complete product portfolio,
20 multi-mill capability, and exceptional service. Our
21 customers can take full advantage of our value proposition
22 over competitors like NORPAC, who have a more limit product
23 offering and single production facility. Our reputation for
24 fair pricing, high quality product and service, reliability
25 and runability has allowed us to succeed in the U.S. market.

1 Thank you.

2 MR. FELDMAN: Mr. Chairman, that completes the
3 presentation of the four companies. We're now going to move
4 to two purchasers, so our next witness is Frank O'Toole from
5 Gannett Supply Corporation.

6 STATEMENT OF FRANK O'TOOLE

7 MR. O'TOOLE: Thank you. My name is Frank
8 O'Toole and I'm the president of Gannett Supply Corporation,
9 a wholly-owned subsidiary of Gannett. I've been with
10 Gannett for 23 years and have served in a variety of roles,
11 including Information Technology, Finance, and Purchasing.
12 You may be most familiar with Gannett's flagship
13 publication, USA Today, but we actually operate 109 local
14 media organizations in 34 states and Guam. Published in
15 print and online, we collectively refer to as the USA Today
16 Network, as well as News Quest in the UK and our digital
17 marketing business ReachLocal.

18 Some of our other publications are the Detroit
19 Free Press, The Tennessean, and El Paso Times. Gannett
20 Supply is responsible for company-wide sourcing of products,
21 services and supplies, including newsprint used in
22 publishing. I manage the company-wide paper program where
23 we purchase newsprint from 12 domestic and global suppliers
24 for our own publications and resell to many unrelated
25 newspapers. During 2016, our total newsprint consumption

1 was approximately 294,000 metric tons, including
2 consumption by the USA Today Network and News Quest.

3 The media industry has experienced rapid recent
4 evolution in consumer demands and expectations due to
5 advances in technology which have lead to a proliferation of
6 many alternative delivery methods for news and information,
7 such as Twitter, You Tube, and even FaceBook. The number of
8 consumers who access online services through personal
9 computers, Smartphones, hand-held tablets, and mobile
10 devices have increased dramatically and we all expect that
11 to continue.

12 Traditional print newspaper readers are getting
13 older, while younger generations are developing the habit of
14 consuming news only through digital platforms. So as I
15 offer my views of what shapes the newsprint industry, please
16 keep two things in mind. One, we know demand for print is
17 in ongoing decline and two, in order to maintain our print
18 customers, we absolutely must continue to be value added and
19 reliable, at your doorstep the same time every morning no
20 matter what. So newsprint quality and reliable supply are
21 essential.

22 The best journalism in the world doesn't mean a
23 thing to our print subscribers if it doesn't get delivered.
24 Print circulation is down in the U.S. As newspaper
25 circulation decreases, so does demand for newsprint. It's

1 just that simple. The contraction in the market has nothing
2 to do with imports and everything to do with the rise of the
3 digital age. Cities used to have at least two major
4 newspapers and most of them included both a morning and
5 evening edition. Outside of here and New York City, that
6 mostly doesn't exist any more.

7 The physical appearance of the newspaper is
8 changing too. Newspapers are getting narrower and lighter.
9 Doing so helps us reduce our carbon footprint, which is
10 consistent with our company's commitment to protecting the
11 environment. For example, most newspaper used to be a
12 50-inch web, whereas now, we're mostly printing 44-inch.
13 Key among these efforts has been a shift to lighter basis
14 weight newsprint that increases the yield per ton.

15 From both a cost and environmental perspective,
16 there is a preference for lighter weight newspapers. In
17 2014, Gannett was more than 95 percent 45 gram. After
18 examining alternatives, we started trials of 40 gram in
19 early 2015. Today, all but one of our in-house newspapers
20 is printed on 40 gram and we're working to get it to 40
21 gram. By making this change, we consume and ship fewer
22 tons of paper, so we're lowering our carbon footprint, while
23 increasing our yield.

24 There are several key elements to our sourcing
25 decisions. First, each newsprint roll has specifications

1 that vary on the press configuration, diameter, web width,
2 core, and basis weights. Each newsprint roll is a custom
3 order to meet the exact specifications of the pressrooms
4 running it. Second, each of our sites has a minimum of two
5 approved suppliers. When you have only one, it poses a
6 higher risk of disruption. On a related point, whether the
7 supplier operates just one or multiple mills is a
8 consideration. Single mills lack redundancy or backups that
9 are essential to overcome critical points of failure in the
10 manufacturing process.

11 Third, the age and actual condition of the press
12 is important. We are talking about three-story tall presses
13 running at very high speeds turning out 25,000 copies per
14 hour. At some of our sites, presses are 10 years old and
15 running smoothly. At others, they're more than 30 years old
16 and run at higher waste levels.

17 Finally, geography is a factor in our sourcing
18 decisions. Mode of transportation and ship-to location
19 determine which producer is most appropriate to supply the
20 region. Mode of transportation varies from site to site
21 with some locations only accepting truck, while others
22 require specific sized railcars.

23 In our business, time is critical. Everyone
24 knows reporters are racing to meet their publication
25 deadlines, but the presses have to complete their runs on

1 time too. Press runs are happening throughout the night.
2 Distribution is happening in the wee hours of the morning.
3 This is all time-sensitive work and production delays are
4 extremely disruptive and costly. We have all heard the
5 expression "Stop the presses" usually used to signify a
6 major news development that is so important the printing
7 needs to be stopped to change the headline. But having to
8 stop the presses because of a web break or runability issue
9 leads to rejected paper.

10 Web breaks result in wasted paper, ink, plates,
11 time, and labor. Tears are caused by deformities in the
12 sheet, slim holes, pin holes, plaster breaks. These are
13 irregularities. These irregularities result in what we call
14 critical incident reports. And when there are enough
15 problems, the paper gets rejected and the producer has to
16 pick up and unload in seconds.

17 I mentioned earlier our shift to 40-gram paper.
18 I attribute the recent shutdown of the Bear Island Mill due,
19 in part, to its inability to produce 40-gram newsprint.
20 Before we switched to 40 gram, we used to by thousands of
21 tons monthly from Bear Island. We tested 40 gram in
22 multiple sites over the course of several months. Given the
23 initial favorable results, we moved to regular production
24 orders of 40 gram from Bear Island. Over the subsequent
25 months, we experienced critical problems, quality problems

1 with Bear Island's 40-gram paper. In light of our long
2 working history with Bear Island, we tried to make it work,
3 but ultimately had to stop buying 40 gram from Bear Island
4 because of web breaks and runability issues.

5 In my view, Bear Island's quality was not
6 achieved because of the differences between Southern Yellow
7 Pine and Northern fiber. We understand Southern Yellow Pine
8 has shorter, weaker fiber strands, while Northern Tree
9 species have stronger, longer fiber, which is better for
10 making lighter weight newsprint.

11 As I have discussed today, there are several
12 non-price factors that drive newsprint consumption choices
13 and impact domestic producer performance, including secular
14 demand declines, constrained supply of recycled newsprint,
15 and the shift to lighter basis weights that U.S. Southern
16 mills are unable to produce. Thank you for your time and I
17 look forward to answering any questions.

18 MR. FELDMAN: Our second witness among
19 purchasers is Adam McGrann of the McGrann Paper Corporation.
20 Mr. McGrann.

21 STATEMENT OF ADAM MCGRANN

22 MR. MCGRANN: Good afternoon. My name's Adam
23 McGrann and I am the president, chief executive officer of
24 McGrann Paper Corporation in Charlotte, North Carolina.
25 Founded in 1974 by my grandfather, our company currently

1 stocks, distributes, converts paper products, including
2 uncoated groundwood paper products by most of the major
3 North American mills. This includes NORPAC, Catalyst, White
4 Birch, Kruger, Tenebec and Resolute. In fact, NORPAC has
5 been our largest supplier of uncoated groundwood paper for
6 several years.

7 For over 40 years, we've distributed uncoated
8 groundwood paper products to a multitude of customers
9 throughout the United States, many of whom are unable to
10 purchase products directly from paper mills because of their
11 smaller quantities and just-in-time needs.

12 As an initial matter of concern, I'd like to
13 highlight McGrann's strong opposition to the petition filed
14 by NORPAC. We are concerned about the impact this petition
15 will have on the North American uncoated groundwood paper
16 market. It appears that the launching of this petition
17 arose from NORPAC's recent change in ownership, which
18 immediately changed our relationship with NORPAC.

19 In late 2016, they were purchased by a private
20 equity firm based in New York. As a result, decisions on
21 business strategy, production, and customer relations are
22 now made in New York and not in Longview, Washington where
23 their mill is located. And from our perspective, their
24 decision to indefinitely idle one of their paper machines
25 was a strategy to reduce their offshore sales and unrelated

1 to Canadian competition in the U.S. market.

2 In short, the NORPAC we know today is not the
3 same company that grew to be our largest uncoated groundwood
4 paper supplier. And I oppose this petition because they
5 have launched a process that will cause serious damage to
6 the entire industry. Aside from our concerns related to
7 NORPAC's new leadership direction, McGrann strongly opposes
8 the petition for two additional reasons.

9 First, the primary factors that influence
10 McGrann's purchasing decisions for uncoated groundwood paper
11 and second, recent trends affecting the paper industry;
12 namely, it's long-term and irreversible decline due to the
13 digitization of content delivery. On the first reason,
14 McGrann purchases uncoated groundwood paper from several
15 major suppliers in the United States and Canada. The
16 primary reason to source from these suppliers were based on
17 our customers' preferences for certain brands and our
18 prioritizing long-term relationships with the mills that
19 supply these brands. Our customers, who are primarily
20 commercial printers, who, in turn, sell to advertisers and
21 media industries have established long-term relationships
22 with these brands.

23 Another important factor in our purchasing
24 decisions is continuity of supply. With the secular erosion
25 of the uncoated groundwood paper market as a whole, we need

1 to purchase from a range of suppliers to ensure continuity
2 of supply. Daily, we field questions from our customers
3 related to the health of the supplier. To ensure that we
4 can satisfy these customers' requirements and to avoid
5 supply disruptions, McGrann sources products from our
6 long-term suppliers on which we can rely, suppliers that
7 have demonstrated their consistency of product and
8 continuity of supply.

9 In addition to continuity of supply, the scope
10 of product offering is critically important. We sell over
11 50 different combinations of uncoated groundwood paper
12 products based on grade and weight, a mix that cannot be
13 supported by a single producer. We must purchase from a
14 range of suppliers so that we can offer a high level of
15 diversification and breadth the product offering in order to
16 support our customers' demands.

17 Also, we have learned over the years that our
18 customers develop a loyalty to certain brands and come to
19 know that certain mill's paper products will run through
20 their printing presses and will provide a good substrate for
21 their printed materials. Our customers' brand loyalties
22 affect our purchasing decisions. We use sales forecasting
23 based on our customers' purchasing patterns to ensure we
24 have continuous and available supply of the brands and
25 types of paper they've grown to know and trust.

1 And the second reason for our opposition, the
2 paper industry has faced a long-term decline in demand since
3 the introduction of electronic media to deliver information.
4 Over the past two decades, there's been an irreversible
5 trend among advertisers and media industries away from the
6 consumption of paper and toward lower cost digital
7 alternatives for content deliver. Paper manufacturers and
8 distributors, such are ourselves, have to compete with that
9 external trend.

10 McGrann has responded to this intense
11 competition by providing a diverse range of paper products
12 that we obtain from the major North American mills. This
13 diversification of product enables our cost-sensitive
14 customers to purchase a range of alternatives to produce
15 their print-based offerings as an alternative to digital
16 media. Thank you.

17 MR. FELDMAN: And our final witness is Jennifer
18 Lutz of Economic Consulting. Thank you.

19 STATEMENT OF JENNIFER LUTZ

20 MS. LUTZ: Good afternoon. I am Jennifer Lutz of
21 Economic Consulting Services. There are a few conditions of
22 competition that the Commission should keep in mind in
23 considering this industry.

