

TESTIMONY OF TODD DOWNEY

LIGHTWEIGHT THERMAL PAPER FROM CHINA AND GERMANY Before The U.S. International Trade Commission October 30, 2014

Good morning, My name is Todd Downey. I am Vice President of Manufacturing at Appvion. Previously, I served as Executive Director and General Manager of the POS Business, which is how we refer to our production of lightweight thermal paper for point-of-sales receipts.

Paper becomes thermal paper through the coating process. The coating permits thermal printers, through the application of heat, to generate an image on the thermal paper. The printing is typically a receipt showing your purchase, which might also include coupons, such as those generated at your local drug store. Sometimes the back of the thermal paper, the non-coated side, is printed with advertising.

We produce what is referred to as jumbo coated rolls, as do the German producers. We do not slit the rolls, and there are no slit rolls entering directly from Germany. Rather, jumbo roll producers sell to converters who slit the rolls to appropriate widths and lengths. The slitting or conversion process does not change the coating of the paper. Rather, the converters slit the jumbo rolls to the standardized sizes required for use in thermal printers.

In the original investigation, the German respondents argued that because 48 gram paper was primarily supplied by Germany and 55 gram paper was primarily supplied by the domestic industry, competition in the U.S. market was attenuated. The Commission did find differences in product offerings during the period of investigation, but it predicted that 48 gram paper would become the dominant

product in the U.S. market. The Commission was absolutely correct. Both U.S. producers and both German producers now offer 48 gram product as their primary product in the United States. As a result, the product has become more of a commodity. Competition is based even more on price today than it was when we appeared before the Commission in 2008.

German and U.S. producers also offer BPA-free paper in the U.S. market. Appvion's coatings have been BPA-free since at least 2006, and Kanzaki has been entirely BPA-free since the beginning of this year. Likewise, Koehler and Mitsubishi have been offering BPA-free paper for several years. While Appvion was the first coater to offer BPA-free paper in the U.S. market, that distinction gives us no competitive advantage today over the German producers. The BPA-free papers supplied by Appvion, Kanzaki, Mitsubishi, and Koehler are fully interchangeable and compete primarily on the basis of price.

Because converting equipment works equally well with either U.S. or German jumbo rolls, large converters typically buy jumbo rolls from multiple sources and use simultaneous negotiations with multiple suppliers to obtain lower prices.

Converters are very sensitive to price because the jumbo roll is their key material input and cost driver. If a converter is at a price disadvantage relative to other converters on the jumbo roll input, there will be negative consequences for that converter's sales and profits.

You might think the U.S. producers at least have a lead time advantage over their German competitors, but that is not the case. Most sales of both U.S. and

German jumbo rolls are made from inventories of standard sized rolls maintained in the United States. Thus, even small differences in price are very important.

In sum, there are no significant non-price factors to distinguish our jumbo rolls from German jumbo rolls. We must keep our prices in line with those of Koehler and Mitsubishi to maintain our sales volumes.

Demand for POS receipts increased coming out of the Great Recession, but it has since flattened out. Use of electronic receipts is increasingly impacting U.S. demand for POS receipts.

I know that Koehler has pointed to the recent increase in non-subject imports into the U.S. market. We do not disagree with Koehler that non-subject imports have grown. They have grown because of the large size of the U.S. market and the fact that prices in the United States are generally higher than in other regions of the world. This additional import supply creates downward price pressures in the U.S. market. Adding Koehler's aggressively priced imports into the mix at this time would make the situation worse.

With its cash deposit rate reduced to zero in June 2014, Koehler has already re-entered the market. But it has seemed to show some restraint. I believe that the only reason Koehler has not been more aggressive to date is the timing of this hearing. Koehler did not want to cause a major disruption of the U.S. market with a flood of low-priced imports in advance of the Commission's vote on whether to continue or revoke the order. In other words, the pendency of this sunset review is having a beneficial impact on Koehler's behavior.

In addition, when Koehler announced in December 2012 that it would be withdrawing from the U.S. market in 2013, Appvion was able to enter into some

long term contracts to provide us some volume protection against Koehler's potential re-entry. When those contracts expire in early 2015, we will face renewed competition with Koehler for those accounts. We do not object to competition. What we do object to, and what we hope this Commission will prevent, is competition with dumped imports.

Koehler claims in its brief that it has developed other "valuable" export markets since the order was imposed. We know that no other market is more "valuable" than the United States. Our market here is very large and generally has higher prices than in other regions of the world. If you look at the average unit values of Appvion's U.S. sales and Appvion's export sales, as reported in our questionnaire response, you will see why the U.S. market is so attractive. In addition, as Mr. Richards noted, the Korean producer Hansol has started competing vigorously in the European market. Specifically, in September of 2013, Hansol acquired a European converter of thermal paper, called Schades. Hansol announced that it planned to get a 25% share of the thermal paper market in Europe. As Hansol gains market share and depresses prices in Europe, the U.S. market will look that much more attractive to the two German producers.

