

UNITED STATES TARIFF COMMISSION

**NORTHERN BLEACHED HARDWOOD KRAFT PULP
FROM CANADA**

**Determination of No Injury or Likelihood
Thereof in Investigation No. AA1921-105A
Under the Antidumping Act, 1921, as Amended**



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UNITED STATES TARIFF COMMISSION

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[AA1921-105]

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NORTHERN BLEACHED HARDWOOD KRAFT PULP FROM CANADA

Determination of No Injury or Likelihood Thereof

The Tariff Commission on September 28, 1972, received advice from the Treasury Department that northern bleached hardwood kraft pulp from Canada is being, or is likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act, 1921, as amended. In accordance with the requirements of section 201(a) of the Antidumping Act (19 U.S.C. 160(a)), the Tariff Commission instituted investigation No. AA1921-105 to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States. The Commission by a 3 to 3 vote determined on December 27, 1972, that an industry in the United States is being injured by reason of the importation of northern bleached hardwood kraft pulp from Canada, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A finding of dumping with respect to prime-grade and off-grade northern bleached hardwood kraft pulp from Canada was made by the Department of the Treasury on January 17, 1973 (T.D. 73-28; 38 F.R. 2210 (1973)).

On June 26, 1974, the Treasury Department advised that, after considering a formal petition for revocation submitted by the American Paper Institute with respect to the finding of dumping on prime-grade and off-grade northern bleached hardwood kraft pulp from Canada, and after examining the most current sales information supplied by the Canadian pulp producers and exporters, the Department affirms its determination that such pulp is being and is likely to be sold in the United States at less than fair value.

The Tariff Commission on July 9, 1974, instituted investigation No. AA1921-105A to determine whether, if the finding of dumping were revoked, an industry in the United States would be or would likely be injured by reason of the importation of such merchandise into the United States. Notice of the institution of the investigation and of a public hearing to be held on August 6, 1974, in connection therewith was published in the Federal Register of July 12, 1974 (39 F.R. 25710).

In arriving at a determination in this case, the Commission gave due consideration to all written submissions from interested parties, evidence adduced at the hearing, and all factual information obtained by the Commission's staff from questionnaires, personal interviews, and other sources.

On the basis of the investigation, the Commission has determined that, if the finding of dumping were revoked, an industry in the United

States would not be or would not likely be injured by reason of the importation of prime-grade and off-grade northern bleached hardwood kraft pulp from Canada sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended. 1/

1/ On the basis of the investigation conducted by the Tariff Commission pursuant to the letter from the Department of the Treasury, dated June 26, 1974, Vice Chairman Parker and Commissioner Moore have determined that an industry in the United States is not being or is not likely to be injured by reason of the importation of northern bleached hardwood kraft pulp from Canada, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Statement of Reasons for Negative Determination
of Chairman Bedell and Commissioner Leonard 1/

In the instant investigation we determine that, if the finding of dumping that was issued on January 17, 1973, on prime-grade and off-grade northern bleached hardwood kraft pulp from Canada were revoked and imports of such merchandise were no longer subject to dumping duties, an industry in the United States would not be injured or an industry in the United States would not be likely to be injured by reason of the importation of such pulp.

Description of the product

Bleached hardwood kraft pulp made from hardwood (deciduous) by the chemical sulphate (kraft) process is a relatively short-fibered pulp used chiefly in the production of fine printing and writing papers in which cleanliness, brightness, softness, and good formation are more important requirements than strength; it is also used in the manufacture of absorbent tissue paper. Northern bleached hardwood kraft pulp from Canada is very similar to the type of pulp produced in the northern part of the United States. The northern variety differs from that produced in the southern part of the United States-- which is known as "southern grade"--in that the former possesses greater smoothness and opacity, both of which are desirable qualities of hardwood pulp. For certain uses, such as tissue paper and papers where a smooth surface is not required, the southern grade is readily interchangeable with the northern grade.

1/ Commissioner Ablondi concurs in the result.

Pulp is sold as either prime grade or off grade; the great bulk of all market pulp is prime grade. The specifications of off-grade pulp are determined by each individual producer. Such pulp is inferior to prime-grade pulp in that it is usually characterized by such elements as excessive dirt spots, discoloration, lack of brightness, and lack of strength. Since there are varying standards for off-grade pulp, comparisons of prices of such pulp are exceedingly difficult.

