

**TESTIMONY OF KATHRYN KOBE
OF ECONOMIC CONSULTING SERVICES, LLC
BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION ON
PRESSURE SENSITIVE TAPE FROM ITALY
FEBRUARY 2, 2016**

Good morning Madam Chairman and members of the Commission. My name is Kathryn Kobe and I am the Director of Price, Cost and Productivity Analysis at Economic Consulting Services, LLC. My colleague, Dr. Steven Byers and I were asked to review the available information on pressure sensitive plastic (PSP) tape subject to the order, and to produce a range of scenarios that would quantify the likely economic impact on the U.S. industry of the order being removed, with special attention to the hot-melt portion of the industry. We were also asked to consider changes in economic circumstances since the time period of the last review that might impact the sensitivity of the market's reaction in the event of the order being lifted.

The anti-dumping order covers several different types of PSP tape imported from Italy which can be classified into the general categories of acrylic, natural rubber, and hot-melt. The While the tape can be used for several purposes, its principal use is to seal boxes and cartons. Consequently, the demand for the tape is strongly tied to the demand for cartons and boxes, a relationship also cited by the Prehearing Report at II-11. Because of this relationship, demand does not vary much as the price of the tape changes. This also tends to limit how much the demand for tape varies as the price varies.

The U.S. industry primarily produces hot melt PSP tape, and the Italians are also major producers of hot melt; it is my understanding that Asian producers focus mostly on the production of acrylic tape. Hot melt refers to the production method of applying the adhesive to the backing. As the Prehearing Report notes, hot melt PSP tape is often used in high-speed sealing lines, but may also be used in cold application machines or hand sealing applications.

The use of machinery in sealing lines, also limits the substitutability of other methods of box sealing. While boxes can be sealed with staples, glue or paper tape, the investment in this tape sealing machinery would prompt producers to keep using PSP tape unless there was a very major change in relative prices between the sealing agents.

There have been several changes in the economic circumstances in the United States, and in Europe since the last review was done. In determining the scenarios, we considered those circumstances. First and foremost has been the very sharp decline of the Euro against the dollar, especially within the past few years. In general such a decline tends to make the prices of products from the Euro zone cheaper in U.S. currency than they otherwise would be. The IMF's recent World Economic Report provides a summary of research on this general topic. The world economies have recovered from the recession that they experienced during the prior review period; however, information in both the Prehearing Report, and in other industry reports indicate that excess capacity continues to exist both in the U.S. and Europe. We focused on the relative U.S. and European markets because the largest markets for Italian produced PSP tape are European, and particularly the Euro zone (we also note that the Euro zone has expanded by several countries since the last review which means that additional European countries are now operating with the Euro as their currency.) In addition we considered the impact of the change in oil prices on the production costs of PSP tape; however, considering that the European market appears to be competitive, we assumed that oil price declines tended to be beneficial to all producers. Furthermore, for the short term of our analysis, the probability of a sharp increase in oil prices seems very low.

Using a static economic simulation model, we analyzed two boundary scenarios for the entire subject market, and then refined the approach to examine the potential impact on the hot

melt market specifically. The underlying data for both sets of scenarios came from the Prehearing Report (primarily from Appendix C), with specific sub-market details taken from the questionnaire responses of the U.S. and foreign producers. These data were assumed to establish the average short-term financial structure of the U.S. producers as they produce the subject products.

Our outlook period is relatively short, one to two years. While the model itself analyzes just the next year, that should be considered as indicative of the impact within a 12 to 24 month period. To the extent that purchasers buy on a spot or transaction-by-transaction basis, their response to changes in relative prices can be made very quickly. Only about half the responding purchasers require precertification of PSP tape, and those that do require certification or qualification indicated the time to receive such approval ranged from 10 to 180 days, and no purchaser indicated that a company attempting to qualify had failed to do so in the past seven years ((Prehearing Report II-17). Purchasers also cited price, product consistency and availability as the top three important factors in considering purchases. This range of factors indicated that purchasers would make adjustments in a relatively short period of time. Also, our clients inform us that unused capacity can be brought back on line in a relatively short period of time, indicating relatively quick response from the Italian industry if the order was lifted.