While Koehler may point to increasing demand in developing regions of the world, such as China and the rest of Asia, those are the very regions that are already oversupplied and where enormous excess capacity is located. China alone has added over 600,000 short tons of thermal capacity since we appeared before the Commission in 2008. As for Europe, it will be lucky to avoid falling into a recession. The near term prospects for demand or price increases in Europe are poor, particularly as compared to the U.S. market. Moreover, Koehler may have

increased its exports to other markets, particularly in 2013, but we know that increased supply and Koehler's aggressive pricing contributed to much lower prices in those markets. If you revoke the order, Koehler will shift quickly from other markets and bring as much volume as possible into the high price U.S. market. Koehler's professed new lack of interest in the U.S. market is further contradicted by its existing U.S. sales representatives and warehouses.

Imports from Germany are not needed to supply the U.S. market. When Koehler announced in December 2012 that it was withdrawing from the U.S. market due to the antidumping order, we quickly ramped up additional coaters to produce lightweight thermal paper. We increased our production, but the expected supply shortage never materialized while Koehler was out of the market. In fact, we built up excess inventories. Of course, non-subject imports supplied a portion of that demand. To the extent those non-subject imports were dumped, we are evaluating our next steps. Given the fact, however, that non-subject imports are already here, additional supplies from Koehler at this time would have very serious adverse effects on our output and prices. With no antidumping order, Koehler would be able to quickly regain its lost market share by undercutting the prices of domestic products. This price competition from incremental German supply would necessarily force down U.S. prices.

As I have explained, negotiations for sales to converters focus on price. Koehler has a well-deserved reputation for underselling its competitors to gain sales. With the order in place, Koehler's underselling has been constrained, notwithstanding the fact that it was willing to commit fraud to avoid antidumping duties.

If you were to revoke the order on Germany, prices would be certain to fall in the U.S. market for two fundamental reasons. First, the U.S. market would attract considerable additional supply because it is a high price market. Second, Koehler would undersell our prices to gain significant market share. Underselling would create a downward price spiral as Appvion, Kanzaki, and non-subject imports react to the lower Koehler prices. Jumbo roll producers must operate at high capacity utilization rates to be profitable. Thus, jumbo roll producers must compete based on price to move volume or they will be forced to shut down their coaters.

We have already seen Koehler-instigated price effects in 2014. The mere expectation of Koehler re-entering the market with lower prices was enough to cause prices to drop. Koehler's sales force made clear, as early as December 2013, that Koehler would return to the U.S. market. As a result, converters were extremely cautious to avoid building inventories or entering into contracts to avoid being trapped with relatively higher priced jumbo rolls when Koehler re-entered the market with lower prices. Converters had to demand lower prices from both non-subject imports and U.S. producers as Koehler announced it would be re-entering the U.S. market.

I know that Koehler has pointed to an increase in non-subject imports when Koehler was out of the market in 2013 and 2014. But look at our performance and financial results in those years. We did much better after the Commerce Department's administration of the order forced Koehler to cease exporting, even with non-subject imports increasing. Revocation of the order on Germany would

lead to intense competition between the domestic industry and dumped imports from Koehler and Mitsubishi and non-subject imports.

If you were to revoke the order on Germany, we would lose significant market share due to underselling. The lost volume would reduce our capacity utilization, and our per unit costs would rise. Lower market prices would reduce revenues on sales we do make. This would all occur in the context of very modest growth, if any, in U.S. consumption and very large increases in world supply. The revocation of the order would result in intensified competition in the U.S. market among U.S. coaters, German coaters, and coaters from other countries. In short, revocation of the order on Germany would threaten the continued existence of our lightweight thermal paper operations.

Similarly, revocation of the orders on China would directly harm U.S. converters and indirectly harm U.S. coaters. The imposition of the provisional duties had an almost immediate impact on imports from China, which had been increasing rapidly during the original period of investigation. Subject imports from China decreased following imposition of provisional duties in May 2008 and have remained negligible ever since. There is plenty of excess capacity in China, which is one reason why prices in Asia are the lowest of any region of the world. It is almost certain that Chinese producers would flood the U.S. market with extremely low-priced slit rolls if the orders were revoked. This would be very bad for U.S. converters, but, as the Commission has recognized, also for U.S. producers of jumbo rolls. Appvion would lose sales to converters as converters lose sales to imports of slit rolls. We would also have to lower our prices to make converters more competitive with imports.

In conclusion, the orders have greatly benefitted Appvion. Since 2008, we have substantially increased our production capacity, production, shipments, and average unit shipment values. Since coming out of the great recession, our financial results have greatly improved. We have substantially increased our net sales, operating income, and cash flow. Due to the discipline of the orders, we have been able to increase our research and development expenditures, which are critical to keeping Appvion on the cutting edge. Despite this improvement in our lightweight thermal business, we remain vulnerable to dumped and subsidized imports. Even with more efficient operations and a quality product, unfair price competition can quickly turn positive operating results into negative ones. That would certainly happen here if the orders were revoked.

Thank you.