U.S. industry

The industry producing bleached hardwood kraft pulp in the United States consists of approximately 33 firms operating some 50 establishments. Domestic production of the subject product involves two elements--captive production and production for the market. Most U.S. production is captive--that is, production which is further processed by the producers into more advanced products, such as paper and paperboard. However, the portion sold on the open market is in direct competition with imports from Canada and represents an important source of revenue to U.S. producers, especially during periods of soft demand.

Canadian imports have traditionally accounted for about one-fourth to one-third of domestic market sales and have usually carried a slightly higher price than comparable domestic pulp.

The northeast region of the United States is the competitive marketing area where the bulk of the imports from Canada are sold.

It has a concentration of nonintegrated paper manufacturers, and it is largely supplied by six U.S. firms which have producing facilities in that region and by Canadian imports. Since most shipments of pulp tend to be confined to distances of less than 1,000 miles from the producing mill, certain Canadian producers are located near the northeastern marketing area; therefore, these Canadian producers consider this area as one of their major markets. Since this region is where the impact of Canadian imports is felt most, the U.S. firms which have producing facilities in this region and which market their pulp in the region are the ones we can best examine to evaluate the effect of less than fair value (LTFV) imports.

Conditions that led to an affirmative Commission
determination in 1972 ^{1/}

The Department of the Treasury in its original investigation, which covered the period May-October 1971, found that six Canadian suppliers of the subject product were making approximately 70 percent of their sales at LTFV. The weighted average margin on these sales was determined to have been roughly 13 percent, with individual margins ranging from less than 1 percent to 50 percent.

In 1971 the U.S. paper industry, reflecting conditions in the general economy, was faced with a considerable slowdown. Selling

^{1/} Chairman Bedell and Commissioners Leonard and Moore determined in the affirmative; Vice Chairman Parker and Commissioners Young and Ablondi determined in the negative. Pursuant to section 201(a) of the Antidumping Act, 1921, as amended, the Commission is deemed to have made an affirmative determination when the Commissioners voting are equally divided.

prices for pulp were depressed by as much as 20 percent from their 1970 levels, profits were declining, and inventories were building. Excess capacity in the domestic industry was also growing. Added to those conditions was the threat posed by Canadian suppliers, which are highly dependent upon market sales. In marked contrast to the small share of its product that is marketed by the U.S. industry, approximately three-fourths of Canadian pulp production is for the market. Faced with the same economic conditions as those existing in the U.S. industry, some Canadian firms began price discounting on their export sales to the United States, determined by the Treasury to have been at LTFV, which enabled the Canadian suppliers to increase their share of the U.S. market. That unfair pricing impinged most acutely on the northeast market and, thus, on the small domestic producers serving that market.

The discounting by one Canadian supplier was so great that it forced prices to an extremely low level--\$110 per short ton--in the northeast market in the spring of 1971. In fact, its pricing was so low that its net return (ex-factory price) was often less than \$100 a ton during that period. Sales at such prices were found by the Department of the Treasury to have been at LTFV. Several domestic suppliers had little choice except to attempt to meet those LTFV prices. In the process they lost substantial revenue, which resulted in greatly reduced profits. Profits on the subject product declined by more than 80 percent for most domestic suppliers of market pulp in

that year (1971) and declined even more precipitously for the northeastern producers. The firms situated in the northeast, which market their pulp primarily in that region, incurred a loss on their hardwood kraft pulp operations in 1971.

Imports of the subject Canadian pulp rose from 34 percent of total U.S. market shipments in 1970 to 37 percent in 1971. It was evident that LTFV prices enabled Canadian suppliers to increase their share of U.S. market sales at the expense of lost sales and reduced profits to U.S. producers of market pulp. With the domestic industry producing bleached hardwood kraft pulp facing a declining demand, depressed prices, and increasing imports, the Commission in 1972 found that Canadian sales at LTFV prices were causing injury to that industry.

In 1972 it was also concluded that domestic producers were likely to be injured by shipments of Canadian imports sold at LTFV. Cited at that time was the large and growing inventory of one Canadian producer which had been selling at LTFV in the northeast market. That inventory and the convenience of selling to the United States, particularly in periods of slack demand, were conducive to continued injurious LTFV sales.

