

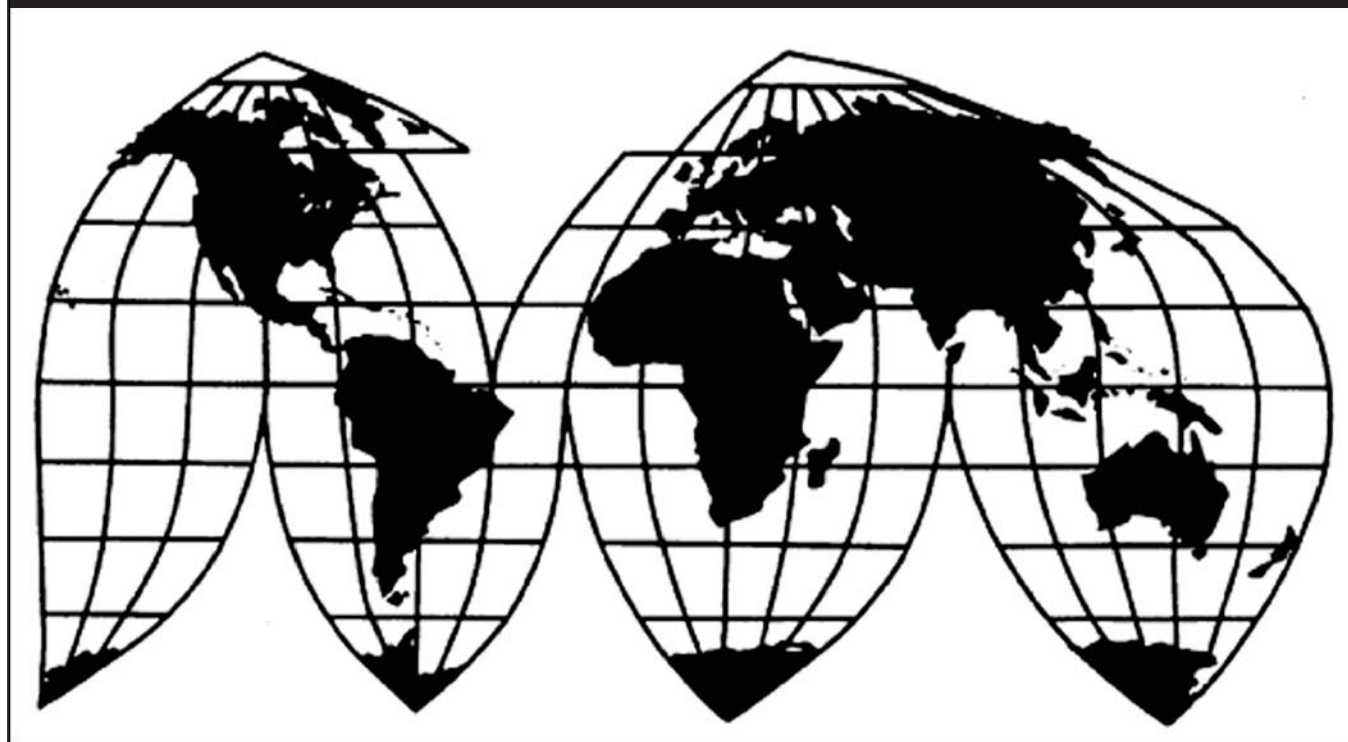
# Supercalendered Paper from Canada

Investigation No. 701-TA-530 (Final)

Publication 4583

December 2015

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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Note.—Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted. Such deletions are indicated by asterisks.



# UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 701-TA-530 (Final)

Supercalendered Paper from Canada

## DETERMINATION

On the basis of the record<sup>1</sup> developed in the subject investigation, the United States International Trade Commission (“Commission”) determines, pursuant to the Tariff Act of 1930 (“the Act”), that an industry in the United States is materially injured by reason of imports of supercalendered paper from Canada, provided for in subheading 4802.61.30 of the Harmonized Tariff Schedule of the United States, that have been found by the Department of Commerce (“Commerce”) to be subsidized by the government of Canada.<sup>2</sup>

## BACKGROUND

The Commission, pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)), instituted this investigation effective February 26, 2015, following receipt of a petition filed with the Commission and Commerce by the Coalition for Fair Paper Imports, which is an ad hoc association of U.S. producers that includes Madison Paper Industries, Inc., Madison, ME and Verso Corp., Memphis, TN. The final phase of the investigation was scheduled by the Commission following notification of a preliminary determination by Commerce that imports of supercalendered paper from Canada were being subsidized within the meaning of section 703(b) of the Act (19 U.S.C. § 1671b(b)). Notice of the scheduling of the final phase of the Commission’s investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of August 24, 2015 (80 FR 51309). The hearing was held in Washington, DC, on October 22, 2015, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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<sup>1</sup> The record is defined in sec. 207.2(f) of the Commission’s Rules of Practice and Procedure (19 CFR § 207.2(f)).

<sup>2</sup> Commissioner F. Scott Kieff did not participate in this investigation.



## Views of the Commission

Based on the record in the final phase of this investigation, we find that an industry in the United States is materially injured by reason of imports of supercalendered paper (“SC paper”) that are subsidized by the government of Canada.<sup>1</sup>

### I. Background

The Coalition for Fair Paper Imports, which consists of two U.S. producers of SC paper, Madison Paper Industries (“Madison”) and Verso Corporation (“Verso”) (collectively “petitioners”), filed the petition in this investigation on February 26, 2015.<sup>2</sup> Petitioners’ representatives appeared at the hearing accompanied by counsel and submitted prehearing and posthearing briefs.

Two producers and exporters of the subject merchandise participated as respondents in the final phase of the investigation. Counsel to Port Hawkesbury Paper LP (“PHP”) and its representatives and counsel to Resolute Forest Products Inc. (“Resolute”) appeared at the hearing and submitted prehearing and posthearing briefs. Counsel to the government of Quebec also appeared at the hearing.<sup>3</sup>

Three firms that accounted for all known U.S. production of SC paper from January 2012 to June 2015 (the period of investigation or “POI”) submitted questionnaire data.<sup>4</sup> Importer questionnaire data are based upon responses from seven firms accounting for all U.S. imports of SC paper from Canada and \*\*\* percent of nonsubject imports during the POI.<sup>5</sup> Data on the Canadian SC paper industry are based on questionnaire responses from the four known Canadian producers/exporters, whose reported U.S. exports accounted for all U.S. imports of subject merchandise during the POI.<sup>6</sup>

### II. Domestic Like Product

#### A. In General

In determining whether an industry in the United States is materially injured or threatened with material injury by reason of imports of subject merchandise, the Commission

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<sup>1</sup> Commissioner Kieff did not participate in this investigation.

<sup>2</sup> *Supercalendered Paper from Canada*, Inv. No. 701-TA-530 (Preliminary), USITC Pub. 4529 at I-1 (April 2015) (“Preliminary Determination”).

<sup>3</sup> In the preliminary phase of the investigation, two additional Canadian subject producers, Catalyst Paper Corporation and Irving Paper Limited, appeared at the staff conference and submitted postconference briefs.

<sup>4</sup> Confidential Report, Memorandum INV-NN-082 (Nov. 4, 2015) (“CR”) at I-4; Public Report (“PR”) at I-3.

<sup>5</sup> CR at IV-1, PR at IV-1.

<sup>6</sup> CR at VII-3, PR at VII-3.

first defines the “domestic like product” and the “industry.”<sup>7</sup> Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Tariff Act”), defines the relevant domestic industry as the “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>8</sup> In turn, the Tariff Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation.”<sup>9</sup>

The decision regarding the appropriate domestic like product in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.<sup>10</sup> No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.<sup>11</sup> The Commission looks for clear dividing lines among possible like products and disregards minor variations.<sup>12</sup> Although the Commission must accept Commerce’s determination as to the scope of the imported merchandise that is subsidized or sold at less than fair value,<sup>13</sup> the Commission determines what domestic product is like the imported articles Commerce has identified.<sup>14</sup>

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<sup>7</sup> 19 U.S.C. § 1677(4)(A).

<sup>8</sup> 19 U.S.C. § 1677(4)(A).

<sup>9</sup> 19 U.S.C. § 1677(10).

<sup>10</sup> See, e.g., *Cleo Inc. v. United States*, 501 F.3d 1291, 1299 (Fed. Cir. 2007); *NEC Corp. v. Department of Commerce*, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Torrington Co. v. United States*, 747 F. Supp. 744, 749 n.3 (Ct. Int’l Trade 1990), *aff’d*, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors, including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See *Nippon*, 19 CIT at 455 n.4; *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

<sup>11</sup> See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

<sup>12</sup> *Nippon*, 19 CIT at 455; *Torrington*, 747 F. Supp. at 748-49; see also S. Rep. No. 96-249 at 90-91 (Congress has indicated that the like product standard should not be interpreted in “such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not ‘like’ each other, nor should the definition of ‘like product’ be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.”).

<sup>13</sup> See, e.g., *USEC, Inc. v. United States*, 34 Fed. Appx. 725, 730 (Fed. Cir. 2002) (“The ITC may not modify the class or kind of imported merchandise examined by Commerce.”); *Algoma Steel Corp. v. United States*, 688 F. Supp. 639, 644 (Ct. Int’l Trade 1988), *aff’d*, 865 F.3d 240 (Fed. Cir.), *cert. denied*, 492 U.S. 919 (1989).

<sup>14</sup> *Hosiden Corp. v. Advanced Display Mfrs.*, 85 F.3d 1561, 1568 (Fed. Cir. 1996) (the Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); *Cleo*, 501 F.3d at 1298 n.1 (“Commerce’s {scope} finding does not control the Commission’s {like product} determination.”); *Torrington*, 747 F. Supp. at 748-52 (affirming the Commission’s (Continued...))

## B. Product Description

Commerce defined the imported merchandise within the scope of the investigation as follows:

{S}upercalendered paper (SC paper). SC paper is uncoated paper that has undergone a calendaring process in which the base sheet, made of pulp and filler (typically, but not limited to, clay, talc, or other mineral additive), is processed through a set of supercalenders, a supercalender, or a soft nip calender operation.<sup>15</sup>

The scope of this investigation covers all SC paper regardless of basis weight, brightness, opacity, smoothness, or grade, and whether in rolls or in sheets. Further, the scope covers all SC paper that meets the scope definition regardless of the type of pulp fiber or filler material used to produce the paper.