24 With respect to demand, uncoated groundwood paper
25 takes the form of newsprint, book publishing paper,

1 directory paper, groundwood printing and writing paper, and
2 machine finished paper. I hesitate to say it yet again, but
3 the market is experiencing secular decline as demand for
4 downstream products such as print newspapers and phone
5 directories has declined significantly.

6 Also, as you have heard from the company
7 witnesses, there are some regional market aspects to the
8 industry because of the low value-to-weight ratio and other
9 factors. While it may not rise to the level the Commission
10 considers in regional industry cases, it is clear that not
11 all suppliers to the market compete head-to-head,
12 attenuating competition between domestic producers and the
13 subject imports.

14 With respect to supply conditions, producers of
15 uncoated groundwood paper have responded to declines in
16 demand by reducing capacity. The Commission should pay
17 particular attention to this.

18 There have been numerous cases before the
19 Commission, particularly with respect to steel, where the
20 issue of global oversupply has been a key concern and a
21 reason that an industry sought protection. The Commission
22 has expressed interest in what it would take for capacity to
23 be reduced in these industries so as to bring supply and
24 demand into better balance.

25 In the case of uncoated groundwood paper, the

1 industry is doing so voluntarily, removing the least
2 efficient capacity from the market and avoiding the problems
3 associated with an overhang of unused capacity.

4 For the purposes of my testimony, I am assuming
5 the domestic industry includes all U.S. producers of
6 uncoated groundwood paper. The evidence in this
7 investigation shows that the subject imports are not causing
8 material injury to the domestic industry. Instead, this is
9 an industry in decline.

10 The Petition acknowledges that consumption is
11 declining, but claims that subject imports are not declining
12 at the same rate as consumption and thus gaining market
13 share at the expense of the domestic industry.

14 This is not true, and the Petition itself does
15 not even support this claim. In fact, the data show that
16 Canadian imports have been responsibly present in the U.S.
17 market during the POI following U.S. demand trends.

18 The Petition estimates that demand for uncoated
19 groundwood paper is declining at a rate of roughly 10
20 percent per year. Consistent with that, the subject import
21 volumes reported in the Petition as measured by U.S. import
22 statistics declined by 10.6 percent from 2014 to '15, 8.1
23 percent from 2015 to '16, and 8.9 percent from part-year
24 2016 to 2017.

25 The Petition actually understates the decline in

1 subject import volumes because one of the HTS numbers
2 identified in the Petition was added to the Tariff Schedule
3 mid-2014 and the Petition does not make any adjustments for
4 imports in this category entering prior to the change.
5 Thus, import volumes in 2014 are likely under-stated.

6 The estimates in the Petition and in slide 7 of
7 Petitioner's presentation this morning shows subject import
8 market share as flat to declining over the 2014 to 2016
9 period.

10 Although there appears to be a small bump up in 2017,
11 subject import market share remained below 2014 levels.

12 Furthermore, despite the small increase in
13 subject import market share, subject import volumes
14 continued to fall consistent with long-term trends in
15 consumption. The data collected by the Commission in this
16 investigation show the same trends as those seen in the
17 Petition.

18 The domestic industry has operated at high levels
19 of capacity utilization throughout the period. Furthermore,
20 the small increase in subject import market share in 2017
21 may be explained at least in part by an outage at NORPAC's
22 plant in 2017. As described in an article attached to the
23 Petition, NORPAC experienced down time because of an
24 effluent treatment plant problem. This caused some
25 short-term shortages in the U.S. market as described by the

1 witnesses today --- witnesses on our panel.

2 Articles regarding this incident note that the
3 plant was partially shut down for two weeks. Regardless of
4 the effect of the NORPAC outage, the data in the Petition
5 and collected in this investigation contradict the claims in
6 the Petition of subject imports seizing market share in a
7 declining market.

8 Canadian producers did not behave aggressively in
9 the U.S. market, trying to seize share as overall
10 consumption declined; instead, they reduced capacity and
11 shipments to the United States.

12 In an attempt to demonstrate injury to the
13 domestic industry, the Petition estimates that of overall
14 capacity closed in North America since 2012, 75 percent was
15 in the United States and 25 percent was in Canada. That
16 claim was completely unsupported in the Petition, and in
17 fact is contradicted by data attached to the Petition and
18 other third-party data that show more significant capacity
19 closures in Canada than in the United States.

20 The slide from this morning's presentation
21 revised the estimate down but is not consistent with the
22 documents cited in the footnote to the slide.

23 The foreign producer questionnaire data confirmed
24 declines in capacity in each period of the POI with further
25 reductions projected. In fact, there have been closure

1 capacities--capacity closures around the world because
2 demand is experiencing long-term decline.

3 You have heard testimony from industry witnesses
4 from Resolute and White Birch about these closures, and how
5 plants are selected for closure. While Petitioner cites the
6 closure of White Birch as evidence of injury by reason of
7 the subject imports, you have heard testimony from the
8 company and one of its purchasers refuting this claim.

9 Furthermore, an article attached to the Petition
10 describes the plant as almost 40 years old and having
11 electricity costs that are 75 percent above the norm for
12 North American plants.

13 Because demand for this product is declining
14 significantly, there is little incentive for companies to
15 invest significant money into less efficient plants to
16 improve efficiencies if more efficient plants are already
17 available. But the data show that there have been no
18 attempts to shutter U.S. capacity to benefit Canadian
19 operations.

20 With respect to pricing, the Petition claims that
21 subject imports undersold the domestic industry to gain and
22 maintain market share. The data collected in this
23 investigation, although not yet complete, show a mixed
24 record of underselling and overselling.

25 Furthermore, the volume of subject imports

1 overselling the domestic industry is higher than the volume
2 of subject imports underselling the U.S. industry.

3 Most telling, however, is that the subject
4 imports did not gain market share. This is not to say that
5 the domestic industry is healthy, but rather that the
6 subject imports are not the cause of any poor performance.

7 The domestic industry is also not threatened by
8 the subject imports. While consumption is expected to
9 continue to decline, there is no reason to think that
10 subject imports will take share away from domestic producers
11 as they have not done so during the POI.

12 Just like the U.S. industry, the industry in
13 Canada operates at high levels of capacity utilization. The
14 Canadian industry has reduced capacity to adjust to
15 declining demand in the United States and other markets.

16 Therefore, there is not substantial unused
17 capacity or an imminent increase in capacity in Canada. The
18 volume or market penetration of subject imports did not
19 increase significantly. To the contrary, subject import
20 volumes declined over the POI as did market penetration.

21 Canadian exports to the United States as a
22 percent of total shipments were steady during the POI.
23 Subject imports have not systematically undersold domestic
24 producers. Instead, the data show a larger volume of
25 subject imports overselling the domestic industry than

1 underselling. And there have been no significant increases
2 in foreign producer or importer inventories.

3 The Commission should find that subject imports
4 of uncoated groundwood paper from Canada neither injured nor
5 threatened to injure the domestic industry. Thank you.

6 MR. FELDMAN: Mr. Chairman, that completes our
7 presentation. We are eager to try to answer your questions.

8 MR. ANDERSON: Thank you very much to our
9 witnesses for being here today and for your testimony. It's
10 been very helpful.

11 We will start with our investigator, Mr.
12 Casanova, on staff's questions.

13 MR. CASANOVA: Thank you, everyone, for being
14 here. You guys pretty much answered a lot of my questions
15 in your opening briefs.

16 So I guess my first question: Is there general
17 agreement on the domestic like-product and the domestic
18 industry?

19 (Pause.)

20 MR. CAMERON: I don't usually need to have a
21 microphone. Look, first of all with respect to the domestic
22 industry, Petitioners this morning agreed that the domestic
23 industry includes the U.S. mills of Resolute, and it
24 includes the U.S. mills of White Birch. So we agree that
25 there is no dispute with respect to that.

1 Secondly, with respect to the scope or the like
2 product, there are no differences on that either. So both
3 of those issues are not in play right here.

4 MS. MENDOZA: Julie Mendoza. Just to clarify. I
5 think that we are arguing that the market is segmented.
6 Okay? So our argument is not that they're separate like
7 products, but just that there is regional segmentation.
8 There's product segmentation and attenuation, you know, of
9 competition as a result of those segmentations in the
10 market.

11 So that's our argument, not that they're separate
12 like-products.

13 MR. CASANOVA: Okay, so just to clarify, so based
14 on the location of the paper mill, you only sell in that
15 general area? You don't typically sell--if you're located
16 in the Southeast, you're mainly--your customer base is
17 mainly in the Southeast not, say, in the Southwest or
18 Northwest or Northeast?

19 MR. FELDMAN: It's a little more complicated than
20 that. I'll let Mr. Blaine elaborate, but we've made an
21 important distinction we think as to the wood fiber. So the
22 southern yellow pine products have limited reach. Newsprint
23 in particular doesn't travel well. It's too expensive to
24 transport. That's not as true of High-Bright.

25 So you will find High-Bright sales across the

1 continent, whereas you will find the newsprint much more
2 confined geographically. But Mr. Blaine will elaborate.
3 That's a complete answer? Okay.

4 MR. ELLIS: This is Neil Ellis. If I could jump
5 in on behalf of Catalyst on the West Coast, which would
6 replicate what Mr. Feldman just said, which is that located
7 on the West Coast in newsprint they do not see competition
8 much, if at all, from Eastern mills. So the competition in
9 newsprint in the Western Coast is NORPAC, who is located
10 also in Washington State, and Catalyst.

11 High-Bright there is more national transportation
12 of the product.

13 MR. SNARR: Just to add one further point--this is
14 Mike Snarr for Kruger--so Kruger is predominantly a
15 newsprint producer, very little High-Bright paper, and you
16 will see in our questionnaire response that Kruger does not
17 ship any product west of the Rockies.

18 MR. CAMERON: And with respect to Bear Island, one
19 of the things we were testifying to as well as the pulp
20 issue, number one. Number two, they couldn't produce High-
21 Bright. So this whole issue of the reach of H^R
22 igh-Bright for Bear Island was really theoretical. It did
23 not--it had no relevance.

24 And the third thing is, yes, they were limited in
25 terms of region because of freight.

1 MR. MENDOZA: Julie Mendoza. I don't want to go
2 on too long, but I don't even think Petitioners are
3 disagreeing with that. In fact, what they said almost at
4 the conclusion of their testimony in response to questions
5 was, well, you know, if we got this import relief we'd sell
6 all over. Okay?

7 Well obviously, you know, they have never done
8 that. Right? So they are in effect agreeing with us. I
9 mean if we go back and look at their testimony, they're
10 going to say that newsprint they tend to sell, I think you
11 said, you know, San Francisco to San Diego.

12 So I think that we're all kind of in agreement,
13 there are these, you know, regional differences. I don't
14 think anybody is saying that, oh, I only sell on the West
15 Coast every product subject to this case. But it is
16 certainly the case that because of high transportation
17 costs, low-value products, people prefer to stay within
18 reasonable regional distance from their customers.

19 MR. CASANOVA: So then in the earlier session they
20 mentioned closures of White Birch and Resolute, and then
21 also restarting mills in Canada. So can you just go over
22 what sort of costs are associated with closing a mill and
23 then restarting a mill in another location?

24 MR. LOWDER: Russ Lowder, White Birch. The costs
25 for closing the mill, I mean we could give you something in

1 a more detailed fashion in the brief, but it's the general
2 just kind of taking the operation from hot to cold
3 initially, and the associated severance and so on. If your
4 question moves into the issue of restarting a mill, the
5 statement made by the Petitioner was a little bit erroneous
6 in that regard where they referred to it as shifting
7 production.

8 We did not shift production from our White Birch
9 facility to Canada. We had existing production and an
10 existing order book. So we were evaluating the order book
11 based on what we had on hand in making our decisions there.

12 But we'll be more than happy to give you an
13 estimate of closure costs for the existing mill.

14 MR. CASANOVA: That'd be great.

15 MR. FELDMAN: We would be pleased to answer your
16 question as to Resolute, as well, because the question was
17 raised about closure in Calhoun and opening in Alma. I
18 think that's what your question is triggered by.