In the two scenarios covering all PSP tape, demand for the tape is assumed to increase at the annual rate of increase for the United States for tape as presented in the Freedonia report, a report that is also cited in the Prehearing Report of the Staff. For the hot melt portion, demand was assumed to be relatively flat, although an assumption of modest growth did not change the results of the scenarios in any significant way.

The price changes used in the scenarios were determined from two sources. One was to review price comparisons between U.S. and Italian products reported to the Commission. As noted at V-25 of the Prehearing Report, prices for subject PSP tape imported from Italy were below those for U.S.-produced product in all instances reported; the magnitude of the underselling margins we considered can be reviewed by looking at the specific information on those responses. In addition, we reviewed information provided by Counsel on recent pricing of sales by Italian producers in the United Kingdom, compared with prices in the United States of like products. To make a conservative estimate we adjusted the U.K. prices by considering additional transportation costs to the United States, and then considered the smallest differential indicated by the resulting numbers.

This price differential also provided us with a method of evaluating how attractive the U.S. market would be to Italian producers who currently have unused capacity. As noted in the Prehearing Report, most of Italian exports of adhesive tape go to other European countries, of the top ten export markets listed on Table IV-7, only the United States is not a European country. In fact the Freedonia report indicates that Italy is Europe's dominant producer of PSP tape, and that it focuses largely on hot melt, producing more than its home market consumes. Italian producers also reported that demand in their home market had either fluctuated or decreased (at IV-35 in the Prehearing Report). Thus, the indicated price differential would make the U.S. market attractive if the order was rescinded.

For our two boundary scenarios, it was not necessary to determine what the U.S. producers' response would be to a sharp price decline. However, in Scenario 3H, we did make a relatively conservative assumption about potential price changes based on the European market information and also made a somewhat conservative estimate of the U.S. producers' supply

response. The Prehearing Report indicated a supply elasticity in the 3-5 range. We agree that this product would have a supply elasticity greater than 1, but thought a more conservative approach was warranted for a short term response to a relatively large price decline. We could not find an estimate of the supply elasticity for this industry, but did find a study on substitution elasticities that we thought would be indicative of the short-run magnitude for the supply elasticity, since producers would reduce supply by at least the amount that imports increased. Consequently, we used a relatively conservative short-run supply estimate of about 1.2 to make our first round estimates of the industry response. Given the impact on the financial situation of the producers, the long-run impact for the industry overall could be even larger. We would invite a discussion with Staff on any of our assumptions.

To summarize our results, we first tested if the U.S. producers could drop their price to match the price levels that our analysis above indicated that Italian producers could sell at in the U.S. market and thus maintain their market share. We found that current U.S. production based on the average cost structure was unsustainable at that price. Our second boundary scenario was to determine what the impact on the U.S. industry would be if all the measured excess capacity of the reporting subject Italian producers was to flow to the U.S. market. That assumption resulted in a large decline in U.S. production to a point where U.S. producers fill just that portion of U.S. demand that the Italian imports would not fill. While the scenario looks at the financial impact based on being able to maintain the current average price in the U.S. market on the remaining supply that is an unlikely price response given that U.S. producers would react to the lower Italian prices and would also compete with each other. However, the assumption that all the reported Italian subject excess capacity entered the U.S. market would reduce U.S. production to a point that could be described as very serious. While it is unlikely that all of the

reporting companies' excess capacity could be used to produce PSP tape for the U.S. market, it is important to remember that the reporting companies are a small percentage of all the PSP tape producers in Italy. The Freedonia report indicates that there are numerous other producers for whom data were not reported. Therefore, this estimate is likely to be less than the potential production coming from the Italian producers. The third scenario looked at a conservative estimate of likely decline in U.S. prices and a conservative estimate of U.S. producers' response to those prices to determine an approximate resharing of the U.S. market between U.S. producers and Italian producers. Since it is a question whether all U.S. producers could profitably produce at the assumed lower prices, aggregate U.S. production would suffer and their long-run viability would be in jeopardy. Again, one must consider that the reported Italian industry capacity is likely understated, making this a conservative scenario as to the size of the actual adjustments that might take place. That completes my testimony but for a more detailed review of these scenarios, please see our complete report included in the confidential version of Mr. Neeley's Prehearing Brief.