Specifically excluded from the scope are imports of paper printed with final content of printed text or graphics.<sup>16</sup>

SC paper is an uncoated printing paper made from mechanical pulp, chemical pulp, fillers, and additives. The glossy finish of SC paper is produced by the movement of the paper web through a supercalender, a vertical stack of alternating steel rolls and cotton rolls. The rolls apply heat and pressure to the paper, imparting gloss to the surface and increasing the paper's smoothness and density.<sup>17</sup> SC paper is sold to end users such as retailers, publishers, catalogers, and printers and to paper merchants/brokers. It is used for a variety of printed materials such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials,

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(...Continued)

determination defining six like products in investigations in which Commerce found five classes or kinds).

<sup>15</sup> Commerce explained that “{s}upercalendering and soft nip calendaring processing, in conjunction with the mineral filler contained in the base paper, are performed to enhance the surface characteristics of the paper by imparting a smooth and glossy printing surface. Supercalendering and soft nip calendaring also increase the density of the base paper.” *Supercalendered Paper from Canada: Final Affirmative Countervailing Duty Determination*, 80 Fed. Reg. 63535, 63536 (October 20, 2015).

<sup>16</sup> *Supercalendered Paper from Canada: Final Affirmative Countervailing Duty Determination*, 80 Fed. Reg. 63535, 63536 (October 20, 2015). Commerce indicated that subject merchandise primarily enters under Harmonized Tariff Schedule of the United States (HTSUS) subheading 4802.61.3035, but may also enter under subheadings 4802.61.3010, 4802.62.3000, 4802.62.6020, and 4802.69.3000. It noted that although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive. *Id.*

<sup>17</sup> CR at I-9, PR at I-7.

corporate brochures, and coupons.<sup>18</sup> Although the scope of the investigation covers paper sold in both rolls and sheets, SC paper is generally only sold in rolls.<sup>19</sup>

### C. Domestic Like Product Analysis

In the preliminary determination, the Commission defined the domestic like product to consist of all SC paper described in the scope of the investigation.<sup>20</sup> The Commission considered respondent Irving Paper's arguments that the Commission should define SCA grade SC paper ("SCA paper") and SCB grade SC paper ("SCB paper") as separate domestic like products, that it should include one grade of lightweight coated paper (coated groundwood no. 5)<sup>21</sup> in the domestic like product definition that includes SCA paper, and that it should include Hi-Brite<sup>22</sup> and newsprint paper in the like product definition that includes SCB paper.<sup>23</sup> The Commission declined to adopt any of Irving Paper's proposals and instead defined a single domestic like product consisting of SC paper within Commerce's scope definition.

The Commission found there was no clear dividing line between SCA paper and SCB paper. There were no established industry standards distinguishing the two grades, which shared similar physical characteristics and uses, were made in the same facilities, and were sold in the same channels of distribution at roughly similar prices.<sup>24</sup> It found there was a clear dividing line between SC paper and coated groundwood paper no. 5 in light of their different physical characteristics, manufacturing processes, prices, and perceptions in the marketplace.<sup>25</sup> It similarly found that there was a clear dividing line between SC paper, on the one hand, and Hi-Brite and newsprint paper, on the other, because of distinctions in physical characteristics and manufacturing processes.<sup>26</sup>

In the final phase of this investigation, petitioners ask the Commission to define a single domestic like product matching the products in the scope definition for the same reasons

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<sup>18</sup> CR at I-9, PR at I-7.

<sup>19</sup> CR at I-9, PR at I-7.

<sup>20</sup> Preliminary Determination, USITC Pub. 4529, at 11.

<sup>21</sup> Coated papers are generally categorized into five grades (no. 1 through no. 5) based on brightness and basis weight. CR at I-19 n.33, PR at I-14 n.33.

<sup>22</sup> Hi-Brite paper is a specialty newsprint paper product that consists of a groundwood paper of higher brightness and basis weight and better quality surface finish than that of standard newsprint and is capable of reproducing higher quality images; it is often used for advertising inserts. CR at I-19 n.34, PR at I-14 n.33.

<sup>23</sup> Irving Paper's Postconference Brief at 6.

<sup>24</sup> Preliminary Determination, USITC Pub. 4529 at 8.

<sup>25</sup> Preliminary Determination, USITC Pub. 4529 at 10.

<sup>26</sup> Preliminary Determination, USITC Pub. 4529 at 11.

discussed in the Commission’s preliminary determination.<sup>27</sup> The only respondent to address the issue (PHP) does not challenge petitioners’ proposed domestic like product definition.<sup>28</sup>

In their comments on the draft questionnaires in the final phase of the investigation, neither petitioners nor respondents requested that the Commission seek data on products other than SC paper or information to elucidate further the like product issues explored in the preliminary phase of the investigation. There is additional information concerning the substitutability of the various grades of SC paper, coated groundwood no. 5, Hi-Brite and newsprint, but this new information does not call into question the Commission’s previous findings as to the like product definition.<sup>29</sup>

Consequently, we define a single domestic like product consisting of all SC paper within the scope of the investigation.

### III. Domestic Industry

The domestic industry is defined as the domestic “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>30</sup> In defining the domestic industry, the Commission’s general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to section 771(4)(B) of the Tariff Act. This provision allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise

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<sup>27</sup> Petitioners’ Prehearing Brief at 6-9. The scope of investigation is unchanged from that of the preliminary phase of the investigation.

<sup>28</sup> See Hearing Transcript (“Tr.”) at 45 (Trendl). Citations to the hearing transcript in this opinion refer to the transcript issued on November 10, 2015, subsequent to the issuance of the staff report. Citations in the staff report refer to the hearing transcript issued on October 23, 2015. Pagination differs between the October 23 and November 10 transcripts.

<sup>29</sup> See CR at II-17 to II-18, PR at II-11 to II-12. On the one hand, a majority of market participants reported at least frequent substitutability between SCA and SCB, and the brightness, gloss, and opacity of these products continue to exhibit some degree of overlap. CR/PR at Tables I-2 & II-6. A substantial minority of market participants reported that SCA and SCB were sometimes substitutable. CR/PR at Table II-6. There was a lower degree of substitutability between SC paper—considered as a whole— and the out-of-scope-products. Most purchasers confirmed that coated groundwood no. 5 was substitutable only with the highest grades of SC paper (SCA++ and SCA+). See CR/PR at Table II-6. Purchasers also generally indicated that Hi-Brite was substitutable only with the lowest grade of SC paper, SNC. CR at II-18, PR at II-12. The record does not contain any other new information concerning the six like product factors.

<sup>30</sup> 19 U.S.C. § 1677(4)(A).

or which are themselves importers.<sup>31</sup> Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.<sup>32</sup>

During the POI, three firms manufactured SC paper in the United States: Madison, Verso, and Resolute FP US Inc. ("Resolute USA"). In the preliminary phase of the investigation, the Commission determined that Resolute USA was a related party and that appropriate circumstances existed to exclude it from the definition of the domestic industry. In particular, the Commission explained that because Resolute USA's \*\*\*, its primary interest was not in domestic production.<sup>33</sup>

Resolute USA is a related party because it directly imports the subject merchandise and is a wholly owned subsidiary of Resolute Forest Products, Inc., a Canadian producer and exporter of the subject merchandise.<sup>34</sup> In this final phase investigation, Petitioners and respondent PHP argue that the Commission should exclude Resolute USA for the same reason the Commission excluded it in the preliminary phase of the investigation.<sup>35</sup>

Resolute USA was one of the \*\*\* during the period, accounting for approximately \*\*\* during the POI.<sup>36</sup> Its subject imports as a ratio to its production ranged from \*\*\* percent to \*\*\* percent during the POI.<sup>37</sup> Resolute USA was \*\*\*, responsible for \*\*\* percent of U.S. production of SC paper during the POI.<sup>38</sup> Resolute USA \*\*\* with respect to the petition.<sup>39</sup>

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<sup>31</sup> See *Torrington Co. v. United States*, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), *aff'd without opinion*, 991 F.2d 809 (Fed. Cir. 1993); *Sandvik AB v. United States*, 721 F. Supp. 1322, 1331-32 (Ct. Int'l Trade 1989), *aff'd mem.*, 904 F.2d 46 (Fed. Cir. 1990); *Empire Plow Co. v. United States*, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987).

<sup>32</sup> The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include the following:

- (1) the percentage of domestic production attributable to the importing producer;
- (2) the reason the U.S. producer has decided to import the product subject to investigation (whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market);
- (3) whether inclusion or exclusion of the related party will skew the data for the rest of the industry;
- (4) the ratio of import shipments to U.S. production for the imported product; and
- (5) whether the primary interest of the importing producer lies in domestic production or importation. *Changzou Trina Solar Energy Co. v. USITC*, Slip. Op. 15-84 at 27 (Ct. Int'l. Trade Aug. 7, 2015); see also *Torrington Co. v. United States*, 790 F. Supp. at 1168.

<sup>33</sup> Preliminary Determination, USITC Pub. 4529, at 11-12.

<sup>34</sup> CR at III-3 and III-9, PR at III-2; CR/PR at Table III-1; CR at VII-9, PR at VII-6.

<sup>35</sup> Petitioners' Prehearing Brief at 9-10; PHP's Prehearing Brief at 7-9. Resolute did not take a position concerning the exclusion of Resolute USA as a related party.

<sup>36</sup> CR/PR at Table IV-1.

<sup>37</sup> CR/PR at Table III-6. Resolute USA's operating performance was \*\*\* than the industry average. Its ratio of operating income to net sales was \*\*\* percent in 2012, \*\*\* percent in 2013 and \*\*\* percent in 2014. CR/PR at Table VI-3. Its performance continued to be \*\*\* than the other domestic producers in the first half of 2015. *Id.*

<sup>38</sup> CR/PR at Table III-1. Resolute USA explained that its production of SC paper was \*\*\*. CR at VI-12 n.18, PR at VI-4 n.18.



The record indicates that Resolute USA's primary interests do not lie in \*\*\*. Accordingly, we find that appropriate circumstances exist to exclude it from the definition of the domestic industry. We therefore define the domestic industry to include all U.S. producers of SC paper with the exception of Resolute USA.

#### **IV. Material Injury by Reason of Subject Imports**

Based on the record in the final phase of this investigation, we find that an industry in the United States is materially injured by reason of imports of SC paper that Commerce has found to be subsidized by the government of Canada.