19 MR. CASANOVA: Yes.

20 MR. FELDMAN: And Mr. Blaine would be happy to
21 answer that question.

22 MR. BLAINE: Alright. So we just recently
23 announced that we're closing two machines in Calhoun, a
24 total capacity of 356,000 tons combination newsprint and
25 brighter paper, uncoated groundwood papers.

1 We are going to restart a small machine in Canada
2 at Alma, Paper Machine No. 9, but that machine has a
3 capacity of maybe 75- possibly 80,000 tons, depending on the
4 basis weight mix.

5 I mean the rest of the product will go to the
6 open market, or some of the newsprint will be shifted to our
7 other mills in the southern network.

8 MR. FELDMAN: There are a couple of things that
9 should also be explained. Calhoun could have gone out of
10 business. Instead, there's a transition to a new product
11 and a new investment in tissue, which required substantial
12 new capital investment, and 500 jobs have been saved--that's
13 more than all the jobs at NORPAC--have been saved in Calhoun
14 by transitioning to a different product.

15 And in Alma, the closure was for a narrow
16 product. And in the interval there's been a diversification
17 of the product so that it can reopen, producing some other
18 product, not just what it had produced before. And even
19 then, a much smaller quantity and therefore a much smaller
20 production. So the notion of shifting capacity from the
21 United States to Canada just is not borne out either by the
22 facts or by the data.

23 Mr. Blaine is telling me that this meant 35 new
24 jobs in Alma.

25 MR. CASANOVA: So my other question, I noted in

1 some of the petitions there was an ability to shift
2 production, but what you're saying is the same machines that
3 are used for the unground--uncoated groundwood paper can
4 actually be used for other out-of-scope?

5 MR. FELDMAN: No, in the case of tissue they are
6 new machines. You're using the same facility, but the big
7 capital investment was for new machines.

8 You've heard I think all day that the production
9 of uncoated groundwood paper does permit on the same
10 machines a range of grades within that category. That's
11 what Alma was less able to do. And now with 35 more people,
12 it's able to do that.

13 MR. BLAINE: I can maybe add some clarification to
14 that. Calhoun has two different types of pulp. It's got a
15 mechanical pulp, TNP for these newsprint uncoated groundwood
16 grades, but we also produce graph pulp. We have a pulp
17 drier that produces market pulp that we sell to other paper
18 companies, tissue companies, and so on. So we have a mix of
19 pulps. And the TNP pulp was old, antiquated, required quite
20 a lot of maintenance. In the craft area we've invested \$100
21 million on a new digester. So this is also what's allowing
22 us to go into tissue.

23 As Mr. Feldman said, it does require a new
24 machine, but we have the pulp infrastructure in place to
25 feed it.

1 MR. CASANOVA: Okay, so at this facility you are
2 able to produce not only paper but you also can produce the
3 pulp, and you sell the pulp alone?

4 MR. BLAINE: Yes, that's correct. It's called
5 market pulp in bales.

6 MR. CASANOVA: And is that mainly based in Canada?
7 Or are you also--

8 MR. BLAINE: No, we sell that product basically
9 globally.

10 MR. FELDMAN: But the product is being made in
11 Tennessee.

12 MR. BLAINE: It's being made in Tennessee.

13 MR. FELDMAN: That \$100 million investment was the
14 investment of this company in Tennessee.

15 MS. BELLAMY: Please identify yourself for the
16 Court Reporter, please.

17 MR. BLAINE: Oh, I'm sorry. Breen Blaine again.

18 MR. FELDMAN: And Elliot Feldman, I'm sorry.

19 MR. CASANOVA: So I just want to talk a little bit
20 about the other markets that you sell UGW. Could you just,
21 anyone, go over what are these markets and are the--is the
22 demand for uncoated groundwood paper different than the U.S.
23 market? Is there an increase? Is it the same?

24 MR. BLAINE: It's the same.

25 MR. CASANOVA: It's the same?

1 MR. BLAINE: It's the same. I mean--and the
2 demand, I think many Petitioners described what the demand
3 was like, and newsprint is used predominantly in newspapers
4 but also in circulars, retail circulars.

5 The higher brightness grades, the brighter grades
6 tend to be used in a number of different applications,
7 including books and manuals, retail circulars, commercial
8 printing applications. So there's quite an array of
9 different end uses for brighter papers.

10 MR. CASANOVA: But the trend of overall decline in
11 demand is still--

12 MR. BLAINE: It's about twice--for newsprint, it's
13 about twice the rate over the last 10 years as for the
14 brighter papers. I mean, newsprint is down probably 60
15 percent in the last 10 years. The brighter papers are down
16 about 30. So for newsprint it's basically about a half a
17 million tons a year.

18 MR. CASANOVA: I just want to be clear. The
19 question is about the export market.

20 MR. FELDMAN: Yes, I'm not sure you're answering
21 the question, Breen. If I've understood the question
22 correctly, you're asking about global market and demand,
23 right?

24 MR. CASANOVA: Yes, I'm sorry if I didn't clarify
25 it.

1 MR. FELDMAN: That's not the answer you got. So
2 this is Elliot Feldman. So we have emphasized that we still
3 do have international markets. We are still able to export
4 to Mexico, South America, Central America. They are reading
5 newspapers still, thank God.

6 And so we are able still to export there, and
7 there are a lot of jobs in our southern U.S. mills that are
8 dependent upon being able to export into those markets.

9 MR. BLAINE: In our testimony--I apologize for
10 misunderstanding the question--but in our testimony, I think
11 John mentioned--Breen Blaine, I'll get it eventually; I'm
12 sorry, again--I think we mentioned that in that period from
13 '14 top '16, 18 percent of our production in the U.S., the
14 U.S. southern mills, was exported.

15 MR. FELDMAN: Mr. Blaine--or Mr. Casanova, go
16 ahead.

17 MR. LOWDER: Russ Lowder, White Birch. To further
18 expand on that, the trend, the negative trend exists in the
19 export market. I think you can notice by the testimony that
20 I gave, that 40 percent of our Canadian product previous to
21 June, or in 2016, was exported to somewhere other than
22 Canada or the United States.

23 Depending upon the market, the level of severity
24 of demand decline is somewhat different. I would categorize
25 it in the most recent past as saying probably--and the other

1 guys can agree or disagree with me on this--South America
2 being the most severe, the European and probably being the
3 least severe comparatively to us. And the Asian market is
4 really pocketed.

5 India is a very stable market. Other Southeast
6 Asian markets can be pretty volatile. But the short answer
7 is that in this business we all tend to export.

8 MR. CASANOVA: So what I'm hearing is that in
9 these other markets the main product that's being shipped is
10 newsprint, not Hi-Bright or Super-Brite.

11 MR. LOWDER: The exports of newsprint on a
12 percentage basis would be substantial comparatively to the
13 other uncoated groundwood grades.

14 MR. OVANESSIAN: This is John Ovanessian. To put
15 it in perspective, in the last 12 months exports out of
16 North America to other markets has gone down 7.2 percent.

17 MR. CASANOVA: And that's across the board?

18 MR. OVANESSIAN: That's newsprint only, which is
19 the biggest part, right?

20 MR. CAMERON: If you want a breakdown of the
21 exports between newsprint and other grades, we can provide
22 them, and we would ask that Petitioners be requested to do
23 so as well, if that will help you. But the testimony is
24 clear that newsprint is the vast bulk of the export market.
25 And exports are huge in this industry, because if filling

1 the mill is that critical and exports are a significant
2 part of that production, and you lose exports to other
3 markets, that's going to severely impact you, and that has
4 nothing to do with imports into Canada--I mean from Canada.
5 That is related to other export markets, and that's an
6 important factor.

7 MR. CASANOVA: So, yes, in a post-brief I would
8 like that from both parties, a breakdown, especially given
9 that there's been such a decline in newsprint. So I'm just
10 wondering how are you making that up with the other
11 products.

12 MR. LOWDER: Great. There was--in the case of
13 NORPAC as well, their previous ownership was, as they
14 described, was a joint agreement between a U.S. company and
15 a Japanese company. And for many years they had a
16 substantial portion of their off-take that was dedicated to
17 their Japanese partner.

18 I can't speak with authority as to exactly, you
19 know, where that sat at any given point in time, but it was
20 relatively common knowledge that that position was quickly
21 disappearing with that partner, which had to be sold
22 somewhere else.

23 MR. CASANOVA: Okay. With that, I'm done with
24 my questions. Thank you.

25 MR. MICHAEL ANDERSON: Thank you, Mr.

1 Casanova. Now we'll turn it over to our attorney, Mr.
2 Haldenstein.

3 MR. HALDENSTEIN: Thank you. Good afternoon,
4 Michael Haldenstein, Office of the General Counsel. Just a
5 couple of questions. What's the significance of the
6 increase in non-subject imports?

7 MR. CAMERON: Well, it's a fact that we're
8 still looking at -- Don Cameron. We're still looking at it.
9 But the whole point of the market share analysis is that
10 imports from third countries are a factor, and Petitioners
11 can say well, they're nothing. But the reality is that
12 imports from third countries are present depending upon what
13 submarket you're looking at.

14 So no, they can't be dismissed from the
15 analysis. They're critical to understanding what's going on
16 in the market, and they are -- they again support the
17 proposition that to the extent that there is market share
18 that has been gained, it hasn't been gained as a result of
19 imports from Canada.

20 To the extent that there has been market share
21 gains it's been gained through third country imports. So I
22 mean it's convenient if you're Petitioners to dismiss that
23 and say nahh, that doesn't really count. I mean, you know,
24 it's a market. You've got to take everything into
25 consideration, analyze it and then make a decision. You

1 can't just dismiss it out of hand, which is exactly what
2 they did this morning.

3 MR. FELDMAN: And if I may anticipate a
4 question, we've emphasized transportation --

5 MR. MICHAEL ANDERSON: Please identify
6 yourself.

7 MR. FELDMAN: I'm sorry. It's Elliot Feldman.
8 Sorry, thank you. We've emphasized transportation costs and
9 we've indicated that helps define a geographical limitation,
10 particularly on newsprint. And at the same time we are
11 saying we export newsprint and you may wonder so how is
12 that? That's because if you put it on a ship, it's not as
13 expensive to transport and that's the reason why we can have
14 imports from third countries and why we can export as well.

15 So shipping costs also depends on the mode of
16 transportation, and on the continent where we're talking
17 about trucks and rail, that's going to be more expensive
18 than if you could sail it away in a ship.

19 MR. ELLIS: That's Catalyst's experience as
20 well. They're located right on -- Neil Ellis by the way.
21 They're located on a port, so it's easy for them to
22 transport by ship and it's a more reasonable transportation
23 expense than rail over the Rockies back to the eastern
24 United States.

25 MR. LOWDER: Russ Lowder, White Birch. Just

1 as anecdotally, I can tell you in our case either from
2 Canada or from Bear Island, we could ship paper to Hong Kong
3 for less than we could ship it to Texas, because of there's
4 a lot of components there. It's purely freight, purely
5 freight. Strong dollar creates a lot of imports to the
6 United States, which creates empty containers stranded in
7 the United States that need to find a way back to Asia.

8 MR. D'AMOURS: Francois D'Amours from Kruger.
9 We experience the same thing in some markets like India,
10 because of the availability of containers. It's cheaper to
11 ship into India than to ship out west. So we never ship out
12 west because it's too expensive. So to ship in India, it
13 could be in some area comparable to what we ship in the
14 United States.

15 MR. HALDENSTEIN: Is that true for the higher
16 value products as well, high bright and super bright?

17 MR. SHOR: This is Mike Shor. The freight
18 costs are the same. I'm sorry. This is Mike Shor for
19 Kruger. The freight costs are the same no matter what the
20 product is shipped, but the value is higher so they can
21 absorb higher freight costs. So you can -- high bright
22 costs about 40 percent more than newsprint let's say order
23 of magnitude. So it can absorb more freight cost.

