

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

TESTIMONY OF STEPHEN HEFNER

My name is Steve Hefner. I am the President and CEO of Kanzaki Specialty Papers, Inc. – a position that I have held since July 2003. I have been with Kanzaki for 24 years.

Kanzaki is a U.S. producer of direct thermal, thermal transfer, and inkjet coated papers and films. We have a modern, state-of-the-art manufacturing facility located in Massachusetts. We have 214 employees, many of whom are represented by the United Steelworkers, Local 708.

Lightweight thermal paper is Kanzaki's largest business segment. We are fully committed to the lightweight thermal market if these orders are continued on China and Germany. Since the beginning of 2008, thanks in large part to the level playing field provided by the orders, we have been able to justify making substantial capital expenditures to upgrade coating and other equipment. We have also made substantial R&D expenditures to reformulate our products to become BPA free in order to meet consumer demand. None of our production equipment is antiquated. We have had no production or supply disruptions.

German and U.S. jumbo rolls are highly interchangeable in the view of my converter customers. As a result, my customers make purchasing decisions primarily based on price. This has always been the case in the U.S. jumbo roll market, but the increased focus of both U.S. jumbo roll producers and importers of jumbo rolls from Germany on 48 gram products has made price more important than ever. No matter where they are located geographically, converters have ready access to both U.S. and German jumbo rolls.

Since the original investigation, the end users in the U.S. market have been increasingly focused on 48 gram products, and also on BPA-free products. While Appvion was the first to offer BPA-free lightweight thermal paper, Kanzaki has been doing so since 2013. Koehler and Mitsubishi have also been offering BPA-free paper for at least several years. Appvion has no competitive advantage over Kanzaki, Koehler, or Mitsubishi with respect to BPA-free products. All of our BPA-free products are highly interchangeable.

As I explained to the Commission at your hearing in this case in October 2008, our operations were adversely affected by increasing imports from China and Germany from 2005 to 2007. Demand for lightweight thermal paper was strong and increasing during those years. But low-priced imports from China and Germany were taking market share and preventing Kanzaki from raising prices to keep up with rising costs. Early in the period, pricing pressure from German

producer Mitsubishi caused Kanzaki to cancel planned price increases.

Subsequently, as price undercutting by Mitsubishi continued, both Koehler and Appvion lowered prices. Thus, even though raw material and energy costs were rising, Kanzaki was forced to cut prices on commodity grades to all customers, including our largest customers who were already receiving our best prices.

Kanzaki's later efforts to raise prices to cover these increased costs were frustrated by the increasing volume of low-priced imports from both China and Germany. In particular, Koehler aggressively cut prices to gain new customers in the U.S. market. In short, even though costs continued to rise, until the case against unfair imports started, all efforts by Kanzaki to raise prices effectively failed due to the large and increasing volume of imports from China and Germany.

From 2005 to 2007, the financial performance of our lightweight thermal paper business deteriorated. This happened despite increasing demand for lightweight thermal paper. Due to the negative effects of imports, Kanzaki was forced to postpone and reduce the size of our capital investments.

The imposition of preliminary duties in March and May of 2008 stopped the downward spiral in our business. In this changed environment, our announced price increases were at least partially successful and we got increases from most customers. Despite the adverse effects of the great recession, we were able to stabilize our lightweight thermal paper operations. Like any company dependent

on robust retail sales, we suffered negative operating results during the great recession. But it would have been far worse if the orders had not been imposed. As we pulled out of the recession from 2011 to 2013, we once again started to see demand conditions like those we had from 2005 to 2007. This time, however, we were able to take advantage of the rising demand, and our performance improved.

The impact of imports from Germany can be seen most directly in our improvement after Koehler announced in December 2012 that it was withdrawing from the U.S. market due to high antidumping duties that were going to be imposed in 2013. Our market share, prices, and financial results all improved. Conversely, after Koehler announced in December 2013 that it would soon be returning to the U.S. market, our customers began to insist on lower prices in anticipation of low-priced jumbo rolls from Koehler.

If the orders were revoked, we anticipate a swift return to the market conditions that prevailed during 2005 to 2007. Imports would surge from China and significantly increase from Germany as the importers cut prices to increase market share. Imports of jumbo rolls would undersell our products, and imports of slit rolls would be priced so low as to leave some U.S. converters no choice but to purchase Chinese product rather than jumbo rolls to convert, just as they did during the original period of investigation. We would anticipate lower production due to the loss of sales as the unfair imports take market share in the United States. This

would reduce our capacity utilization and increase our unit fixed cost on remaining sales.

Kanzaki would also suffer lower prices on its remaining sales, as we tried to avoid lost sales to lower-priced imports. The loss of market share, decreased production, and lower profits would eliminate any economic justification to invest in our lightweight thermal paper operations. In fact, our operations would shrink within a short period of time. That is why I believe it is critical that the orders remain in place.

In sum, Kanzaki's performance has significantly improved thanks to the orders. We remain very vulnerable to increased imports from Germany and China. Our future success depends on a level playing field, which we would not have in the absence of the orders. On behalf of Kanzaki and its 214 employees, I am asking you to please maintain the level playing field in the U.S. lightweight thermal market by keeping the orders in place on both China and Germany.