##### **A. Legal Standards**

In the final phase of antidumping and countervailing duty investigations, the Commission determines whether an industry in the United States is materially injured or threatened with material injury by reason of the imports under investigation.<sup>40</sup> In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.<sup>41</sup> The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."<sup>42</sup> In assessing whether the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.<sup>43</sup> No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."<sup>44</sup>

Although the statute requires the Commission to determine whether the domestic industry is "materially injured or threatened with material injury by reason of" unfairly traded imports,<sup>45</sup> it does not define the phrase "by reason of," indicating that this aspect of the injury

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(...Continued)

<sup>39</sup> See CR/PR at Table III-1.

<sup>40</sup> 19 U.S.C. §§ 1671d(b), 1673d(b). The Trade Preferences Extension Act of 2015, Pub. L. 114-27, amended the provisions of the Tariff Act pertaining to Commission determinations of material injury and threat of material injury by reason of subject imports in certain respects. We have applied those amendments here to the extent pertinent and practicable.

<sup>41</sup> 19 U.S.C. § 1677(7)(B). The Commission "may consider such other economic factors as are relevant to the determination" but shall "identify each {such} factor ... and explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B).

<sup>42</sup> 19 U.S.C. § 1677(7)(A).

<sup>43</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>44</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>45</sup> 19 U.S.C. §§ 1671d(a), 1673d(a).

analysis is left to the Commission's reasonable exercise of its discretion.<sup>46</sup> In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation under the "by reason of" standard must ensure that subject imports are more than a minimal or tangential cause of injury and that there is a sufficient causal, not merely a temporal, nexus between subject imports and material injury.<sup>47</sup>

In many investigations, there are other economic factors at work, some or all of which may also be having adverse effects on the domestic industry. Such economic factors might include nonsubject imports; changes in technology, demand, or consumer tastes; competition among domestic producers; or management decisions by domestic producers. The legislative history explains that the Commission must examine factors other than subject imports to ensure that it is not attributing injury from other factors to the subject imports, thereby inflating an otherwise tangential cause of injury into one that satisfies the statutory material injury threshold.<sup>48</sup> In performing its examination, however, the Commission need not isolate the injury caused by other factors from injury caused by unfairly traded imports.<sup>49</sup> Nor does the

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<sup>46</sup> *Angus Chemical Co. v. United States*, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) ("the statute does not 'compel the commissioners' to employ {a particular methodology}.") *aff'g*, 944 F. Supp. 943, 951 (Ct. Int'l Trade 1996).

<sup>47</sup> The Federal Circuit, in addressing the causation standard of the statute, observed that "{a}s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement." *Nippon Steel Corp. v. USITC*, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was further ratified in *Mittal Steel Point Lisas Ltd. v. United States*, 542 F.3d 867, 873 (Fed. Cir. 2008), where the Federal Circuit, quoting *Gerald Metals, Inc. v. United States*, 132 F.3d 716, 722 (Fed. Cir. 1997), stated that "this court requires evidence in the record 'to show that the harm occurred 'by reason of' the LTFV imports, not by reason of a minimal or tangential contribution to material harm caused by LTFV goods.'" See also *Nippon Steel Corp. v. United States*, 458 F.3d 1345, 1357 (Fed. Cir. 2006); *Taiwan Semiconductor Industry Ass'n v. USITC*, 266 F.3d 1339, 1345 (Fed. Cir. 2001).

<sup>48</sup> SAA at 851-52 ("the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports."); S. Rep. 96-249 at 75 (1979) (the Commission "will consider information which indicates that harm is caused by factors other than less-than-fair-value imports."); H.R. Rep. 96-317 at 47 (1979) ("in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or dumped imports is attributable to such other factors;" those factors include "the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry"); accord *Mittal Steel*, 542 F.3d at 877.

<sup>49</sup> SAA at 851-52 ("the Commission need not isolate the injury caused by other factors from injury caused by unfair imports."); *Taiwan Semiconductor Industry Ass'n*, 266 F.3d at 1345 ("the Commission need not isolate the injury caused by other factors from injury caused by unfair imports ... . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports." (emphasis in original)); *Asociacion de Productores de Salmon y Trucha* (Continued...)

“by reason of” standard require that unfairly traded imports be the “principal” cause of injury or contemplate that injury from unfairly traded imports be weighed against other factors, such as nonsubject imports, which may be contributing to overall injury to an industry.<sup>50</sup> It is clear that the existence of injury caused by other factors does not compel a negative determination.<sup>51</sup>

Assessment of whether material injury to the domestic industry is “by reason of” subject imports “does not require the Commission to address the causation issue in any particular way” as long as “the injury to the domestic industry can reasonably be attributed to the subject imports” and the Commission “ensure{s} that it is not attributing injury from other sources to the subject imports.”<sup>52 53</sup> Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed “rigid adherence to a specific formula.”<sup>54</sup>

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*de Chile AG v. United States*, 180 F. Supp. 2d 1360, 1375 (Ct. Int’l Trade 2002) (“{t}he Commission is not required to isolate the effects of subject imports from other factors contributing to injury” or make “bright-line distinctions” between the effects of subject imports and other causes.); *see also Softwood Lumber from Canada*, Inv. Nos. 701-TA-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that “{i}f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, *i.e.*, it is not an ‘other causal factor,’ then there is nothing to further examine regarding attribution to injury”), *citing Gerald Metals*, 132 F.3d at 722 (the statute “does not suggest that an importer of LTFV goods can escape countervailing duties by finding some tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.”).

<sup>50</sup> S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47.

<sup>51</sup> *See Nippon Steel Corp.*, 345 F.3d at 1381 (“an affirmative material-injury determination under the statute requires no more than a substantial-factor showing. That is, the ‘dumping’ need not be the sole or principal cause of injury.”).

<sup>52</sup> *Mittal Steel*, 542 F.3d at 877-78; *see also id.* at 873 (“While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured ‘by reason of’ subject imports, the Commission is not required to follow a single methodology for making that determination ... {and has} broad discretion with respect to its choice of methodology.”) *citing United States Steel Group v. United States*, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75. In its decision in *Swift-Train v. United States*, 793 F.3d 1355 (2015), the Federal Circuit affirmed the Commission’s causation analysis as comports with the Court’s guidance in *Mittal*.

<sup>53</sup> Vice Chairman Pinkert does not join this paragraph or the following three paragraphs. He points out that the Federal Circuit, in *Bratsk*, 444 F.3d 1369, and *Mittal Steel*, held that the Commission is *required*, in certain circumstances when considering present material injury, to undertake a particular kind of analysis of non-subject imports, albeit without reliance upon presumptions or rigid formulas. *Mittal Steel* explains as follows:

What *Bratsk* held is that “where commodity products are at issue and fairly traded, price competitive, non-subject imports are in the market,” the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether non-subject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1369. Under those circumstances, *Bratsk* requires the Commission to consider whether replacement of the

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The Federal Circuit's decisions in *Gerald Metals*, *Bratsk*, and *Mittal Steel* all involved cases where the relevant "other factor" was the presence in the market of significant volumes of price-competitive nonsubject imports. The Commission interpreted the Federal Circuit's guidance in *Bratsk* as requiring it to apply a particular additional methodology following its finding of material injury in cases involving commodity products and a significant market presence of price-competitive nonsubject imports.<sup>55</sup> The additional "replacement/benefit" test looked at whether nonsubject imports might have replaced subject imports without any benefit to the U.S. industry. The Commission applied that specific additional test in subsequent cases, including the *Carbon and Certain Alloy Steel Wire Rod from Trinidad and Tobago* determination that underlies the *Mittal Steel* litigation.

*Mittal Steel* clarifies that the Commission's interpretation of *Bratsk* was too rigid and makes clear that the Federal Circuit does not require the Commission to apply an additional test nor any one specific methodology; instead, the court requires the Commission to have "evidence in the record" to "show that the harm occurred 'by reason of' the LTFV imports," and requires that the Commission not attribute injury from nonsubject imports or other factors to subject imports.<sup>56</sup> Accordingly, we do not consider ourselves required to apply the replacement/benefit test that was included in Commission opinions subsequent to *Bratsk*.

The progression of *Gerald Metals*, *Bratsk*, and *Mittal Steel* clarifies that, in cases involving commodity products where price-competitive nonsubject imports are a significant factor in the U.S. market, the Court will require the Commission to give full consideration, with adequate explanation, to non-attribution issues when it performs its causation analysis.<sup>57</sup>

The question of whether the material injury threshold for subject imports is satisfied notwithstanding any injury from other factors is factual, subject to review under the substantial

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LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.  
542 F.3d at 878.

<sup>54</sup> *Nucor Corp. v. United States*, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005); *see also Mittal Steel*, 542 F.3d at 879 ("Bratsk did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was 'by reason' of subject imports.").

<sup>55</sup> *Mittal Steel*, 542 F.3d at 875-79.

<sup>56</sup> *Mittal Steel*, 542 F.3d at 873 (quoting from *Gerald Metals*, 132 F.3d at 722), 875-79 & n.2 (recognizing the Commission's alternative interpretation of *Bratsk* as a reminder to conduct a non-attribution analysis).

<sup>57</sup> To that end, after the Federal Circuit issued its decision in *Bratsk*, the Commission began to present published information or send out information requests in the final phase of investigations to producers in nonsubject countries that accounted for substantial shares of U.S. imports of subject merchandise (if, in fact, there were large nonsubject import suppliers). In order to provide a more complete record for the Commission's causation analysis, these requests typically seek information on capacity, production, and shipments of the product under investigation in the major source countries that export to the United States. The Commission plans to continue utilizing published or requested information in the final phase of investigations in which there are substantial levels of nonsubject imports.

evidence standard.<sup>58</sup> Congress has delegated this factual finding to the Commission because of the agency's institutional expertise in resolving injury issues.<sup>59</sup>

## **B. Conditions of Competition and the Business Cycle**

The following conditions of competition inform our analysis of whether there is material injury by reason of subject imports.