24 MR. HALDENSTEIN: Thank you. Let me ask about
25 unit values. Do you have a position on the utility of unit

1 values in this investigation?

2 MR. SHOR: Yes. This is Mike Shor again. It
3 should not be used because the product mix of different
4 producers is different. Sorry I'm --

5 (Off mic comments.)

6 MR. SHOR: I think it's Respondents' position
7 that you should not rely on average unit value because the
8 product mix of different producers and the different
9 countries might not be the same and could shift over time,
10 and there's changes in the basis weight of the papers being
11 produced. So no, you should not rely on average unit
12 values. That's why you have pricing data.

13 MS. LUTZ: This is Jennifer Lutz from ECS. I
14 would just add that again, the questionnaire data are not
15 complete. But it looks like there's pretty good coverage of
16 the pricing products. Maybe 40 to 60 percent of shipments
17 are covered by the pricing data. So there should not be any
18 need to rely on the average unit values.

19 MR. CAMERON: I mean if you think about it for
20 just a second -- Don Cameron. If you think about it for a
21 second, in terms of AUVs and product mix, I mean we heard
22 this morning some testimony from the economist that well,
23 there are a lot of grades but there's not really any big
24 variation. Well that's simply flat out not true.

25 You look at Bear Island. If you were, for

1 instance, to compare an AUV from Bear Island to an AUV from
2 imports, you would find that the AUVs are lower in general.
3 Why is that? Because they can't do 40 gram, they can't do
4 high bright or super bright. So they're limited to
5 newsprint, whereas everybody else is supplying a much bigger
6 variety of paper.

7 Varieties of paper that are supplied are going
8 to depend specifically on mill, supplier and customers. So
9 the AUV data that you're going to have is going to --
10 contains big spreads of data and it's really not indicative
11 of anything other than the product mix that is being sold by
12 any general mill. That doesn't really get you where you
13 need to be. That's the reason that you ought to be relying
14 on the pricing data, and you actually have pricing data.

15 MR. HALDENSTEIN: Is the 40 gram product, is
16 that more expensive?

17 MR. LOWDER: Let me try and work you through
18 this. Oh I'm sorry, Russ Lowder, White Birch. Yes, it is
19 more expensive to make. It depends upon the mill, it
20 depends upon the paper machine. But in general as you move
21 down in basis weight, if you think of it from a roll
22 standpoint, you're getting more mileage out of a lower basis
23 weight roll or more length of paper out of a lower basis
24 weight roll than a higher basis weight roll.

25 So there is -- there is a price increase to do

1 that. If your mill has limitations and whatever those
2 limitations may be, whether they are speed or dryer
3 limitations on your paper machine, the net result may be
4 that you have to produce less paper on the paper machine.
5 In the case of Bear Island, as we tried everything that we
6 could do make 40 gram paper, one of our solutions there was
7 to slow down the paper machine and see if we could do this
8 effectively.

9 We had what I would categorize as very limited
10 success for a very short period of time, I'm talking weeks,
11 and really had to -- had no other choice but to revert back
12 to a higher basis weight paper and do our best to sell that
13 within our freight footprint that we could. Just as I can
14 give you an anecdotal, again when we made the decision to
15 shut the mill and had to go talk to customers about shutting
16 that mill, the Washington Post happened to be an equity
17 partner with Dow Jones and Bear Island when the mill was
18 built.

19 So the Washington Post had been a long-time
20 dedicated customer of ours that we had progressively year
21 over year over year seen our volume with them go down
22 disproportionately even to what their consumption decline
23 was, and it was a result of the poor performance of the mill
24 and the feedback from the senior operations people at Bear
25 Island was that they, like we, were very sad for the people

1 and the fact that we had to make the decision to shut the
2 mill.

3 But they were relieved that we were going to
4 be able to provide them with the Canadian product that we
5 were because we had had to keep our relative position at
6 that customer, had to supplement from Canada. So the idea
7 there was, you know, finally we've got a reliable supplier
8 again who we aren't just kind of slow bleeding it down.

9 MR. HALDENSTEIN: Thank you. That's all the
10 questions I have.

11 MR. MICHAEL ANDERSON: Okay, Ms. Preece. Do
12 you have a phone, microphone?

13 MS. PREECE: Yeah, it works. Amelia Preece.
14 Thank you for coming. It's a big old panel, so that's
15 really helpful to have all these voices that have the
16 different things and thank you for your questionnaires as
17 well. Thank you for the booze as well for the U.S., the
18 Petitioners as well for their questionnaires.

19 Okay. I have a few that are for foreign
20 producers especially. Do you agree that uncoated groundwood
21 paper is a commodity product or as they said a commodity
22 like product? Is that something that you --

23 MR. LOWDER: Russ Lowder, nope.

24 MS. PREECE: Okay, thank you. That's very
25 helpful. And then they also state, said it was mainly --

1 sold mainly based on price. Do you agree with that or not?

2 MR. LOWDER: No. Russ Lowder, no.

3 MS. PREECE: Okay. That's good. I like
4 those. Brevity is the soul of wit.

5 MR. STAPLETON: And I'm sorry to interrupt,
6 but I think Catalyst also has a view on that last question.

7 MS. PREECE: Okay, go ahead. No?

8 MR. D'AMOURS: No. The answer is no.

9 MS. PREECE: Okay. Your name too?

10 MR. STAPLETON: Matt Stapleton.

11 MS. PREECE: Thank you. Thank you very much.

12 MR. D'AMOURS: And Francois D'Amours from
13 Kruger, no.

14 MS. PREECE: Okay, okay. Great, and you're
15 saying no to both questions, just to be --

16 MR. STAPLETON: Matt Stapleton, correct. No
17 to both questions.

18 MR. D'AMOURS: Yes, that's correct.

19 MS. PREECE: Okay. So we've got the three
20 people all saying no to both questions.

21 MR. FELDMAN: If you need four, Ms. Preece,
22 then you can have four. If you need five, including the
23 U.S., you have five.

24 MS. PREECE: I actually don't need more than
25 that. I'm happy with what I've got. Okay. So you have

1 pretty much answered this, because I had a question about
2 relative capacity reductions in the U.S. versus Canada, and
3 you have talked about that. So thank you.

4 I don't remember who because I'm very bad at
5 remembering people, but anyways someone said there is
6 evidence of differences of prices by region in the United
7 States, and I'd like to have any material you might have on
8 that evidence.

9 MS. LUTZ: This is Jennifer Lutz of ECS. I
10 don't think it's so much that there are differences in
11 prices by region, but different suppliers supply different
12 regions because, largely because, particularly for
13 newsprint, because of the shipping costs.

14 MS. PREECE: I thought somebody said something
15 about --

16 MR. D'AMOURS: No, I said that.

17 MS. PREECE: Oh good. Someone gets it.

18 MR. D'AMOURS: And I could -- I could provide
19 more information in the briefing. We have the same datas
20 that are published every month, and we see the west area and
21 the follow-up between the west and the east, and there is
22 difference from years. At presently, I think the difference
23 is \$30/\$40 per ton.

24 MS. PREECE: Okay. That would be really
25 helpful because yeah, that really doesn't matter. As long

1 as they're different, that's the thing. There's a shift to
2 this 40 gram paper; is that correct, that the industries
3 basically shifted?

4 MR. LOWDER: Russ Lowder, yes. I would
5 categorize it as shifting.

6 MS. PREECE: Okay. So it's still in the
7 process?

8 MR. LOWDER: Yes.

9 MS. PREECE: Can you use recycled paper or
10 recycled pulp to make the 40 gram paper or is that more
11 difficult?

12 MR. LOWDER: Russ Lowder. I can only speak
13 for us. I would say in our case, it didn't make it more or
14 less difficult. As I said in my testimony, the recycled
15 pulp can actually add strength, but it causes other problems
16 within the operation. My global experience on this from 100
17 percent recycled mills in Asia is generally that they cannot
18 because what they lose in the optical properties of the
19 sheet becomes so extreme that the customers won't accept it.

20 MS. PREECE: Okay. So but in the United
21 States and in Canada, we're never talking about 100 percent
22 recycled paper, right?

23 MR. LOWDER: There is no capacity left to make
24 100 percent recycled paper.

25 MS. PREECE: Okay. So I'm still kind of -- so

1 what's the answer to this? Recycled paper can be used to
2 make 40 gram paper, but it's -- it's not 100 percent, going
3 to be 100 percent recycled. Is that what you're saying?

4 MR. LOWDER: I would not think so, and there
5 are no longer any 100 percent recycled newsprint mills in
6 North America.

7 MS. PREECE: Okay, okay, okay. All right. I
8 asked a lot of questions of the Petitioner and I would love
9 to have you answer all of them. So if I don't ask all the
10 questions, again you can still answer them. I want you to
11 answer them, please do. I just don't want to spend too much
12 time on this. Okay.

13 MR. CAMERON: We'll try to answer -- Don
14 Cameron. We'll try to answer those in the post-hearing
15 brief. We're going to get a transcript and we'll look at
16 those questions because a number of them that you asked were
17 not answered. So it would be nice to have an answer on the
18 record.

19 MS. PREECE: Yeah, that would be really nice
20 and obviously they're going to put it in their briefs
21 because --

22 MR. CAMERON: Well, I don't know if they're
23 going to put it in their briefs because they didn't --

24 MS. PREECE: They're very good people.

25 MR. CAMERON: I know they're great people.

1 MS. PREECE: They're very good people and good
2 people --

3 MR. CAMERON: But they didn't put it in their
4 testimony was the only observation I was making.

5 MS. PREECE: And good people put their answers
6 to the questions in their briefs. That is one of the
7 definitions. Okay. How important are non-subject imports?
8 You seem to be of the belief that they are more important.
9 Oh let's just say what percent of imports in 2000 -- what's
10 last year, 2016, were non-subject imports? Just to --
11 because I'm wondering about this number. Does anybody know?
12 Anybody have a good guess?

13 MS. LUTZ: I think just based on my
14 recollection of the petition, it was less than ten percent
15 total imports.

16 MS. PREECE: Yeah, yeah.

17 MS. LUTZ: Oh wait, I've got it.

18 MS. PREECE: I think that there's -- I think
19 that that's ^^^^

20 MS. LUTZ: It's small.

21 MS. PREECE: It's generally agreed that it's
22 small, but obviously it's not getting smaller according to
23 their lovely little graph.

24 MR. CAMERON: Right, exactly. Don Cameron.
25 We'll provide the exact percentage in our post-hearing brief

1 because we also are good people and we'll be glad to do
2 that.

3 MS. PREECE: Yes, I knew that.

4 MS. MENDOZA: And I think -- this is Julie
5 Mendoza. I think we also raised it because of the issue of
6 market share, because they did, you know, you can look at
7 the data and see kind of how that played out as well.

8 MS. PREECE: Okay, and then the other --
9 another question that I asked them but I want to give to you
10 again is the share of this uncoated groundwood paper in the
11 various categories. This bunch they gave us, you can do
12 that in your brief.

13 MS. LUTZ: This is Jennifer Lutz at ECS. I
14 just wanted to make a point because I keep forgetting the
15 number, so I asked, and in general, the market is about 75
16 percent newsprint and 25 percent other products.

17 MS. PREECE: Okay. Right now, today.

18 MS. LUTZ: Yes, yes.

19 MS. PREECE: And yesterday it was slightly
20 more newsprint and then they went -- in the past, it's been
21 slightly more and more. I mean this seems to be what
22 everybody is saying, is that newsprint is shrinking
23 relative. So I'd like to have both those things, how much
24 it is and what its relative shrinking is.

25 MS. LUTZ: I think there are some numbers in

1 the petition about that, but we'll discuss it in our
2 post-conference brief.

3 MS. PREECE: Yeah.

4 MS. LUTZ: From the discussion, it was hard
5 for me to remember just how big a portion of the market is
6 newsprint versus --

7 MS. PREECE: Yeah. You know, it's always hard
8 and I always like to get it from both sides, because then I
9 -- you know, if you both agree, then I have true data, but
10 truth. If both sides agree, it doesn't matter whether it's
11 good or bad, it's the truth. Okay. Would you say that
12 electronic media is a substitute for uncoated groundwood
13 paper?