Present day conditions

The economic conditions which prevailed in 1971 have changed greatly, so much in fact that in the absence of dumping duties the domestic industry would not be adversely affected by LTFV sales of

bleached hardwood kraft pulp from Canada. Demand for bleached hardwood kraft pulp in the United States increased by 10 percent and 7 percent in 1972 and 1973, respectively, over that of the preceding years and continued to increase during the first 6 months of 1974 over the level of the corresponding period in 1973. Prices for this product have increased by as much as 100 percent or more since 1972 and now stand at \$300 or more per ton. The premium paid for Canadian pulp has increased in the intervening period to the point where Canadian prices are now often 10 to 20 percent greater than prices of domestic pulp.

Furthermore, imports of Canadian bleached hardwood kraft pulp have declined as a share both of domestic consumption and of that sold on the open U.S. market. In part, that decline reflects an increasing demand for pulp in Europe.

According to Treasury data, both LTFV margins and the quantity of sales at LTFV have declined substantially, possibly to the extent that the current margins result entirely from fluctuations in exchange rates and freight differentials. In any event, the small margins reported by Treasury for the July 1973-June 1974 period were not sufficient to afford the Canadian suppliers any price advantage in the U.S. market. On the contrary, prices of Canadian pulp in the United States were significantly higher than prices of domestic pulp during this period.

Inasmuch as the dumping margins are now insignificant and Canadian pulp is currently selling at an ever greater premium, it is clear that, should the finding of dumping be revoked, there would be no injury to the domestic industry by reason of sales of Canadian bleached hardwood kraft pulp at LTFV.

The domestic pulp industry is enjoying such well-being that it is currently operating at full capacity, compared with approximately 90 percent of capacity in 1971. The industry cannot now meet all the demand facing it at home and abroad. The nonintegrated paper manufacturers in the northeast are finding it particularly difficult to obtain a steady supply of pulp. Sales and profits are up sharply from their 1971 levels. The ratio of profits to sales increased by more than 100 percent for the producers of market pulp between 1971 and 1973, and there is reason to believe that profits are continuing to climb in 1974. The profit-to-net-sales ratio of the northeastern producers, which was severely depressed in 1971, recovered in 1972 and 1973 to the point that it was more than 50 percent higher in 1973 than that for the rest of the domestic industry.

The strong demand for pulp that prevails in the world market, particularly in the United States, Canada, the European Economic Community, and Japan, is expected to continue. The high cost of adding new production capacity has caused U.S. producers to take a conservative approach toward building new facilities, despite the recent large increases in the price of pulp. Additions to domestic

capacity which have been announced to date are not sufficient to supply the anticipated increase in U.S. demand. Thus, it is unlikely that in the foreseeable future the U.S. producers will find themselves in an excess-capacity position such as existed in 1972.

North American inventories of bleached hardwood kraft pulp have declined to an extremely low level in recent months. This decline in inventories, despite the fact that both U.S. and Canadian producers are operating at almost full capacity, coupled with the less than adequate rate at which new production capacity is being added, indicates that market pulp will continue to be in short supply. Given the above conditions and the declining LTFV margins, it is clear that in the absence of a finding of dumping the U.S. industry producing hardwood kraft pulp would not likely be injured by reason of LTFV sales of Canadian pulp.

Conclusion

Accordingly, for the reasons indicated we conclude that, if the finding of dumping were revoked, an industry in the United States would not be injured or would not be likely to be injured, by reason of the importation of prime-grade or off-grade northern bleached hardwood kraft pulp from Canada that is being, or is likely to be, sold at LTFV within the meaning of the Antidumping Act, 1921, as amended.

Statement of Reasons for Negative Determination
by Vice Chairman Parker and Commissioner Moore

The facts in this case are clear. On June 3, 1974, the Secretary of the Treasury, after citing the dumping finding in the case involving less than fair value imports of northern bleached hardwood kraft pulp from Canada, 1/ requested "the views of the Tariff Commission regarding its authority to review injury determinations based on facts which have developed subsequent to the issuance of a dumping finding."

On June 20, 1974, the Commission authorized its General Counsel to advise the Treasury Department that "should the Treasury Department send notice of a formal action making a current determination with respect to less than fair value sales of northern hardwood kraft pulp from Canada, the Commission would consider this to be sufficient to institute an investigation under the Antidumping Act, 1921, as amended."