### **1. Demand Considerations**

Demand for SC paper depends on the demand for printed paper materials that use SC paper. End uses include retail newspaper inserts, retail circulars, and coupons, magazines, and catalogs.<sup>60</sup>

The parties agree that U.S. demand for SC paper has been declining in recent years and will continue to decline with the migration from print to electronic media.<sup>61</sup> Commercial advertising has increasingly moved from print to digital online media as the circulation of print periodicals such as newspapers and magazines has declined.<sup>62</sup> The record indicates that the trend is not unique to SC paper; printed paper products have generally experienced a decline in demand.<sup>63</sup>

SC paper accounts for a moderate-to-high share of the cost of the products for which it is used.<sup>64</sup> In addition, other products can sometimes be substituted for SC paper. The parties agree that during the POI there was a shift in demand to SC paper from coated groundwood paper, a more expensive product, and that this accounted for the increase in apparent U.S. consumption of SC paper during the POI, notwithstanding the reported long-term decline in demand for this product.<sup>65</sup> The record suggests that there is seasonality with respect to demand for SC paper; consumption is higher during the latter half of the year.<sup>66</sup>

As measured by quantity, apparent U.S. consumption rose by \*\*\* percent from 2012 to 2014, increasing from \*\*\* short tons in 2012 to \*\*\* short tons in 2013, and then declining to

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<sup>58</sup> We provide in our respective discussions of volume, price effects, and impact a full analysis of other factors alleged to have caused any material injury experienced by the domestic industry.

<sup>59</sup> *Mittal Steel*, 542 F.3d at 873; *Nippon Steel Corp.*, 458 F.3d at 1350, citing *U.S. Steel Group*, 96 F.3d at 1357; S. Rep. 96-249 at 75 (“The determination of the ITC with respect to causation is ... complex and difficult, and is a matter for the judgment of the ITC.”).

<sup>60</sup> CR at II-1, II-12, PR at II-1, II-7.

<sup>61</sup> CR at IV-11 n.13, PR at IV-5 n.13.

<sup>62</sup> CR at II-14, PR at II-8. According to Madison, two large retailers, Kohl's and Target Corp., recently announced they are shifting away from using advertising inserts. CR at II-14 n.28, PR at II-8 n.28.

<sup>63</sup> Tr. at 108 (Ostrowski).

<sup>64</sup> CR at II-12, PR at II-7.

<sup>65</sup> See Petitioners' Final Comments at 2; PHP's Prehearing Brief at 25.

<sup>66</sup> CR at II-7, II-12, PR at II-5, II-7.

\*\*\* short tons in 2014.<sup>67</sup> Apparent U.S. consumption was \*\*\* short tons in January-June (“interim”) 2014 and \*\*\* short tons in interim 2015.<sup>68</sup>

## 2. Supply Considerations

Subject imports supplied the largest portion of the market over the POI, and their market share increased<sup>69</sup> while the market share of the domestic industry declined.<sup>70</sup> The market share of nonsubject imports was small relative to subject imports and was also less than that of the domestic industry; it decreased irregularly over the period.<sup>71</sup> The largest sources of nonsubject SC paper during 2014 were Finland, Norway, Sweden, Belgium, and Germany.<sup>72</sup>

Two major events during the POI affected supply to the U.S. market. A fire at Verso’s Sartell, Minnesota paper mill in May 2012 and the subsequent permanent closure of the mill resulted in the loss of 35,000 short tons of domestic SC paper production capacity.<sup>73</sup> As a result, the domestic industry’s capacity declined over the POI from \*\*\* short tons in 2012 to \*\*\* short tons in 2013 and 2014.<sup>74</sup> The production of SC paper is capital intensive, and the parties agree that producers seek to run their paper machines on a near continuous basis to maximize efficiency.<sup>75</sup>

In October 2012, PHP restarted production of SC paper at its newly acquired Port Hawkesbury mill in Nova Scotia, returning \*\*\* short tons of production to the market after a one-year shutdown of that mill.<sup>76</sup> Because the Canadian producers have a \*\*\* and over \*\*\*

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<sup>67</sup> CR/PR at Table IV-5.

<sup>68</sup> CR/PR at Table IV-5.

<sup>69</sup> As measured by quantity, subject import market share increased from \*\*\* percent in 2012 to \*\*\* percent in 2013 and \*\*\* percent in 2014. Subject import market share was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table IV-5.

<sup>70</sup> CR/PR at Table D-1. As measured by quantity, the market share of the domestic industry declined from \*\*\* percent in 2012 to \*\*\* percent in 2013 and then increased to \*\*\* percent in 2014. It was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table D-1.

<sup>71</sup> As measured by quantity, nonsubject import market share was \*\*\* percent in 2012, \*\*\* percent in 2013, and \*\*\* percent in 2014. It was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table D-1.

<sup>72</sup> CR at IV-3, PR at IV-3.

<sup>73</sup> CR at III-4, PR at III-3. Verso indicated that it considered reopening the plant but the \*\*\* of doing so, the length of time to rebuild, and marketplace challenges led to its decision not to reopen the mill. CR at III-4, III-4 n.7, PR at III-3, III-3 n.7.

<sup>74</sup> CR/PR at Table D-1. Verso purchased a mill in Duluth, Minnesota from NewPage Holdings, Inc., which had entered bankruptcy; the acquisition was completed in January 2015. CR at III-5, PR at III-3. Verso reported data for SC paper operations at both the Sartell, Minnesota and Duluth, Minnesota mills. CR at III-5 n.8, PR at III-3 n.8.

<sup>75</sup> CR at III-6, III-6 n.12, PR at III-4, III-4 n.12.

<sup>76</sup> CR at VII-6, PR at VII-5.

percent of their shipments were to the United States during 2013 and 2014,<sup>77</sup> the reopening of the PHP mill effectively added supply to the U.S market.

### 3. Substitutability and Other Conditions

SC paper is sold in grades SCA++, SCA+, SCA, SCB, and SNC. The grades, however, are not established industry standards, and vary from producer to producer.<sup>78</sup> The parties dispute the degree to which the domestic like product and subject imports are substitutable. Petitioners argue that the significant overlap in the core of the market served by the domestic industry precludes finding attenuated competition.<sup>79</sup> Respondent PHP contends that, because the Canadian producers of SC paper and the domestic industry focus their production on different grades of SC paper, competition between the subject imports and the domestic like product is attenuated.<sup>80</sup> The record indicates substantial overlap in shipments of specific grades. During 2014, over 90 percent of the domestic industry's shipments and over one-third of importers' shipments of subject merchandise were SCA and SCA+ paper.<sup>81</sup> Although over half of the U.S. shipments of subject imports during the POI were SCB and SNC paper, the domestic industry also produced SCB paper throughout the POI.<sup>82</sup> The two types of paper that are not available from the domestic industry, SCA++ and SNC, accounted for only \*\*\* percent and \*\*\* percent, respectively, of U.S. apparent consumption over the POI (in 2014, the respective shares were \*\*\* percent and \*\*\* percent).<sup>83</sup>

Further, the record indicates that there is significant competition between adjacent grades of SC paper (that is, grades separated by one step on the "spectrum" of SCA++, SCA+, SCA, SCB, and SNC). Twenty-five of 33 responding firms indicated that SCA paper was always or frequently substitutable with SCA+ paper, and 16 of 31 responding firms indicated that SCA paper was always or frequently substitutable with SCB paper.<sup>84</sup> Purchasers indicated that relatively small price differences are sufficient to lead a purchaser to switch to an adjacent grade of SC paper.<sup>85</sup> Coated groundwood paper also was reported to be substitutable with the higher grades of SC paper, SCA+ and SCA++.<sup>86</sup>

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<sup>77</sup> In 2014, \*\*\* percent of subject producers' shipments of SC paper were to the United States. CR/PR at Table VII-2.

<sup>78</sup> Tr. at 90 (Drechsel).

<sup>79</sup> Petitioners' Posthearing Brief at p. 9.

<sup>80</sup> PHP's Prehearing Brief at 14.

<sup>81</sup> CR/PR at Tables D-2 and IV-3.

<sup>82</sup> See CR/PR at Tables D-2 and IV-3.

<sup>83</sup> See CR/PR at Tables III-4, IV-3 and IV-4 (derived numbers).

<sup>84</sup> CR/PR at Table II-6.

<sup>85</sup> A plurality of purchasers indicated that a difference in prices greater than five to ten percent would lead them to consider switching to the grade of SC paper adjacent on the spectrum of grades. CR at II-20, PR at II-13; CR/PR at Table II-7.

<sup>86</sup> CR/PR at Table II-6. Twenty-three of 32 responding firms indicated coated groundwood paper was always or frequently substitutable with SCA++ paper, and 17 of 33 responding firms indicated coated groundwood was always or frequently substitutable with SCA+ paper. *Id.*

The record indicates a relatively high degree of substitutability between domestically produced SC paper and SC paper imported from Canada.<sup>87</sup> The great majority of all questionnaire respondents reported that the domestic like product and subject imports were either always or frequently interchangeable.<sup>88</sup> Most purchasers also indicated that the domestic like product and subject merchandise were comparable on the 21 product factors referenced in the questionnaire.<sup>89</sup>

Price and reliability of supply were most frequently reported by purchasers as very important in purchase decisions.<sup>90</sup> Other important factors include quality and product consistency.<sup>91</sup>

SC paper is normally made to order, with little product held in inventory.<sup>92</sup> Most sales are made under short and long term contracts. The contracts, however, typically have meet-or-release provisions.<sup>93</sup> Purchasers generally contact two to five suppliers before making a purchase, indicating competition for sales.<sup>94</sup>

Raw materials used in the production of SC paper are mechanical pulp, chemical pulp, fillers, and additives.<sup>95</sup> \*\*\* reported that the cost of raw material inputs has increased since January 1, 2012, while \*\*\* indicated that the cost of raw materials has fluctuated.<sup>96</sup> The domestic industry's cost of goods sold ("COGS") per short ton of SC paper declined from \$\*\*\* in 2012 to \$\*\*\* in 2014; it was \$\*\*\* in interim 2014 and \$\*\*\* in interim 2015.<sup>97</sup>

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<sup>87</sup> CR at II-21, PR at II-14.

<sup>88</sup> CR/PR at Table II-13. A majority of all questionnaire respondents also indicated that nonsubject SC paper and Canadian SC paper were either always or frequently interchangeable. *Id.*

<sup>89</sup> CR/PR at Table II-12.

<sup>90</sup> See CR/PR at Table II-10. Twenty-three of 24 purchasers described price and reliability of supply as very important.

<sup>91</sup> See *Id.*

<sup>92</sup> CR at VI-10, PR at VI-3.

<sup>93</sup> CR at V-5 and V-6, PR at V-4.

<sup>94</sup> CR at II-28, PR at II-18.

<sup>95</sup> CR at I-9, PR at I-7.

<sup>96</sup> CR at V-1, PR at V-1.

<sup>97</sup> CR/PR at Table D-1.