14 MR. SHOR: Yes. Mike Shor.

15 MS. PREECE: Mike Shor says it is. Anybody
16 else having any wanting to --

17 MR. BLAINE: It is.

18 MS. PREECE: Oh, and your name is?

19 MR. BLAINE: I'm sorry, Breen Blaine.

20 MS. PREECE: Thank you.

21 MR. BLAINE: And it is in the sense that a lot
22 of the advertising dollars that were newspapers and
23 magazines have migrated to online. They've migrated to
24 Google and they've migrated to Facebook. So yes, a very,
25 very significant impact.

1 MR. SHOR: And so not to put too fine a point
2 on it.

3 MS. PREECE: Mike Shor again.

4 MR. SHOR: Mike Shor again, and at the risk of
5 using the wrong economic term, I think because of that,
6 demand is relatively inelastic. Is that right? Did I get
7 the right thing?

8 MS. PREECE: Okay. Well, I'm not going to
9 fight over that one.

10 MR. SHOR: There's not much room to increase
11 prices without more people shifting to further digital
12 products. So it limits the ability of newspaper producers
13 to accept higher prices for newsprint.

14 MR. CAMERON: Don Cameron. Just to follow up
15 on what Mike is saying, and this is important because this
16 was your question this morning. What you asked was do you
17 think that the availability of electronic media has made it
18 difficult to increase newsprint in this market, all right?
19 The answer that you got from the panel this morning was that
20 paper is not a significant cost, for instance citing the \$4
21 per issue Wall Street Journal, and that really wasn't your
22 question.

23 Your question was whether or not the
24 availability of electronic media has made it difficult to
25 increase the price of the paper. The answer to that

1 question is yes, it has made it, and it has made it very
2 difficult and that's the whole -- that's exactly what we've
3 been testifying for for the last hour and a half. Now you
4 never got that yes answer this morning because they really
5 don't want to talk about that.

6 But the reality is that yes, it is a
7 substitute product and yes, it does limit the ability and
8 that is what the testimony is all about.

9 MS. PREECE: Well I know that they're good
10 people and so they'll answer it --

11 MR. CAMERON: I know they are. I was not
12 debating their goodness.

13 MS. PREECE: Okay. I'm done and I'll pass it
14 on to --

15 MR. MICHAEL ANDERSON: Mr. Yost.

16 MR. YOST: Charles Yost, Office of
17 Investigations. I'm glad we're all agreed that people are
18 good in this room. I just have a couple of data requests
19 for the representatives from White Birch and Resolute.
20 Would you detail please cost savings efforts that you've
21 made during our Period of Investigation, and indicate where
22 those might have affected either cost of goods sold or SG&A
23 expenses in your U.S. producers' questionnaire?

24 MR. CAMERON: Don Cameron. We'll try to do
25 that.

1 MR. YOST: Okay, appreciate that.

2 MR. FELDMAN: Elliot Feldman for Resolute. Of
3 course.

4 MR. YOST: Okay. I know you're both good
5 people.

6 MR. FELDMAN: I am at least.

7 MR. YOST: And the second question, does
8 Resolute use the same -- use pulp from the same species of
9 tree in its southern mills as it does in its Canadian mills?
10 I assume it does not.

11 UNIDENTIFIED SPEAKER: No.

12 MR. FELDMAN: Because of course you use the
13 trees that are nearby.

14 MR. YOST: Which I assume are Southern Yellow
15 Pine --

16 (Simultaneous speaking.)

17 MR. FELDMAN: Southern Pine and Mountain Black
18 Spruce in Canada.

19 MR. YOST: Uh-huh.

20 MR. FELDMAN: And that of course has a huge
21 difference in the market, so Resolute's northeastern United
22 States customers are being supplied from Canada with a
23 brighter, stronger newsprint that they want and won't give
24 up, and they won't buy the product that's coming from the
25 southern part of the United States, which is not the same

1 quality as what comes out of Canada.

2 But our southern customers will take that
3 product because it's nearer and more reliable for them, and
4 more affordable.

5 MR. YOST: Is there a cost difference in the
6 pulp that's made from the different species?

7 MR. BLAINE: There are -- Breen Blaine. I'll
8 get it eventually. There are, but I mean I don't know if
9 you can attribute it to the actual species. There's a lot
10 of -- I'm not a paper maker, I'm a sales guy. But there are
11 a lot of different factors that go into establishing what
12 the costs are at a specific mill, you know, and it's not --
13 you know obviously wood is one factor, but it can also be --
14 your pulping system can be the size and the speed of your
15 machines. It could be your manning. It could be your cost
16 of electricity.

17 So all of these things, you know, go into
18 distinguishing cost between one mill and another mill. It's
19 not all geographically based.

20 MR. FELDMAN: Elliot Feldman. I'll try to
21 narrow your question if I've understood it correctly. The
22 cost of the chips in Canada is higher than in the southeast
23 of the United States. The chips in the southeastern United
24 States are the cheapest on the continent. The short fiber,
25 however, is a little bit more expensive to process.

1 So it's not a simple trade-off when you narrow
2 it down to the wood fiber and the processing of it. So in
3 the southeast we have the cheapest chips on the continent,
4 but in the Northeast we have among the most expensive chips
5 on the continent, but the processing is more difficult and
6 therefore can be a bit expensive for the short fiber.

7 MR. YOST: Okay, I appreciate it and thank you
8 all for your testimony today. Very, very valuable. That
9 concludes my questions.

10 MR. MICHAEL ANDERSON: Sorry. Thank you, Mr.
11 Yost. Mr. Honnold.

12 MR. HONNOLD: Good afternoon. This is Vincent
13 Honnold from Office of Industries. I have a few questions
14 here. For each producer, do you agree with Petitioner that
15 substantially all shipments of uncoated groundwood paper are
16 in the form of rolls?

17 MR. LOWDER: Russ Lowder, White Birch. Yes.

18 MR. BLAINE: Breen Blaine, yes.

19 MR. STAPLETON: Matt Stapleton, yes.

20 MR. D'AMOURS: Francois D'Amours, yes.

21 MR. HONNOLD: Thank you. Again, this is for
22 each producer. How do you see the demand for uncoated
23 groundwood paper in the United States over the next few
24 years, and would that -- it may differ by type of product
25 within uncoated groundwood. So I'd like to get each of your

1 opinions on that.

2 MR. BLAINE: Breen Blaine. You know, I don't
3 think we see the trends changing much. There's nothing to
4 suggest certainly in newspapers that -- and, you know,
5 there's many publicly traded companies. They published
6 their print advertising revenues, and it's clear that the
7 trend is not abating.

8 As far as the other end uses are concerned, I
9 think someone mentioned this morning that the book papers
10 have stabilized some. That is true, I believe, in the trade
11 book area and not in the educational segment. That's still
12 declining. The retail segment, you know, everybody, all the
13 brick and mortar stores have been impacted by Amazon, and so
14 there are fewer open. They're looking to cut costs as well.
15 They're looking at more effective targeting to get customers
16 into their stores, and so that it's coming at the -- they
17 only have limited advertising budgets and it's coming out of
18 usually the print.

19 So you know, we certainly don't see anything
20 abating on the retail side either. So I think in my
21 opinion, I don't see anything that would suggest that the
22 trends would change.

23 MR. STAPLETON: This is Matt Stapleton. I
24 tend to agree with Mr. Blaine. You add directories into
25 that and directories is the fastest declining demand end use

1 product. But generally speaking, if anything the retail
2 side is probably accelerating on demand as one end. We see
3 that because of the explanation that he just gave.

4 MR. LOWDER: Russ Lowder, White Birch. I
5 would agree.

6 MR. D'AMOURS: Yeah, I agree with the
7 comments. Just to -- Francois D'Amours from Kruger. Just
8 to the feedback, I'm not a sales and marketing guy like my
9 colleagues from the other companies. I'm coming from the
10 manufacturing side. So I'm more comfortable with the
11 manufacturing.

12 MR. HONNOLD: Okay, thank you. This question
13 is for Resolute. Could you talk a little bit about when you
14 get an order from a customer, what factors do you consider
15 when you're deciding which mill will supply this customer?

16 MR. BLAINE: I'll try to answer that. It really
17 would depend on the product. When we're looking at
18 newsprint, the biggest consideration is proximity to the
19 customer. When we're looking at brighter papers, it just
20 depends on the type of paper requested. You know, we have
21 two mills that make these type of papers, Alma and Calhoun.
22 They're not totally interchangeable.

23 Some grades we can make at Alma better than
24 others. And vice versa. So really, again, those grades
25 that are common to both mills, we would produce at the mill

1 that is closest to the customer. Obviously, that depends on
2 their willingness to accept that product versus the other
3 mill. That's kind of the way we operate. That answer your
4 question?

5 MR. HONNOLD: Yes, yes.

6 MR. BLAINE: Thank you.

7 MR. HONNOLD: Thank you. Another question for
8 Resolute. When you determine that paper capacity must be
9 reduced in your mill system, what factors do you consider
10 when deciding which paper machine to shut down?

11 MR. BLAINE: Well, we look at cost. It's
12 basically whether a mill is generating positive EBITDA or
13 not. You know, we can't sustain negative EBITDA for any
14 extended period of time. So it's usually how we determine
15 things. I mean it's basically cost.

16 MR. FELDMAN: And the cost is a delivered cost.
17 So it's including the calculation about transportation, the
18 efficiency of the machine, how old it is, and so on. So
19 cost is embracing all of those considerations.

20 MR. HONNOLD: Thank you. This is a question for
21 White Birch. When you shut down Bear Island, did you lose
22 those customers, given the high cost of freight to bring
23 newsprint from Canada?

24 MR. LOWDER: I would categorize it as selective
25 in the customers that we chose to retain. There was some

1 business that either decided that they wanted to keep their
2 business more regional and, as you can see from the
3 discussion, you can guess where that went. Resolute was the
4 only person with Southeast U.S. mills at that point.

5 As well, there were some things that didn't make
6 sense to us from a freight standpoint, shipping from Canada.
7 So it was a combination of a number of different factors,
8 but there definitely was not a 100% transfer of customers
9 from Bear Island to our Canadian mills.

10 MR. HONNOLD: With respect, if I understood you,
11 the Washington Post, it sounded like you had sort of lost
12 them as a customer, but then when you closed Bear Island,
13 you maybe proposed to them product from Canada and it sounds
14 like they maybe were happy with the being willing to take
15 product from Canada?

16 MR. LOWDER: Let me try and answer that in a way
17 that is more understandable. As mills close, and customers
18 like the Washington Post that are what I would consider very
19 cautious, they get uncomfortable if they have business with
20 either a company or a mill that seems to be in distress or
21 is rumored to be closing. So they try and make sure that
22 they diversify their supply decisions as best they can.

23 We got to a point, both from the quality
24 standpoint, but primarily from the quality standpoint with
25 the Washington Post, where they asked us to introduce one of

1 our Canadian sheets into the press room there, not the least
2 of which was our quality, but as well Kruger's decision to
3 convert their Quebec machine to packaging. And that machine
4 had served the Washington Post, so they were looking for
5 additional options.

6 Well, once we put our Canadian sheet into the
7 press room and the way that we sell is "one company, one
8 price" to each customer, we're not looking to delineate by
9 mill in the way that we sell. They obviously became of the
10 opinion that what they were getting from the Bear Island
11 mill was a far inferior product to what they were receiving
12 from the same company from Canada

13 MR. HONNOLD: Okay, thank you. This is my last
14 question, and this is for each producer. This morning,
15 petitioners talked about the entrance of Irving Paper into
16 the U.S. market for, I think, newsprint last year. Could
17 each of you describe how that entrance affected you, or what
18 you saw in the marketplace as Irving came into the market?