Accordingly, the Treasury Department notified the Tariff Commission on June 26, 1974, that "after examining the most current sales information supplied by the Canadian pulp producers and exporters," it affirms that "such pulp is being and is likely to be sold in the United States at less than fair value." The Commission instituted the present investigation on July 9, 1974.

1/ Northern Bleached Hardwood Kraft Pulp From Canada, . . . Investigat
No. AA1921-105 . . . , TC Publication 530, 1972.

As a result of the current investigation, for reasons set forth below, we have determined that an industry in the United States is not being or is not likely to be injured by reason of the importation of northern bleached hardwood kraft pulp from Canada, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

A description of the product (northern bleached hardwood kraft pulp) and the definition of the affected industry in the United States is contained in the Commission's report in the earlier case (investigation No. AA1921-105).

Impact of LTFV sales on the U.S. industry

Imports of Canadian bleached hardwood kraft pulp are sold predominantly in the north central and northeast regions of the United States. During the 7-year period 1967 through 1973, imports of such pulp, virtually all of which were from Canada, represented between 4 and 6 percent of domestic consumption and declined to 3 percent during the first 6 months of 1974.

In its earlier investigation, which covered the period May-October 1971, the Department of the Treasury found a weighted average margin of 13 percent on sales made at LTFV by six Canadian suppliers, with the margins ranging from less than 1 percent to 50 percent. However, between July 1973 and June 1974, Treasury found a weighted average margin of about 2 percent, with the individual margins ranging from a fraction of 1 percent to less than 5 percent which were largely the result of differences in transportation costs and variations in exchange rates.

The considerable decline in the margins reported by Treasury between 1971 and 1973 coincided with a strong upsurge in the demand for pulp and paper products which has improved the economic well-being of the U.S. industry. The economic conditions prevailing in the pulp and paper industries have greatly improved in all respects since the earlier investigation.

Consumption of the subject pulp grew substantially during 1972 and 1973 and has continued to increase during 1974. With the strong demand for pulp, prices have increased at a phenomenal rate from a level of \$125-\$150 per ton in 1971 to the point where prices are now approximately \$300 per ton or greater. What is even more significant is the fact that Canadian bleached hardwood kraft pulp is now being sold at prices increasingly higher than domestically produced pulp. In many cases such Canadian pulp is now selling at 10 to 20 percent above domestic pulp. Furthermore, imports of Canadian pulp during the first 6 months of 1974 declined.

The domestic producers are experiencing rapidly increasing sales and profits, and they are producing at almost 100 percent of capacity. All of the foregoing factors have enabled the U.S. industry to increase its profitability more than twofold since 1971, the year during which Treasury originally found sales at LTFV.

This strong and profitable position of U.S. producers is industry-wide, including the northeastern producers, which because of their location, are the most vulnerable to competition from Canadian LTFV imports. As a percentage of sales, profits for the six producers in that

region were as good as or better than profits for all producers of market pulp. In fact, none of the northeastern producers have complained of lost sales or injury by reason of sales at LTFV since 1971, and each of those producers has asserted that it is not now being injured.

Incontrovertible evidence that no segment of the domestic industry is now being injured is demonstrated by the fact that the American Paper Institute, representing the U.S. industry, testified at the hearing that no member of the domestic industry is being, or is likely to be, injured by reason of LTFV imports of Canadian bleached hardwood kraft pulp.

No Likelihood of injury

Worldwide demand for pulp is so strong now that inventories of the product on this continent have all but disappeared. The U.S. industry is now operating virtually at full capacity, and the Canadian industry is currently operating at greater than 90 percent of capacity. Because of the considerable cost of building new production facilities in the paper industry and the rather lengthy lead time required to build such facilities, capacity in the U.S. industry is not likely to grow significantly in the near future. With the projected demand for paper products expected to continue upward and in the face of a tight pulp supply, the availability of pulp for market sale will diminish.

Conclusion

In view of the foregoing, we are of the opinion that the U.S. industry producing bleached hardwood kraft pulp is not being or is not likely to be injured by reason of sales of Canadian bleached hardwood kraft pulp at LTFV.