### C. Volume of Subject Imports<sup>98</sup>

Section 771(7)(C)(i) of the Tariff Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”<sup>99</sup>

The volume of subject imports increased from \*\*\* short tons in 2012 to \*\*\* short tons in 2013 and \*\*\* short tons in 2014, an increase of \*\*\* percent from 2012 to 2014.<sup>100</sup> Subject imports were \*\*\* short tons in interim 2014 and \*\*\* short tons in interim 2015.<sup>101</sup> On a quantity basis, the market share of subject imports increased from \*\*\* percent in 2012 to \*\*\* percent in 2013 and \*\*\* percent in 2014; their share was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015.<sup>102 103</sup>

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<sup>98</sup> Resolute asserts, as it did in the preliminary phase of the investigation, that the Canadian province of Quebec is entitled to a separate injury determination by the Commission. Resolute argues that when the Commission rejected Resolute’s argument in the preliminary determination, it improperly “conflated the Department {of Commerce’s} authority to define the scope of an investigation with the statutory definition of ‘country’” in 19 U.S.C. § 1677(3). See Resolute’s Prehearing Brief at 11; Resolute’s Posthearing Brief at 6.

As explained in the preliminary determination, the Commission previously considered and rejected a similar argument in *Softwood Lumber from Canada*. Inv. No. 701-TA-312 (Remand), USITC Pub. 2689 (Oct. 1993) at 16-21 (“USITC Pub. 2689”). A Binational Panel specifically upheld the Commission’s conclusion on this issue. See *United States-Canada Free Trade Agreement Binational Panel Review, In the Matter of: Softwood Lumber from Canada, Decision of the Panel on Review of the Remand Determination of the U.S. International Trade Commission*, at 4-7, USA-92-1904-02 (Jan. 28, 1994). See also *Republic Steel v. United States*, 544 F. Supp. 901 (Ct. Int’l Trade 1982) (Commerce’s identification of subject country binds the Commission when it makes its injury determination.).

These authorities and the provisions of the statute demonstrate that the position we articulated in the preliminary determination is correct. In this investigation, Commerce has made its final determination with respect to all subject merchandise from the country of Canada. The CVD statute directs the Commission in the final phase of an investigation to determine whether material injury is “by reason of imports . . . of the merchandise with respect to which the administering authority has made an affirmative determination.” 19 U.S.C. § 1671d(b)(1). The Commission cannot, therefore, make separate determinations on subject merchandise from each Canadian province. Furthermore, as the Commission observed in *Softwood Lumber*, even assuming for the sake of argument that the Commission had the authority to determine that Quebec is a “country” for purposes of this investigation and determined that Quebec were a country, it would not qualify as a “country under the Agreement” and would not be entitled to an injury test. 19 U.S.C. § 1671(c). See USITC Pub. 2689 at 21.

<sup>99</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>100</sup> CR/PR at Table IV-2. We also note that shipments of subject imports of all SC paper grades increased from 2012 to 2014, with the exception of SNC, a grade the domestic industry does not produce. See CR/PR at Table IV-3. Further, shipments of grades SCA++, SCA+ and SCA paper from Canada were higher in interim 2015 than in interim 2014. *Id.* As noted above, the domestic industry’s shipments are concentrated in grades SCA and SCA+. CR/PR at Table D-2.

<sup>101</sup> CR/PR at Table IV-2.

<sup>102</sup> CR/PR at Table IV-5.

The domestic industry's market share (on a quantity basis) was \*\*\* percentage points lower in 2014 than in 2012; it was \*\*\* percentage points higher in interim 2015 than in interim 2014.<sup>104</sup> Although subject imports also captured market share from nonsubject imports, the domestic industry's lost market share was far greater than that of nonsubject imports over the POI.<sup>105</sup> Indeed, the \*\*\* percentage points of market share that the subject imports gained from 2012 to 2013 came entirely at the expense of the domestic industry.<sup>106</sup>

Further, the ratio of subject imports to domestic industry production increased from \*\*\* percent in 2012 to \*\*\* percent in 2014, an increase of more than \*\*\* percentage points.<sup>107</sup> The ratio was also high in interim 2014 (\*\*\* percent) and remained so during interim 2015 (\*\*\* percent).<sup>108</sup>

We find that the volume of subject imports and the increase in volume is significant both in absolute terms and relative to consumption and production in the United States.<sup>109</sup>

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(...Continued)

<sup>103</sup> Vice Chairman Pinkert finds that the increase in the volume and market share of imports from Canada during the POI is largely attributable to the acquisition of the Port Hawkesbury, Nova Scotia mill by Pacific West Commercial Corp. and its reopening as Port Hawkesbury Paper in October 2012. CR/PR at Table IV-1, n. 3 & VII-6. As a result of the re-opening, that mill's annual capacity of \*\*\* short tons was added to the supply available in the U.S. market (in 2014, \*\*\* percent of Port Hawkesbury's commercial shipments were exported to the United States). *Id.* at VII-6, VII-8. The evidence in this investigation shows that the purchase and operation of the Port Hawkesbury mill was dependent on the receipt of the countervailable subsidies that Commerce has determined to exist. *See, e.g.,* Hearing Tr. at 59-60, 96-97; Petitioner's Post-Hearing Brief, Answers to Questions, at 35-38, and Exhibit 21 at 4-5 (Pacific West's statement to the Nova Scotia Utility and Review Board that "[a]ppropriate electricity pricing is critical in order for the Mill to restart and to be competitive on a long-term basis. Obtaining an appropriate electricity cost is in fact the single most critical element in ensuring a successful restructuring plan for the Mill. Accordingly, the load retention rate applied for by us in this proceeding is necessary for PWCC to effect a restart of the Mill. Absent approval of the load retention rate requested, PWCC will not be in a position to finalize its arrangements to acquire control of NPPH and NPPH to restart the Mill.").

<sup>104</sup> *See* CR/PR at Table D-1.

<sup>105</sup> *See* CR/PR at Table IV-5. Nonsubject imports, by contrast, lost \*\*\* percentage points of market share between 2012 and 2014 and had a greater market share in interim 2015 than in interim 2014. *Id.*

<sup>106</sup> *See* CR/PR at Table D-1.

<sup>107</sup> CR/PR at Table IV-2.

<sup>108</sup> CR/PR at Table IV-2.

<sup>109</sup> PHP argues that the restart of its mill at the end of 2012 did not change the demand/supply balance. PHP's Prehearing Brief at 23-25. We disagree. PHP's exports of SC paper to the United States increased from \*\*\* short tons in 2012 to \*\*\* short tons in 2013. PHP's Questionnaire Response at II-11. Total domestic production of SC paper also increased in 2013 relative to 2012. *See* CR/PR at Table III-2 (including all U.S. producers). While a shift from coated groundwood paper may have occurred due to the attractiveness of SC paper prices, this does not fully explain the increase, as U.S. importers' shipments of the subject merchandise increased in all grades. *See* CR/PR at Table IV-3.

#### D. Price Effects of the Subject Imports

Section 771(7)(C)(ii) of the Tariff Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether –

(I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and

(II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.<sup>110</sup>

As previously discussed, the record indicates a moderate to high degree of substitutability between subject imports and the domestic like product.<sup>111</sup> Purchasers indicated that price and reliability of supply were very important in purchase decisions.<sup>112</sup> Most purchasers also indicated that the domestic like product and subject merchandise were comparable with respect to 21 purchase factors.<sup>113</sup> Purchasers generally contacted two to five suppliers before making a purchase, indicating robust competition among suppliers for sales.<sup>114</sup> Even after sales contracts are consummated, they typically have meet-or-release provisions that permit buyers to negotiate lower contract prices if market prices fall.<sup>115</sup> We therefore find that price is an important consideration in purchasing decisions.

The Commission requested that domestic producers and importers of subject merchandise provide quarterly weighted-average delivered prices for product sold directly to unrelated customers.<sup>116</sup> All three domestic producers<sup>117</sup> and four importers submitted data regarding seven SC paper products for the period January 2012 to June 2015.<sup>118</sup> Based on the questionnaire responses submitted in the final phase of this investigation, subject imports undersold the domestic like product in \*\*\* out of \*\*\* possible quarterly comparisons.<sup>119</sup> A

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<sup>110</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>111</sup> CR at II-21, PR at II-14.

<sup>112</sup> See CR/PR at Table II-10.

<sup>113</sup> CR/PR at Table II-12.

<sup>114</sup> CR at II-28, PR at II-18; Tr. at 76 (McGill).

<sup>115</sup> CR at V-5 and V-6, PR at V-4.

<sup>116</sup> CR at V-11, PR at V-7. The pricing data reported by domestic producers accounted for approximately \*\*\* percent of the domestic industry's U.S. shipments of SC paper during the POI and \*\*\* percent of U.S. shipments of subject imports in the same period. CR at V-11, PR at V-7.

<sup>117</sup> We have excluded from our analysis the pricing data of domestic producer Resolute USA consistent with our decision to exclude it as a related party.

<sup>118</sup> The Commission collected data for two SCA+ grade products, three SCA grade products, and two SCB grade products. CR at V-11, PR at V-7. The majority of U.S. producers' price data were for sales of \*\*\*. Importers reported price data primarily for sales of \*\*\*. CR at V-11 to V-12, PR at V-7 to V-8.

<sup>119</sup> Subject imports' quarterly average margins of underselling ranged from \*\*\* to \*\*\* percent during the POI. The overall average margin of underselling was \*\*\* percent. CR/PR at Table D-8.

(Continued...)

total of \*\*\* short tons of subject imports undersold the domestic like product, while \*\*\* short tons oversold the domestic like product, and the volume of subject imports that undersold the domestic like product amounted to \*\*\* percent of the volume of subject imports accounted for in the pricing data.<sup>120</sup>

PHP argues that certain pricing data in the final phase of the investigation are flawed and the Commission should therefore rely on the pricing data that \*\*\* submitted for its subject imports from Canada in the preliminary phase of the investigation. The extent to which PHP is correct is unclear.<sup>121</sup> Nevertheless, assuming *arguendo* that PHP's objection has merit, we have also considered the alternative data in the record that it has requested we use.<sup>122</sup> These data do not alter our conclusion that underselling was significant during the POI.<sup>123</sup>

Based on this evidence, we conclude that there has been significant underselling of the domestic like product by subject imports from Canada.<sup>124</sup> This underselling led to price declines

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(...Continued)

Subject imports' quarterly average margins of overselling ranged from \*\*\* to \*\*\* percent. The overall average margin of overselling was \*\*\* percent.