19 MR. LOWDER: Again, I'm only speaking to how we
20 reacted to it. We ignored it. To us, Irving was a
21 one-machine mill that wasn't selling anything substantive as
22 far as volumes went. We didn't really -- although I can't
23 say some people would want to use it as a tool to try and
24 leveraging in some way, shape or form on price -- but we
25 didn't pay any attention to that.

1 MR. BLAINE: They didn't have enormous
2 credibility because they had done that last year and pulled
3 back. So when they reintroduced this year, folks were a lot
4 more reluctant. Obviously, they had some success, but it's
5 not significant.

6 MR. STAPLETON: With Catalyst, our newsprint, we
7 didn't see any impact on the West Coast. I mean we are
8 predominantly shipping newsprint close to the mill, West
9 Coast, similar to NORPAC, and we did not see any impact of
10 Irving with newsprint.

11 MR. D'AMOURS: For Kruger, we have others who
12 are long established relationship with some customers. So
13 with spot tonnage for us, they didn't impact most of our
14 business.

15 MR. HONNOLD: Thank you. That concludes my
16 questions.

17 MR. ANDERSON: Thank you, Mr. Honnold. And I'll
18 turn to our investigator, see if they have any follow-up
19 questions.

20 MR. CHANG: I just had a couple of follow-up
21 questions. The first I think will be best answered by our
22 purchasers that are on the panel. So if you could just
23 briefly explain to me, you know, what considerations you
24 make when it comes to making orders, that'd be great.

25 MR. O'TOOLE: We look at the proximity, the

1 location of the mill and the location of the destination
2 we're trying to have the paper go to. We look at the mills'
3 capabilities. We look at our contract requirements, so
4 those are the primary factors.

5 MR. CHANG: And based on those factors, do you
6 see comparative advantages, either within, you know, sort of
7 the product division or the regional division?

8 MR. O'TOOLE: In my testimony, I mentioned the
9 challenges we experienced in trialing 40 gram out of Bear
10 Island. We tried for a number of months, multiple
11 locations. One location in particular reached a point of
12 frustration. They just would not accept any more of the
13 paper.

14 We had another location that rejected
15 significant quantities of the paper. So we do look at the
16 basis weight and the capability that the mill has to deliver
17 the products that we're trying to purchase.

18 MR. CHANG: And the last question I have was,
19 there's been a lot of discussion of the, you know, regional
20 segregation and the product segregation. And, if I'm not
21 mistaken, a lot of that conversation focused on the
22 Northeast versus the South.

23 And I'm pretty sure Catalyst is probably best
24 can answer this question. Does a similar sort of dynamic
25 exist on the West Coast? And if so, could you please

1 elaborate?

2 MR. STAPLETON: I think on newsprint, there is a
3 regionality. So there's four suppliers supplying the West
4 Coast. I think they used the I-5 corridor. Seattle to San
5 Diego is the definition. And we look at about seven or
6 eight states that constitute that West Coast. And so that
7 is a regional competition, I would say.

8 With high-brights, I think we also heard, that's
9 more of a continental play. Like others we ship, we ship
10 across the country to a certain degree, depending on, if
11 it's high-bright or MF. More super-bright, I guess, than
12 the MF grade. And then directory, I think is a national
13 play as well, based on where the print locations are now.

14 MR. FELDMAN: The distinction, Northeast and
15 Southeast, is driven largely by the fiber. All of the
16 producers in the West are in the same neighborhood in the
17 Pacific Northwest and are using essentially the same fiber,
18 so it's a different kind of competition.

19 MR. CHANG: Okay, so --

20 MR. CAMERON: Just one thing. Mr. McGrann, did
21 you want to respond to the question about the considerations
22 in terms of purchasing?

23 MR. MCGRANN: Just to kind of echo what's been
24 said. In terms of newsprint, regionality really directs the
25 options, but on high-bright grades, because of the

1 manufacturers' willingness to ship nationally, we really
2 direct all of our purchases as a result of our customers
3 preference for one product over another.

4 MR. O'TOOLE: I would reiterate on the
5 high-brights. Similarly, the customer jobs largely
6 determine where we're getting that paper from. So if a
7 customer has been sold a job based on a particular product,
8 then that's which one we're gonna source, and if that's a
9 NORPAC high-bright, we're gonna supply NORPAC. If that's a
10 White Birch high-bright, we're gonna supply White Birch.

11 MR. CHANG: Okay, so just to make sure I
12 understand, it seems like the regional considerations, at
13 least from a purchasing perspective, seems to be the most
14 important factor. Is that fair to say?

15 MR. O'TOOLE: Yes. A factor for newsprint and
16 it is a factor on high-brights, but as I said, if a customer
17 is pushing for a particular sheet from the particular mill,
18 we're gonna do our very best to obtain that.

19 MR. CHANG: Okay, thanks. That's all the
20 questions I have.

21 MR. D'AMOURS: I'd like to make a special demo
22 from Kruger. About the high-bright and newsprint stuff, I'd
23 like to just make a correction on the impression that has
24 been made this morning about the fact that the groundwood is
25 all, it's all groundwood is all equal products, which is not

1 the case. There are all different products.

2 High-bright and super-bright, this morning, we
3 were talking about bleaching, but there's two different
4 bleaching processes. When we're talking about brightness,
5 lower than 65 bright, we're bleaching with hydrosulphite,
6 which is normal technology in the mill. But as soon as you
7 need to bleach higher than 65 bright, then you need to have
8 the bleaching tower, peroxide bleaching tower, which is
9 completely different technology of bleaching.

10 And it adds significant cost to the
11 manufacturing. And also, it requires significant capital
12 investment. So we're talking tens of million dollars to
13 install a peroxide bleaching plant. So all the products are
14 not equal. So if a customer asks for brightness and is
15 willing to pay 40% more than newsprint or high-bright, then
16 the characteristics of the paper has to be different
17 somewhere. And has to bring something different;
18 otherwise, they will pay for newsprint -- it will be
19 newsprint -- it will take newsprint.

20 So this product is already different from new,
21 standard newsprint. Same thing with book paper. Book
22 paper, the main character, say for book paper, that's the
23 caliper and shade. You don't want to buy a book with
24 different kind of color with all the skunk effect. So the
25 shade is important. It could be adjusted in the process,

1 but the thicknesses are important.

2 So part of the process which is the calendaring
3 is removed when you do the book paper. So saying that it's
4 about the same as smaller changes on the paper machine, I
5 don't agree with that. It's significant changes. Same
6 thing with the directory. A directory, that's
7 caliper-controlled as well. So a directory, if you have a
8 -- remember the old days, you know, with, maybe you are too
9 young for that, but there were two, three inches directory,
10 thick directory.

11 So it's directed over the business weight, as a
12 very low business weight sheet, 32 grams and sometimes less
13 than that, and very thin sheet. Because otherwise, if you
14 take standard newsprint, you will end up with twice as much
15 thickness in the directory. So some products are caliper
16 relative, some products are brightness-rated, but that's
17 different products in the marketplace. And involve, are so
18 different markets and different people. Some requires
19 converting, like books. Some just requires printing, like,
20 the -- papers.

21 MR. MENDOZA: Mr. Chang? Could I just add one
22 thing? You asked, so what I'm hearing you said is, you're
23 saying regionality is the number one factor. And I think
24 that what we're saying is, it's a huge factor in newsprint,
25 but if you put that together with the fact that, I think Ms.

1 Lutz said about 75% of the market is newsprint, then you are
2 talking about something that's a very significant factor. I
3 guess nobody wants to say it's the only one. Certainly,
4 there are a lot of other ones, like the product
5 differences. But, just pointing out that, you know, that's
6 the dominant part of the market.

7 MR. CHANG: Well, okay, thank you for all that
8 clarification. And for the record, I am old enough to
9 remember the directories. I do distinctly remember using
10 them when I was younger. One last thing I wanted to ask
11 was, so obviously we've got, like, obviously it's very clear
12 that there are a ton of different grades and there are a ton
13 of different, you know, weights to all these papers.

14 And I guess, and I apologize if the question may
15 not be entirely clear, but I guess, the natural question in
16 my mind is, the general production process, so for all you
17 different producers, do you have proprietary technology or
18 any differences in how you produce these various grades of
19 paper? If I can just get a little bit of clarification. If
20 that needs to be done in the post-conference, that's fine as
21 well.

22 MR. LOWDER: I can answer generally. There are
23 differences, as Mr. D'Amours and Kruger said, certainly in
24 what we were pointing out with Bear Island is the inability
25 to make a high-bright paper there, is we lacked a tens of

1 millions of dollars bleaching tower. So we are not using
2 that equipment when we're making newsprint. We are changing
3 what we do in our calendaring when we change grades.

4 NORPAC has a technology on two of their machines
5 that we do not, that I would say substantially
6 differentiates -- a technology called sizing, which is, in
7 essence, a light coating onto the paper to change what the
8 ink does on the paper. We don't have that technology. So
9 yes, in each grade, there is a manufacturing difference in
10 the way that you treat it, whether it be the way you put
11 pulp to it, the way that you calendar it. But there
12 certainly would be differences.

13 MR. SHOR: Just to reiterate a point I made
14 earlier. It's not the case that all of the manufacturers
15 make all the different grades. As I mentioned, Kruger is
16 overwhelmingly newsprint and some low-brightness,
17 high-bright paper. Don't make the super-brights or other
18 thing. So the range of each producer differs.

19 MR. CHANG: That's all the questions I have.
20 Thank you.

21 MR. ANDERSON: Thank you, Mr. Chang. I'll just
22 scan the -- Mr. Yost, did you have a follow-up?

23 MR. YOST: Just a quick question. Do the
24 Canadian producers maintain stockpiles of paper in the
25 United States? Prepositioned, so to speak, to supply

1 customers? Or is the purchase order, you know, fulfilled
2 from immediate production? And you can answer in
3 post-conference if that's easier.

4 MR. LOWDER: In general, in our case, we do not.
5 And that is a cost consideration every time you put paper
6 through a warehouse, somebody's gotta pay the bill to do
7 that. So we tend to deal with orders directly from the mill
8 or if there is a case where -- I'm not saying never -- it
9 does happen occasionally, but as a general rule, no.

10 MR. SHOR: All Kruger's production is
11 custom-made to order. There is no production on speculation
12 that it may later be sold. In our foreign producer
13 questionnaire, you will see small volumes of inventory shown
14 in the U.S. That is strictly a vendor-managed inventory
15 where it is already pre-sold or pre-ordered by a customer,
16 but we own it until they use it. So that's the only
17 inventory we have in the United States. Nothing
18 prepositioned for future sale to a potential customer.

19 MR. STAPLETON: Generally, no, we do not
20 pre-manufacture and put in our deploying warehouses. The
21 one product end use category that we do support that is with
22 the book business, where they -- it's generally printed in
23 the East and they have very short lead times, and we do
24 preposition paper there for that customer.

25 MR. BLAINE: Similar case for Resolute,

1 predominantly book. It's not a huge quantity.

2 MR. YOST: Thank you very much. No further
3 questions.

4 MR. ANDERSON: Thank you, Mr. Yost. And my
5 colleagues have answered a lot of very salient questions,
6 and so I just had a couple of brief questions. I wanted to
7 close the loop on a previous question.

8 Mr. Lowder, on the events that happened after
9 the closure of the Bear Island facility, and just to be
10 clear, it sounds like some of the customers went to supply
11 from Canada. And are you aware, or does anybody here who
12 might be associated with that, know whether the prices went
13 up for the Washington Post?

14 And I'm asking that question, because there's
15 been so much emphasis on the regionality and on the cost of
16 transportation. I'm assuming that Bear Island is much
17 closer to the Washington Post printing facilities than a
18 production facility in Canada. So therefore, I would assume
19 their prices went up when that switch occurred. Customer or
20 supplier switch occurred. So if you could comment on that,
21 or anybody else who's familiar with that transaction.

22 MR. LOWDER: Sure. I certainly wouldn't want to
23 share any specific pricing, but what I described to you, I
24 think, is from the quality angle, that we very much, and I
25 think in general, the way that the industry works is, you're

1 dealing with one company, one price.

2 So the argument that you would go to Washington
3 Post and say, "You know what? We just are eliminating what
4 was a much more comfortable supply position for you,"
5 meaning geographically comfortable. Bear Island was a place
6 that could supply the Washington Post within hours of them
7 needing paper. The idea that we would present them with,
8 "and by the way, we're gonna raise your price," would not
9 have gone over well with them. So no. The short answer is
10 there was not a change in price.

11 MR. ANDERSON: I guess another way to phrase it
12 is, can we assume that the Washington Post paid a higher
13 price because they had to pay for higher transportation
14 costs? If they were supplied from Canada?

15 MR. LOWDER: These are all delivered prices.
16 The decision to adjust or raise prices based on
17 transportation costs would lie with the supplier. But you
18 would generally do that in terms of the way that you would
19 look at a particular section of any market that you're
20 looking at geographically.

21 MR. ANDERSON: Okay.

22 MR. LOWDER: But it's all delivered price.

23 MR. ANDERSON: Thanks for that clarification.
24 And on that, how are the prices set? And do you look at the
25 published prices? We heard this morning about a couple of

1 published prices, particularly RISI in real-time, and then
2 do you factor in for your customers the transportation cost?
3 Or does RISI in real-time, do they publish regional prices?

4 MR. LOWDER: Everybody should comment on this,
5 but the regionality of the RISI price reporting, I think, is
6 limited to the East and the West, and bases weights within
7 grade categories, so if my recollection is correct, there's
8 a 48.8 gram price and there's a 45 gram price in the East
9 and the West, that is reported.

10 MR. ANDERSON: That's in the published?

11 MR. LOWDER: That's in the published RISI
12 report. And then in, certainly not a complete list, but
13 something that would be similar, but I don't think it's
14 regionalized on the high-bright and the book. It's sort of
15 one price.

16 MR. BLAINE: It's not. And it's one price on
17 the brighter grade.

18 MR. LOWDER: I would have a comment about,
19 certainly RISI is something that is a generally accepted
20 barometer by the majority of the industry. You know, does
21 it dictate exactly what pricing is? Probably the answer to
22 that is no. Real-time, I would take some exception with, as
23 being a valid -- I'll get a little bit loose with this, and
24 say it's more like a guy in his garage writing an editorial
25 about the paper market.

1 MR. ANDERSON: Maybe making a lot of money, huh?

2 MR. LOWDER: Yes. And it's not that these
3 publications can't provide some insight in what is going on
4 in the market, but to say that they are scientifically
5 gathering price information, I think would be erroneous.

6 MR. ANDERSON: Thank you for that explanation.
7 Mr. Blaine, I wondered if I could just ask you a question.
8 In your testimony, you talked about, I think you said that
9 newsprint from Northern Forest have longer fibers and it's
10 brighter and stronger paper and that you also said that
11 newsprint sells closest to where the product comes from. So
12 should we assume that prices are higher for newsprint in the
13 Northwest than in the Southeast or where that longer fiber's
14 not available?

15 MR. BLAINE: Currently there is a published
16 price difference between the West and the East, but I don't
17 think that has anything to do with fiber.

18 MR. ANDERSON: Right. I guess I'm asking,
19 because it sounds like that's a transportation issue. So
20 can suppliers in the Northwest, can you charge higher prices
21 because your input is a product that is a longer fiber and
22 results in a brighter and stronger paper. So you have
23 pricing power to charge more. Because of your fiber input?

24 MR. BLAINE: No, sir.

25 MR. STAPLETON: No, we don't. The fiber input

1 is not a factor in the price.

2 MR. ANDERSON: Even though the quality -- you're
3 making arguments that the quality matters here, and you
4 don't compete sometimes with domestic product because of the
5 fiber input?

6 MR. STAPLETON: Being in the Northwest myself,
7 I'm with Catalyst. We compete with, I think it was stated
8 earlier, we compete with NORPAC with similar fiber. But
9 generally speaking, the price of newsprint's the price of
10 newsprint.

11 And going back to your first question, each
12 price is a negotiated price. The indices are basically show
13 directionally where the prices have been, and they do some
14 estimates where they think they're going forward. But the
15 price is a negotiated price per customer.

16 MR. FELDMAN: The difference in fiber is not
17 insignificant, but it's dictated end use by the purchaser.
18 So I believe what we've said from Resolute was that in the
19 Northeast, for example, primary customers of Resolute like
20 New York Times, Boston Globe, Chicago Tribune, they won't
21 buy, they won't accept Resolute's southern product because
22 it doesn't have the characteristics and quality as you're
23 describing.

24 But there is a product they can buy, which is in
25 fact nearby, which is being made just over the formal

1 border. It happens to be Canadian, but not in terms of the
2 way the paper business operates. Those trees, that Black
3 Spruce is producing the kind of newsprint they wanna buy,
4 and they won't accept the alternative anyway.

5 MR. ANDERSON: Thank you for the clarification.
6 And this morning, there were some -- I asked a question,
7 there was some discussion about pricing power, and I
8 appreciate that we have some purchasers here.

9 So I wondered if you would, Mr. O'Toole and Mr.
10 McGrann, if you would agree that, with the rapidly declining
11 demand over the last ten years, that you've become price
12 makers or you have more purchasing or pricing power? Or how
13 would you characterize the market from your vantage point
14 when it comes to pricing?

15 MR. O'TOOLE: I would say that there has been
16 significant consolidation on the supply side. I think there
17 has been some consolidation through buying groups, but there
18 are a significant number of customers across North America
19 that purchase paper individually, as individual publishers,
20 as individual commercial printers, purchases through
21 brokers, purchases through buying groups, and purchases, of
22 course, direct, on a direct basis from the manufacturer.

23 MR. MCGRANN: I think our scale is relative to
24 what the industry is. We sold more paper last year than we
25 are going to sell this year and the same was the case the

1 previous year. So to say that we, we've grown as a result
2 of the attrition of demand in those grades and created more
3 buying power, I don't know that would be all that accurate.

4 MR. LOWDER: If I can, Mr. Chairman, and I only
5 kind of step in here, having been in Mr. O'Toole's job for a
6 while. The relative percentage, I would say, of buying
7 power has become more concentrated amongst fewer. And
8 obviously that is something that is sort of further
9 accentuated as the demand declines increase.

10 So while an individual's, one individual company
11 may have made a decision to go somewhere else, that, more of
12 that focus in the buying decision made in fewer places, I
13 think would be defined as more pricing power and fewer
14 hands.

15 MR. ANDERSON: Thank you all for that
16 clarification. It's very helpful. And my last two are
17 actually invitations, rather than questions. But for sake
18 of parallelism, I'm inviting counsel here to comment on --
19 we've heard arguments about whether there was a net
20 reduction in capacity in Canada versus the United States,
21 and it seems like there's some tension between this
22 morning's panel as to what that number is. And this
23 afternoon's panel. So I would invite you to clarify that.

24 And then the other invitation is to the extent
25 that you wanted to comment further or elaborate further on

1 the lost sales lost revenue allegations that are in the
2 brief. They're obviously confidential, so post-conference
3 would be very helpful.

4 MR. CAMERON: We'll do that.

5 MR. ANDERSON: Okay. Thank you. With that, on
6 behalf of our team, I wanna thank all of you for being here
7 today, for your diversity of testimony. It's been very
8 helpful to have all of you here today and we'll transition
9 now to closing arguments. We'll take about two or three
10 minutes and let folks prepare for closing arguments. We'll
11 move to that. Thank you.

12 MS. BELLAMY: Will the room come to order.
13 Closing remarks on behalf of Petitioner, Stephen A. Jones of
14 King & Spaulding, LLC. You have 10 minutes, Mr. Jones.

15 CLOSING REMARKS OF STEPHEN A. JONES

16 MR. JONES: Thank you, Mr. Chairman, Mr.
17 Anderson, members of staff. Thank you again for your
18 attention today. Just a few points, of course, we'll be
19 responding more comprehensively to the Respondent's
20 presentation in our post-conference, but just a few points.

21 I've just got to start out by saying --
22 responding to the invisible border comment, it struck me.
23 First, under International Trade law, the border is not
24 invisible and dumped and subsidized imports from Canada can
25 be remedies. Duties can be applied if those imports are a

1 cause of material injury or threat material injury to the
2 domestic industry.

3 NORPAC's position, the reason why they're here
4 is they want a level playing field. And I know a level
5 playing field is kind of a (0:01:36.6) phrase. You hear it
6 all the time, but NORPAC is not trying to cut off Canadian
7 supply. They're trying to make sure that that supply is
8 fairly priced. So the sky is falling arguments about
9 industries going out of business and people aren't able to
10 get the products they need are red herrings. People are
11 going to be able to get the products they need. They're
12 just going to have to pay a fair price for them.

13 Now fortunately, there are some areas of
14 agreements. It's going to save us time. It's going to save
15 you time. There's no dispute as to our like product
16 definition which we're happy to hear. With respect to
17 related parties, again, I don't expect that we will be
18 arguing that any domestic producer should be excluded from
19 the industry.

20 I would like to make a point about this
21 segmentation argument. I'm sure we're going to be seeing
22 more about it in the briefs, but usually, in a segmentation
23 argument you've got a situation where there's a portion of
24 the United States that can't be supplied by the domestic
25 industry and can only be supplied by imports, with respect

1 to geographic segmentation and here the Canadian imports, as
2 we've shown, come in all throughout the country, significant
3 quantities in the West, significant quantities in the East,
4 all regions of the United States are supplied by both
5 Canadian imports and domestic production. So of course,
6 we'll see what the segmentation argument is all about, but
7 there doesn't seem to be a very strong case for any sort of
8 geographic segmentation here.

9 Another area of agreement seems to be the
10 importance of price in this market. We heard a lot of
11 testimony. We'll be going through the transcript carefully.
12 Resolute's testimony clearly conceded the impact on price of
13 potential trade remedies. The witness from Catalyst spoke
14 at length about competition with NORPAC and being undersold
15 by NORPAC. Of course, NORPAC competes and as we testified,
16 has had to drop its price in order to maintain market
17 share. So we've conceded that there's intense price
18 competition and the Catalyst witness did as well.

19 If NORPAC didn't win any of those battles, they
20 wouldn't be here, but the point is that it had to drop its
21 price lower and lower and lower to meet and beat, in some
22 cases, the prices offered by the Canadians. And if NORPAC
23 didn't do that, they wouldn't be here, but the point is the
24 Canadians are subsidized. The Canadians are able to use
25 lower costs resulting from subsidies to be more price

1 competitive. It's not fair. It's unfair competition and it
2 needs to be remedied.

3 Mr. Anderson, you asked at the end for more
4 information about the capacity reductions on both sides of
5 the border and our position is that the burden of adjustment
6 has fallen disproportionately on the U.S. side and the data
7 that are available to us we think it's absolutely clear that
8 the burden has fallen disproportionately on the U.S. side.

9 Now the Canadian witnesses or the witnesses
10 representing Canadian companies were asked, well, what do
11 you consider when you're thinking about closing a mill?
12 What are the factors you consider? And one of the witnesses
13 -- I think it was the Catalyst witness said, well, it's the
14 inefficiency of the U.S. mills. Another witness said, "We
15 look at cost." Well, if you're looking at efficiency and
16 cost, the subsidies provided on the Canadian side of the
17 border are distorting those decisions.

18 Now Resolute gave you the capacity reductions
19 for its company in its testimony. Don't be fooled by that.
20 They were talking about Resolute, not the industry as a
21 whole. Our argument is based on total capacity reductions
22 in Canada versus the U.S. And it's clear there are four
23 companies that discontinued uncoated groundwood paper
24 production during this period of investigation that are not
25 here. That's S.P. Fiber, Great Northern Paper, PCA, and

1 West Rock, all discontinued uncoated groundwood paper during
2 the POI.

3 Finally, in terms of the production shift, the
4 White Birch witness was, I think in arguing semantics a
5 little bit about whether production was shifted or not. I
6 don't think our point was that production was closed down in
7 the U.S. and was increased in -- or capacity was closed down
8 and increased in Canada. That wasn't my point. The point
9 was that they were going to supply U.S. customers that
10 previously were supplied by Bear Island from Canada. And
11 the testimony, I believe, was that that decision was made to
12 close Bear Island because significant investments were
13 needed to upgrade that plan. And I just would say that it's
14 too bad for those employees in Ashland, Virginia that the
15 U.S. mill was not subsidized like the mills in Canada are.