<sup>120</sup> See CR/PR at Table D-8. *Id.*

<sup>121</sup> PHP argues that Resolute USA incorrectly reported its pricing data in the final phase of this investigation by \*\*\*. PHP's Final Comments at 3. We note that Resolute USA was represented by counsel throughout the investigation and presumably understood the Commission's questionnaire instructions. Those instructions made clear that prices were to be reported on a delivered basis. Importer Questionnaire at III-2. Resolute USA never sought to modify its response, and PHP made its contention concerning Resolute USA's pricing data in its Final Comments filed after the administrative record had closed. It was too late at that time for staff to follow up with Resolute USA and make an informed decision on whether its importer questionnaire response should be amended.

<sup>122</sup> For this alternative analysis, we used Resolute's data from the preliminary investigation for calendar years 2012, 2013, and 2014, and did not use any Resolute data for 2015, which were not available from the preliminary investigation. See EDIS Doc. 569496 at Table 8 (derived from data in CR/PR tables D-1 – D-7 and Resolute's preliminary phase importer questionnaire response). Using these data, the price comparisons show underselling by the subject imports in \*\*\* of \*\*\* quarters. Subject imports' margins of overselling ranged from \*\*\* to \*\*\* percent during the POI. The average margin of overselling was \*\*\* percent. *Id.* Margins of underselling ranged from \*\*\* to \*\*\* percent and averaged \*\*\* percent. *Id.* A total of \*\*\* short tons of subject imports undersold the domestic like product, while \*\*\* short tons oversold the domestic like product. *Id.*

<sup>123</sup> Even using Resolute USA's pricing data from the preliminary phase of the investigation, subject imports undersold U.S.-produced SC paper \*\*\* percent of the time on a volume basis during the POI. See EDIS Doc. 569496 at Table 8 (derived from data in CR/PR tables D-1 – D-7 and Resolute's preliminary phase importer questionnaire response).

Moreover, no matter which data set is used, much of the underselling by the subject imports occurred during 2012-2013 when the subject imports captured market share from the domestic industry. *Id.* More specifically, \*\*\* of the \*\*\* instances of underselling occurred during 2012 and 2013 if Resolute USA's import prices reported in the preliminary phase are used. *Id.* Using Resolute USA's import prices from the final phase questionnaire, \*\*\* of the \*\*\* instances of underselling occurred during 2012 and 2013. See CR/PR at Table D-8.

<sup>124</sup> PHP argues that the Commission should consider its increase in supply to the U.S. market to be non-injurious because it oversold the domestic like product in many instances. It also urges the  
(Continued...)

for the domestic like product (as discussed below) and enabled the subject imports to gain significant market share at the domestic industry's expense.

In analyzing the price effects of the subject imports and whether they depressed domestic prices to a significant degree, we considered changes in U.S. and subject import prices over the POI. According to questionnaire data, the domestic industry's weighted-average prices for all seven pricing products decreased overall between the first quarter of 2012 and the second quarter of 2015.<sup>125</sup> Price declines also occurred earlier in the POI when underselling by the subject imports was prevalent<sup>126</sup> and three of the four largest U.S. price declines over the period occurred in the products which accounted for the highest U.S. shipment volumes.<sup>127</sup>

As noted, the record also indicates that, because domestic producers seek to run their mills at high capacity utilization, domestic mills have priced their product competitively to maintain their sales volumes.<sup>128</sup> Consequently, the need to match or beat competition from the significant and increasing volume of low-priced subject imports explains the magnitude of

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(...Continued)

Commission to discount underselling by the subject imports during the fourth quarter of 2012 because it was restarting its plant. PHP's Final Comments at 7 n.15. The Commission considers the subject imports as a whole, and PHP's lower prices when it reentered the U.S. market are pertinent to consideration of the effect of subject imports on domestic prices. We therefore have considered pricing over the entirety of the POI.

<sup>125</sup> During the POI, the domestic industry's price for product 1 decreased by \*\*\* percent; for product 2, the price decreased by \*\*\* percent; for product 3, the price decreased by \*\*\* percent; for product 4, the price decreased by \*\*\* percent; for product 5, the price decreased by \*\*\* percent; for product 6, the price decreased by \*\*\* percent; for product 7, the price decreased by \*\*\* percent. CR/PR at Table D-7.

<sup>126</sup> From January 2012 to December 2013, the domestic industry's price for product 1 decreased by \*\*\* percent; for product 2, the price increased by \*\*\* percent; for product 3, the price decreased by \*\*\* percent; for product 4, the price decreased by \*\*\* percent; for product 5, the price decreased by \*\*\* percent; for product 6, the price decreased by \*\*\* percent; for product 7, the price decreased by \*\*\* percent. See CR at Figs. V-2 to V-8; CR/PR at Table D-2 to D-8. Petitioners indicated that the restart of PHP's mill toward the end of 2012 created downward price pressure. Similarly, purchasers \*\*\* reported that the reopening of the PHP mill created downward pressure on prices for SC paper. CR at V-26 n.23, PR at V-23 n.13.

<sup>127</sup> PHP has argued that the secular decline in demand accounts for the downward trend in SC paper prices. We note, however, that this argument ignores the increase in supply as PHP restarted the Port Hawkesbury mill. See CR/PR at Table D-1, D-7.

<sup>128</sup> Tr. at 51 (Dreschel) ("Due to the high volume of low-priced imports from Canada, our margins have been compressed to the point that we cannot profitably run our operation 24/7/365."); Tr. at 67 (Clancy) ("Thus, we have had to reduce prices to maintain sales volumes.").

the price declines.<sup>129</sup> We therefore find that subject imports depressed prices for domestically produced SC paper to a significant degree.<sup>130 131</sup>

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<sup>129</sup> Declines in the domestic industry's net sales values consistently exceeded those of unit COGS during the POI. See CR at Table D-8. PHP also argued that that pricing in the SC paper market is determined by changes in supply and demand rather than costs. PHP's Posthearing Brief at 28. To the extent this is true, the industry's lower costs do not explain the price declines it experienced.

<sup>130</sup> PHP contends that falling prices for lightweight coated groundwood paper influenced SC paper prices during the POI. See PHP's Prehearing Brief at Exhibit A. Although we do not dispute the existence of some effects across paper grades and types, we do not agree with PHP that subject imports did not play a significant role in the observed declines. Ample evidence, including importers' own characterization of the importance of subject import price competition, indicated that subject imports depressed prices. See CR/PR at Table II-4. We also observe that the gap between the prices for SC paper and lightweight coated groundwood paper widened, as SC paper prices fell faster than lightweight coated paper prices from 2012 to 2013. See CR at II-21, PR at II-14. PHP also contended that SC paper prices are tied to coated groundwood paper prices through contract terms and that it would provide examples of such contracts, but it did not provide them in its posthearing brief. Tr. at 266-267 (Ostrowski); PHP's Posthearing Brief at Appendix O. Moreover, although price declines occurred across all pricing products, the smallest price declines occurred for products 2 and 6, the only products for which there was overselling. See CR/PR at Tables D-7 and D-8. This also confirms that factors other than coated groundwood paper prices, such as subject import price competition, drove price movements for SC paper.

PHP additionally asserts that its "Granger" analysis demonstrates that lightweight coated groundwood paper prices drove SC prices, but the relationship identified by its model shows a correlation in price movements rather than true causation. PHP's model also does not indicate that subject imports are not affecting prices. Additionally, although the entire lightweight coated paper market is approximately 60 percent larger than the SC paper market, the market for lightweight coated no. 5, the grade that is most substitutable with SC paper and is asserted to drive SC paper prices, is smaller than the SC paper market. See Petitioner Posthearing Brief, Exhibit 1. PHP also acknowledged that most of the competition between coated lightweight groundwood and SC paper is in SCA++ and SCA+ grades, which account for a relatively small share of the SC paper market. See PHP's Posthearing Brief at Appendix O. In light of these considerations and our analysis above regarding differences between coated groundwood paper price changes and SC paper price changes, the Granger analysis does not detract from the other record evidence that indicates that subject imports depressed domestic prices for SC paper to a significant degree.

<sup>131</sup> The domestic industry reported that it had to either reduce prices or roll back announced price increases due to competition from subject imports. The petitioners' 22 lost sales allegations totaled \$\*\*\* and involved \*\*\* short tons of SC paper, and their 244 lost revenue allegations totaled \$\*\*\* and involved \*\*\* short tons of SC paper. Purchasers did not confirm any of the allegations and only responded to approximately half of the allegations. See CR/PR at Table V-13. However, the \*\*\* indicated that it had been offered an even lower price by the domestic producer than that alleged because it received a rebate, essentially confirming \*\*\* lost revenue allegations in which it was involved. Responses to the allegations by other purchasers such as \*\*\* also suggest that the domestic producer reduced prices to meet subject import competition. *Id.* We therefore do not agree with PHP that the lack of confirmed lost sales or revenues indicates that domestic producers did not lower prices or lose sales due to competition from subject imports.

## E. Impact of the Subject Imports

Section 771(7)(C)(iii) of the Tariff Act provides that examining the impact of subject imports, the Commission “shall evaluate all relevant economic factors which have a bearing on the state of the industry.”<sup>132</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, gross profits, net profits, operating profits, cash flow, return on investment, return on capital, ability to raise capital, ability to service debts, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”<sup>133</sup>

During the POI, the domestic industry’s performance indicators almost universally declined. Despite the \*\*\* percent increase in apparent U.S. consumption that occurred in 2013 relative to 2012, the domestic industry’s U.S. shipments, net sales, and production fell in 2013 relative to 2012 before increasing modestly in 2014; each of these factors was lower in interim 2015 than in interim 2014.<sup>134</sup> A fire at Verso’s Sartell, Minnesota mill during the first half of 2012 resulted in the loss of \*\*\* short tons of SC paper production capacity;<sup>135</sup> both capacity and capacity utilization declined during the POI.<sup>136</sup> The domestic industry’s market share declined

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<sup>132</sup> 19 U.S.C. § 1677(7)(C)(iii); *see also* SAA at 851 and 885 (“In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.”).

<sup>133</sup> 19 U.S.C. § 1677(7)(C)(iii). This provision was recently amended by the Trade Preferences Extension Act of 2015, Pub. L. 114-27.