16 As far as Resolute, Resolute confirmed that
17 there's a restart of production in Alma, so that is a case
18 where you've got capacity closed in the United States and
19 reopened in Canada.

20 With respect to the statutory factors, volume,
21 again, I mentioned this in our direct testimony. I'll say
22 it again. The volume is significant within the meaning of
23 the statute. Canadian imports account for a huge percentage
24 of this market and Canadian market share is significant
25 within the meaning of the statute. And we'll look at the

1 final data on market share to see whether there's been an
2 increase in market share from imports of Canada or not, but
3 even if not, imports from Canada are significant within the
4 meaning of the statute.

5 And you know the U.S. volumes have fallen and
6 the machine closures just announced, we would argue, reflect
7 injury during the POI. Those machines haven't been shut
8 down yet, but the conditions that lead to those recent
9 decisions occurred during the POI and those decisions, those
10 machine shuts should be recognized as injury during our
11 period of investigation.

12 With respect to price, we'll look at the final
13 data and I obviously can't go into detail, but we think the
14 underselling data are going to support our position that
15 there's been significant underselling by imports and we
16 think whether you look at it in an instance of underselling
17 or a volume methodology, it will support our argument.

18 And finally, just on impact, I think the impact
19 is clear. The industry, as a whole, has been materially
20 injured. There are declines in production sales,
21 profitability, dis-investment. There's a lot to talk about,
22 which we will in our brief, but I'd just like to say there
23 are other factors going on in this market, no question about
24 it. And falling demand is an aspect of what's going on that
25 all the producers in this industry have had to deal with,

1 but as the Commission has seen in lots of other cases
2 involving falling demand, subject imports need not be the
3 only cause or the most important cause. It just needs to be
4 a material cause of the injury to the domestic industry and
5 we think that hurdle has been cleared overwhelming in this
6 case. And accordingly, we respectfully request that the
7 Commission reach preliminary affirmation determination in
8 these investigations. Thank you again very much for your
9 attention today.

10 MS. BELLAMY: Closing remarks on behalf of
11 Respondents, Elliot J. Feldman, on behalf of Baker &
12 Hostetler, LLC and Donald Be Cameron, on behalf of Morris,
13 Manning, & Martin, LLP. You have 10 minutes.

14 MR. CAMERON: I'm going to be with my friends
15 here, so we're going to expand the number of people.

16 MS. BELLAMY: And Michael Shor, on behalf of
17 Arnold & Porter Kay Scholer, LLC.

18 CLOSING REMARKS OF DONALD B. CAMERON

19 MR. CAMERON: And Neil Ellis on behalf of
20 Catalyst.

21 There are others that may have additional points
22 that they want to make, but I have five brief points.
23 First, we agree with NORPAC that the U.S. industry includes
24 White Birch and Resolute and we would further say or suggest
25 to you that NORPAC is not representative of the U.S.

1 industry. Secondly, when we look at the charts that were
2 submitted by the Petitioner this morning, and this point did
3 come up in Mr. Anderson's question or one of Mr. Anderson's
4 questions. These are all dependent upon using a five-year
5 period of investigation, which, of course, the Commission
6 has not sought five years worth of data because that is not
7 the POI. The POI is three years.

8 And we never once heard exactly why it is that
9 we should be departing from a three-year POI in order to go
10 to a five-year POI, although the answer is clear that the
11 only way that they could find that there was an increase in
12 imports or market share was to use a five-year POI. And the
13 last time I looked at this Commission that is not a
14 sufficient justification for expanding the POI from three
15 years to five years. And the stark thing is that when you
16 look at these in terms of the real POI imports have not
17 increased and so we have a situation where imports have not
18 increased, market share from Canada has not increased,
19 price levels have not been significantly changed, even in
20 the period of the declining demand; so it's a peculiar case,
21 but their economical analysis hinges on having this
22 five-year period.

23 Next, NORPAC, NORPAC is the Petitioner here.
24 Given what we've already discussed and everybody agrees with
25 concerning the declining demand in this market for uncoated

1 groundwood paper, no mater which side you're listening to,
2 nobody disagrees with this proposition. NORPAC paid a lot
3 of money to buy that -- the private equity people paid a lot
4 of money to buy that mill. How much I don't know exactly,
5 but the Commission should ask exactly how much and the
6 Commission has a right to ask, well, what was the business
7 plan going forward?

8 What was the financial analysis that was done
9 and exactly what was the business plan that the private
10 equity firm had that justified this huge investment in a
11 product that is in a stunning declining demand situation
12 that is not going to be reversed and everybody agrees with
13 that as well? So the Commission has a right to know that
14 and it would actually be instructive to all of the parties
15 to understand exactly what was the justification because the
16 only thing I can tell you is that they were the high bidder
17 and they did outbid our client for that facility.

18 Thirdly or fourthly, Mr. Anderson for
19 Petitioners this morning suggested that the range of
20 products was really very narrow. I mean there's a lot of
21 products, but it's really very narrow and it's really kind
22 of fungible. It's kind of a commodity product. Well, I
23 mean, if you listen to the testimony for the rest of the
24 day, it is quite clear there is a huge variety of products.
25 There are varies grades. There are grades some people can't

1 produce. These are important factors. And the one thing
2 that they stand for is to suggest that this is uncoated
3 groundwood paper with no further distinctions and this gets
4 to the point that a number of you asked. We need to have
5 distinctions. We want to know the composition of the
6 market, so I think that that was made pretty clear.

7 Just to reiterate the point and the question
8 about whether electronic media is a substitute, when they
9 were asked they could not answer that question. They
10 couldn't say, yes, actually electronic media does make it
11 difficult to increase prices for newsprint. They refused to
12 even make the basic concession to reality and the reality is
13 that, yes, it is competition and yes, it does limit the
14 ability to raise prices in this market period, full stop.

15 Finally, you asked whether there's any
16 competitive disadvantages due to location and after first
17 saying that, well, they compete in the Midwest and the East
18 and they really compete nationally in uncoated groundwood
19 paper in all grades. Then they amended it a little bit and
20 said, well, you know ship newsprint mostly on the West
21 Coast. Let's call a spade a spade here. I mean everybody
22 knows that there are logistical issues with transportation.
23 Those are real cost issues. Everyone is competing based
24 upon delivered prices to the customer and therefore
25 somebody's eating that freight and freight is a substantial

1 cost element, so let's not be fooled by this.

2 Nobody is saying that that's the West Coast
3 market and it's inviolate. Nobody's been making that
4 argument. What we are saying is that these are indicators
5 of the way competition works in this market. It does
6 attenuate competition and to suggest that there are no
7 disadvantages to being in the Northwest if you're competing
8 for a market in the East or in the Southeast is frankly
9 fantastical. I'll turn it over to my colleagues for any
10 additional thoughts.

11 CLOSING REMARKS OF MICHAEL SHOR

12 MR. SHOR: This is Mike Shor with Kruger. I was
13 listening to Mr. Jones a minute ago and I would like to
14 nominate him for having made the understatement of the year.
15 As I heard it, "falling demand is an aspect of what is going
16 on here." As I listened to the testimony -- I've been
17 before the Commission a lot. I've never seen an industry
18 like this where the decline in demand has been 10 percent a
19 year for 15 years. I wrote down all the adjectives
20 everybody used in describing it and I'll just refer to it as
21 the spectacular, secular, structural, sartorial decline in
22 demand. Yet, as Don mentioned, in the face of all of that,
23 sophisticated, private equity investors from New York spent
24 what we heard was around \$80 million in 2016 to buy this
25 company.

1 They could not have bought that company to
2 produce newsprint and to produce high bright paper. There
3 must've been something else going on and it must've not
4 worked out. And we think that there is a case of they shot
5 themselves in the foot here. What one witness testified was
6 that there was a thought that they can convert the mill to
7 produce copy paper. So I agree with Don. I have a request.
8 I request that the Commission ask NORPAC or specifically ask
9 One Rock Capital to provide the business plan and the
10 financial analysis that they used to justify that
11 investment and that'll provide a great insight to the
12 Commission, I think, to understand what the cause of injury
13 here is. It's not that falling demand is an aspect of what
14 is going on. It's all that's going on in this industry.
15 Thank you.

16 CLOSING REMARKS OF ELLIOT J. FELDMAN

17 MR. FELDMAN: Elliot Feldman from Resolute. I
18 want to make two brief points. A number of questions arose
19 about corporate decision-making. The decisions made by all
20 of the companies that you heard have been to close capacity
21 based on efficiency and profitability of a mill regards of
22 the border. That's what meant by an invisible border. No
23 decisions were made, nobody indicated that any decision was
24 made on the basis of whether you were taking advantage of
25 being in Canada or being in the United States and therefore

1 the first mills to close were Canadian mills.

2 To listen to Petition in this case, everyone
3 should shut down their U.S. operations, move to Canada, feed
4 of subsidies and ship to the United States. Why would you
5 not do that? Well, you wouldn't do that because it makes no
6 sense because the subsidies have nothing to do with this
7 industry, have nothing to do with the competition. The
8 border is not critical to the competition. The competition
9 is related to the age of the mills, the age of the machines,
10 the distance, the raw material that's going into making the
11 product.

12 The other point I wanted to make is that sense
13 we all agree, apparently, that this is about the industry as
14 a whole and Mr. Jones completed his statement by saying that
15 the industry, as a whole, has been materially injured and
16 yet there's only one company that's petitioning and the
17 majority of the industry says it has not been injured by
18 imports from Canada. Defining the majority of the industry,
19 according to the agreement that Resolute and White Birch are
20 part of this industry, there are other companies also in
21 the United States.

22 Catalyst has as U.S. branch that's producing in
23 the United States and all of these are part of this one
24 industry. One company, one outlier says it's been injured.
25 No one else says that there's an injury caused by unfair

1 trade from Canadian imports. And unless someone else has
2 something to say, so on behalf of all of us, it's been a
3 long day for us. It's been even longer for you and we know
4 you did a lot of preparation for this as well, so we thank
5 you very much for hearing us today. Thank you.

6 MR. ANDERSON: Thank you, counsel. And if
7 you'll just stay seated, I'll wrap this up real quickly.

8 Thank you both, counsels, for your closing
9 statements. On behalf of the Commission and the staff, I
10 would like to thank the witnesses who came here today and
11 for helping us gain a better understanding of the uncoated
12 groundwood paper market and your industry.

13 Before concluding, I just want to mention a
14 couple of key dates in the investigation. The deadline for
15 submission of corrections to the transcript and for
16 submission of post-conference briefs is Tuesday, September
17 5. If briefs contain business proprietary information, a
18 public version is due on Wednesday, September 6. And as
19 mentioned earlier, the Commission has tentatively scheduled
20 its vote on these investigations for Friday, September 22.
21 And the Commission will issue its determination to the
22 Secretary of the Department of Commerce on Monday, September
23 25 and Commissioners' opinions will be issued on Monday,
24 October 2.

25 And with that, again, on behalf of staff, I

1 thank you all for being here today and this conference is
2 adjourned.

3 (Whereupon, at 3:25 p.m., the conference was
4 adjourned.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Uncoated Groundwood Paper from Canada

INVESTIGATION NOS.: 701-TA-584 and 731-TA-1382

HEARING DATE: 8-30-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 8-30-17

SIGNED: Mark A. Jagan
Signature of the Contractor or the
Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings 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 proceedings.

SIGNED: Duane Rice
Signature of Proofreader

I hereby certify that I reported the above-referenced proceedings 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 proceedings.

SIGNED: Gaynell Catherine
Signature of Court Reporter

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