<sup>134</sup> The domestic industry’s U.S. shipments were \*\*\* short tons in 2012, \*\*\* short tons in 2013, and \*\*\* short tons in 2014. They were \*\*\* short tons in interim 2014 and \*\*\* short tons in interim 2015. The industry’s net sales were \*\*\* short tons in 2012, \*\*\* short tons in 2013, and \*\*\* short tons in 2014. They were \*\*\* short tons in interim 2014 and \*\*\* short tons in interim 2015. The domestic industry’s production was \*\*\* short tons in 2012, \*\*\* short tons in 2013, and \*\*\* short tons in 2014. Its production was \*\*\* short tons in interim 2014 and \*\*\* short tons in interim 2015. CR/PR at Table D-1. The industry’s inventories were \*\*\* during the POI because, as noted above, SC paper is typically made to order and not held in inventory. CR/PR at Table D-1; CR at II-7, PR at II-4.

<sup>135</sup> Average production capacity was \*\*\* short tons in 2012 and \*\*\* short tons during 2013 and 2014. It was \*\*\* short tons during both interim periods. CR/PR at Table D-1. The record does not indicate that Verso’s decision to permanently close the Sartell mill after the fire was due to the start-up of PHP’s mill in October 2012. When Verso made its decision, it was unclear that PHP would reopen its mill, and contemporaneous statements by Verso make no mention of PHP or its mill. *See* CR at III-4 n.7, PR at III-3 n.7.

<sup>136</sup> The domestic industry’s capacity utilization declined from \*\*\* percent in 2012 to \*\*\* percent in 2013 and \*\*\* percent in 2014. It was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table D-1. Lower utilization rates in the first half of these years may in part be due to seasonal demand for SC paper.

from 2012 to 2014.<sup>137</sup> Employment and wages declined, but productivity increased over the POI.<sup>138</sup>

The domestic industry experienced steadily declining financial performance during the POI. Sales revenues decreased from 2012 to 2014 and were lower in interim 2015 than in interim 2014.<sup>139</sup> The domestic industry's ratio of COGS to net sales rose throughout the POI, indicating that the industry was unable to price its products at levels necessary to maintain its profitability.<sup>140</sup> As a result, the industry's operating income and net income declined sharply.<sup>141</sup> Operating income declined from \$\*\*\* in 2012 to \$\*\*\* in 2013 and then to \*\*\* in interim 2015.<sup>142</sup> The domestic industry's operating income margin declined from \*\*\* percent in 2012 to \*\*\* percent in 2013, and then to operating losses of \*\*\* percent in 2014, \*\*\* percent in interim 2014, and \*\*\* percent in interim 2015.<sup>143</sup> Net income declined from \$\*\*\* in 2012 to \*\*\* in 2013, \$\*\*\* in 2014, \$\*\*\* in interim 2014, and \$\*\*\* in interim 2015.<sup>144</sup> The domestic industry's ratio of net income to sales declined from \*\*\* percent in 2012 to losses of \*\*\*

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<sup>137</sup> As measured by quantity, the market share of the domestic industry declined from \*\*\* percent in 2012 to \*\*\* percent in 2013 and then increased to \*\*\* percent in 2014. It was \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table D-1.

<sup>138</sup> Production-related workers, hours worked, and wages decreased over the POI. See CR/PR at Table D-1. The industry's number of workers declined from \*\*\* in 2012 to \*\*\* in 2013 and to \*\*\* in 2014. The number of workers was \*\*\* in interim 2014 and \*\*\* in interim 2015. *Id.* Hours worked fell from \*\*\* in 2012 to \*\*\* during 2013 and 2014. They were \*\*\* during interim 2014 and \*\*\* during interim 2015. *Id.* The wages the industry paid to its workers fell from \$\*\*\* in 2012 to \$\*\*\* in 2013, and then increased to \$\*\*\* in 2014. Wages paid were \$\*\*\* million in interim 2014 and \$\*\*\* million in interim 2015. *Id.* The industry's productivity increased from \*\*\* short tons per 1,000 hours in 2012 to \*\*\* short tons per 1,000 hours in 2013 and \*\*\* short tons per 1,000 hours during 2014. *Id.* It was \*\*\* short tons per 1,000 hours in interim 2014 and \*\*\* short tons per 1,000 hours in interim 2015.

<sup>139</sup> The domestic industry's sales revenues fell from \$\*\*\* in 2012 to \$\*\*\* in 2013, before falling further to \$\*\*\* in 2014. CR/PR at Table D-1. Its sales revenues were \$\*\*\* in interim 2014 and \$\*\*\* in interim 2015. *Id.*

<sup>140</sup> The domestic industry's COGS as a ratio to net sales increased steadily. It was \*\*\* percent in 2012, \*\*\* percent in 2013, \*\*\* percent in 2014, \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015. CR/PR at Table D-1.

<sup>141</sup> See CR/PR at Table D-1. The industry's return on investment expressed as operating income (loss) to assets declined from \*\*\* percent in 2012 to \*\*\* percent in 2013 and \*\*\* percent in 2014. CR/PR at Table VI-5.

<sup>142</sup> CR/PR at Table D-1.

<sup>143</sup> CR/PR at Table D-1.

<sup>144</sup> CR/PR at Table D-1. Gross profits declined from \$\*\*\* in 2012 to \$\*\*\* in 2013 and \$\*\*\* in 2014. They were \$\*\*\* in interim 2014 and \$\*\*\* in interim 2015. *Id.* The domestic industry's capital expenditures decreased from \$\*\*\* in 2012 to \$\*\*\* in 2013 and then increased to \$\*\*\* in 2014. CR/PR at Table D-1. Capital expenditures were \$\*\*\* in interim 2014 and \$\*\*\* in interim 2015. *Id.* The domestic industry's research and development expenses increased from \$\*\*\* in 2012 to \$\*\*\* in 2014. They were \$\*\*\* in interim 2014 and \$\*\*\* in interim 2015. CR/PR at Table VI-4.



percent in 2013, \*\*\* percent in 2014, \*\*\* percent in interim 2014 and \*\*\* percent in interim 2015.<sup>145</sup>

The decline in the domestic industry's financial performance over the POI was primarily the result of the decrease in unit sales values exceeding the decline in unit costs.<sup>146</sup> The industry experienced declining sales values and profits into interim 2015. Although we acknowledge that the volume of subject imports was \*\*\* percent lower in interim 2015 than in interim 2014, this does not indicate that subject imports were a waning influence in the market. On the contrary, subject imports continued to supply almost \*\*\* of apparent U.S. consumption during interim 2015 and increased their presence in the segments of the market where competition with the domestic like product was most intense.<sup>147</sup>

The POI was characterized by increasing and significant volumes of subject imports that were close substitutes for the domestic like product. To maintain sales and capacity utilization, the domestic industry priced its products competitively with the increasing volumes of subject merchandise that undersold the domestic like product to a significant degree. The record indicates that significant volumes of subject imports captured market share and depressed prices for the domestic like product.

In particular, underselling by the subject imports in 2012 led to a loss of the domestic industry's market share. The domestic industry cut prices in response, and price depression persisted throughout the POI. While the domestic industry consequently was able to regain some market share in 2014 as it cut prices and increased its output that year, depressed prices prevented it from operating profitably, and unprofitable operations persisted in interim 2015.

Consequently, the record indicates that, because of lower prices, the domestic industry's revenues declined and were lower than they would have been absent subject import competition. These lower revenues, in turn, caused poor and declining operating performance. Accordingly, we find that the significant volume of subject imports from Canada had a significant adverse impact on the domestic industry.

In reaching this conclusion, we have considered whether there are factors other than subject imports that may have had an adverse impact on the domestic industry during the POI to ensure that we are not attributing any injury from other such factors to the subject imports.

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<sup>145</sup> CR/PR Table D-1.

<sup>146</sup> See CR/PR Table D-1. PHP contends that the deterioration in the domestic industry's performance results from Verso's acquisition of NewPage in early 2015 and its consequent assumption of a large amount of debt. PHP's Prehearing Brief at 16, 40. However, the acquisition occurred in 2015 and therefore cannot account for Verso's declining performance from 2012 to 2014. Further, the declines occurred in Verso's \*\*\*, neither of which is affected by interest payments. CR/PR at Table VI-3. Despite no comparable acquisitions, domestic producer \*\*\* suffered \*\*\* in operating performance \*\*\*. See *Id.*

<sup>147</sup> Importers' shipments of grades SCA++, SCA+ and SCA paper from Canada were higher in interim 2015 than in interim 2014. *Id.* The domestic industry's shipments are concentrated in grades SCA and SCA+. See CR/PR at Table D-2.

As discussed above, apparent U.S. consumption generally increased during the POI,<sup>148</sup> and nonsubject imports generally had a declining presence in the U.S. market and were at much lower volumes than the subject imports.<sup>149</sup> Accordingly, the adverse price effects domestic producers experienced during the POI were due to subject import competition, rather than nonsubject imports.<sup>150</sup> Therefore, the declines in prices, revenues, and operating performance that we have attributed to the subject imports cannot be explained by other factors.<sup>151</sup>

## V. Conclusion

For the reasons stated above, we determine that an industry in the United States is materially injured by reason of subject imports of SC paper that are subsidized by the government of Canada.

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<sup>148</sup> Apparent U.S. consumption of SC paper increased overall during the POI, from \*\*\* million short tons in 2012 to \*\*\* million short tons in 2014. Apparent U.S. consumption was \*\*\* short tons in interim 2014 and \*\*\* short tons in interim 2015. *Id.* The industry experienced its largest annual decline in operating income in 2013 despite higher apparent U.S. consumption that year. See CR/PR at Table D-1. As explained in section IV.D, secular declines in demand that may have caused price declines for other products cannot explain the magnitude of the declines in price for SC paper.

<sup>149</sup> As measured by quantity, nonsubject import market share was \*\*\* percent in 2012, \*\*\* percent in 2013, and \*\*\* percent in 2014. CR/PR at Table D-1. Their share was slightly higher in interim 2015 (\*\*\* percent) than in interim 2014 (\*\*\* percent). *Id.*

<sup>150</sup> Based on the evidence in this investigation, Vice Chairman Pinkert finds that price-competitive nonsubject imports were a significant factor in the U.S. market for SC paper during the POI. He further finds, however, that, regardless of whether SC paper is a commodity product, the evidence does not support finding that nonsubject imports would have replaced the subject imports without benefit to the domestic industry had the subject imports exited the U.S. market during the period. The information available in this investigation with respect to non-subject sources of SC paper and the factors that might have encouraged an increase in U.S. imports from such sources is quite limited. See CR at VII-14 to VII-16, PR at VII-8 to VII-9. Given the large volume of imports from Canada during the POI and the fact that Canada accounts for almost one-third of global exports of SC paper, CR/PR at Table VII-5, and virtually all its exports during the POI were to the United States, CR/PR at Table VII-2, it is unlikely that nonsubject imports would have replaced subject imports in the U.S. market.

<sup>151</sup> PHP argues that by focusing on grades SCA and SCA+, the domestic producers “failed to recognize purchasers’ preferences had changed and failed to adequately adapt to these changes in customer preference.” PHP’s Posthearing Brief at 5. PHP overlooks that SCA and SCA+ comprise the heart of the SC paper market. CR/PR at Table IV-4 (55.2 percent of apparent U.S. consumption of SC paper were grades SCA and SCA+). Contrary to the contention that subject imports were competing in different grades, roughly three quarters of the increase in shipments of subject imports from 2012 to 2013 occurred in grades SCA and SCA+. See CR at Table IV-3. Moreover, Verso and Madison produce grade SCB. CR/Pr at Table I-1. See also Tr. at 90 (Clancy); Tr. at 161 (Ostrowski). A sales agent for PHP products also explained that producers that make grade SCA paper can also make SCB paper. Tr. at 266 (Ostrowski). We note that the domestic industry’s shipments of SCB paper fell over the POI while subject import shipments of SCB paper increased from 2012 to 2014 and predominantly undersold the domestic product. CR/PR at Tables III-4, IV-3, V-8 and V-9.

## PART I: INTRODUCTION

### BACKGROUND

This investigation results from a petition filed on February 26, 2015, by the Coalition for Fair Paper Imports, which is an ad hoc association of U.S. producers that includes Madison Paper Industries, Inc. (“Madison”) and Verso Corp. (“Verso”),<sup>1</sup> alleging that an industry in the United States is materially injured or is threatened with material injury, by reason of imports from Canada of supercalendered paper (“SC paper”)<sup>2</sup> that are allegedly subsidized by the government of Canada. The following tabulation provides information relating to the background of these investigations.<sup>3 4</sup>

Effective date	Action
February 26, 2015	Petition filed with Commerce and the Commission; institution of Commission investigation (80 FR 12036, March 5, 2015)
March 18	Commerce’s notice of initiation of a countervailing duty investigation (80 FR 15981, March 26, 2015)
April 14	Commission’s preliminary determination (80 FR 21263, April 17, 2015)
August 3	Commerce’s preliminary determination (80 FR 45951)
August 19	Commission’s scheduling of final phase investigation (80 FR 51309, August 24, 2015)
October 20	Commerce’s final determination (80 FR 63535)
October 22	Commission’s hearing
November 18	Commission’s vote
December 3, 2015	Commission’s views

### STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

#### Statutory criteria

Section 771(7)(B) of the Tariff Act of 1930 (the “Act”) (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission--

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<sup>1</sup> The petition stated that it is also supported by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (“USW”), which represents a significant number of employees at Madison’s Madison, Maine paper mill.

<sup>2</sup> See the section entitled “The Subject Merchandise” in *Part I* of this report for a complete description of the merchandise subject to this investigation.

<sup>3</sup> Pertinent *Federal Register* notices are referenced in app. A, and may be found at the Commission’s website ([www.usitc.gov](http://www.usitc.gov)).

<sup>4</sup> Appendix B contains a list of witnesses that appeared at the Commission’s hearing.

*shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and. . . may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.*

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--<sup>5</sup>  
*In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant. . . In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether. . . (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree. . . In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to. . . (I) actual and potential decline in output, sales, market share, gross profits, operating profits, net profits, ability to service debt, productivity, return on investments, return on assets, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.*

In addition, Section 771(7)(J) of the Act (19 U.S.C. § 1677(7)(J)) provides that—<sup>6</sup>

*(J) EFFECT OF PROFITABILITY.—The Commission may not determine that there is no material injury or threat of material injury to an industry in the*

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<sup>5</sup> Amended by PL 114-27 (as signed, June 29, 2015), Trade Preferences Extension Act of 2015.

<sup>6</sup> Amended by PL 114-27 (as signed, June 29, 2015), Trade Preferences Extension Act of 2015.

*United States merely because that industry is profitable or because the performance of that industry has recently improved.*

### **Organization of report**

*Part I* of this report presents information on the subject merchandise, subsidy margins, and domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV* and *V* present the volume of subject imports and pricing of domestic and imported products, respectively. *Part VI* presents information on the financial experience of U.S. producers. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury as well as information regarding nonsubject countries.

### **MARKET SUMMARY**

The U.S. market for SC paper totaled approximately \$\*\*\* and \*\*\* short tons in 2014. The Commission received questionnaire responses from three firms, Madison, Resolute FP US Inc. ("Resolute USA"), and Verso, that produce SC paper in the United States, which accounted for all U.S. SC paper production during the period of investigation. The Commission received questionnaire responses from seven firms that reported importing SC paper from Canada and nonsubject countries during the period of investigation.

U.S. producers' U.S. shipments of SC paper totaled \*\*\* short tons valued at \$\*\*\* in 2014, and accounted for \*\*\* percent of apparent U.S. consumption by quantity (\*\*\*) percent by value). U.S. shipments of imports of SC paper from Canada totaled \*\*\* short tons valued at \$\*\*\* in 2014, and accounted for \*\*\* percent of apparent U.S. consumption by quantity (\*\*\*) percent by value). U.S. shipments of imports from all other sources combined totaled \*\*\* short tons valued at \$\*\*\* in 2014, and accounted for \*\*\* percent of apparent consumption by quantity (\*\*\*) percent by value). SC paper is generally used to produce printed materials such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials, corporate brochures, and coupons.

### **SUMMARY DATA AND DATA SOURCES**

A summary of data collected in this investigation is presented in appendix C, table C-1. U.S. industry data are based on questionnaire responses of three U.S. producers of SC paper that accounted for all U.S. production of SC paper during the period of investigation. Data for U.S. imports from Canada and nonsubject countries are based on seven responses to the Commission's U.S. importer questionnaire and accounted for all U.S. imports of SC paper from Canada and approximately \*\*\* percent of U.S. imports from nonsubject countries. Foreign industry data are based on four responses to the Commission's U.S. foreign producer questionnaire which accounted for all production of SC paper in Canada during the period of

investigation. Appendix D presents domestic industry and pricing data excluding Resolute USA, which is related to a foreign producer of SC paper in Canada.

## PREVIOUS AND RELATED INVESTIGATIONS

SC paper has not been the subject of any prior antidumping or countervailing duty investigations in the United States.

## NATURE AND EXTENT OF SUBSIDIES

On October 20, 2015, Commerce published a notice in the *Federal Register* announcing its final affirmative determination in its countervailing duty investigation on SC paper from Canada. In its notice, Commerce determined that producers and exporters of SC paper in Canada are receiving countervailable subsidies from the Government of Canada.<sup>7</sup> Commerce’s subsidy rates are shown in the tabulation below.

Producer/exporter	Subsidy rate
Port Hawkesbury	20.18
Resolute	17.87
All others	18.85
Source: <i>Supercalendered Paper From Canada: Final Affirmative Countervailing Duty Determination</i> , 80 FR 63535, October 20, 2015	

## THE SUBJECT MERCHANDISE

### Commerce’s scope

Commerce has defined the scope of this investigation as follows:

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<sup>7</sup>*Supercalendered Paper From Canada: Final Affirmative Countervailing Duty Determination*, 80 FR 63535, October 20, 2015. Commerce found that fourteen programs administered by the Government of Canada confer countervailable subsidies: (1) Government of Nova Scotia (“GNS”) Loan for Working Capital; (2) GNS Loan to Improve Productivity and Efficiency; (3) Pacific West Commercial Corp’s Indemnity Loan; (4) Richmond County (Nova Scotia) Promissory Note for Property Taxes; (5) GNS Grants for Maintaining Hot Idle Status; (6) GNS Grants from the Forestry Infrastructure Fund; (7) GNS Grants for the Sustainable Forest Management and Outreach Program Agreement; (8) GNS Provision of Funds for Worker Training and Marketing; (9) The Federal Pulp and Paper Green Transformation Program; (10) Ontario Northern Industrial Electricity Rate Program; (11) Ontario Forest Sector Prosperity Fund (FSPF); (12) Subsidies Discovered During the Course of Verification (Resolute); (13) GNS Preferential Electricity Rate for PHP; and (14) GNS Provision of Stumpage and Biomass Material for Less Than Adequate Remuneration. *Issues and Decision Memorandum for the Final Determination in the Countervailing Duty Investigation of Supercalendered Paper from Canada*, Gary Taverman, Associate Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations, October 13, 2015.

*The merchandise covered by this investigation is supercalendered paper (SC paper). SC paper is uncoated paper that has undergone a calendering process in which the base sheet, made of pulp and filler (typically, but not limited to, clay, talc, or other mineral additive), is processed through a set of supercalenders, a supercalender, or a soft nip calender operation.<sup>1</sup>*

*The scope of this investigation covers all SC paper regardless of basis weight, brightness, opacity, smoothness, or grade, and whether in rolls or in sheets. Further, the scope covers all SC paper that meets the scope definition regardless of the type of pulp fiber or filler material used to produce the paper.*

*Specifically excluded from the scope are imports of paper printed with final content of printed text or graphics.*

*Subject merchandise primarily enters under Harmonized Tariff Schedule of the United States (HTS) subheading 4802.61.3035, but may also enter under subheadings 4802.61.3010, 4802.62.3000, 4802.62.6020, and 4802.69.3000. Although the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.*

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<sup>1</sup> *Supercalendering and soft nip calendering processing, in conjunction with the mineral filler contained in the base paper, are performed to enhance the surface characteristics of the paper by imparting a smooth and glossy printing surface. Supercalendering and soft nip calendering also increase the density of the base paper.*

### **Tariff treatment**

The subject merchandise is primarily imported under statistical reporting number 4802.61.3035<sup>8</sup> of the Harmonized Tariff Schedule of the United States (“HTS”); subheading 4802.61.35 has a general rate of duty of free. Prior to July 1, 2014, SC paper imported into the United States was covered by statistical reporting numbers 4802.61.3010 (for paper in rolls each weighing less than 40 gsm) and 4802.61.3090 (“other” paper of this rate line). The latter

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<sup>8</sup> HTS 4802.61.3035 covers nonenumerated paper and paperboard, of which more than 10 percent by weight of the total fiber content consists of fibers obtained by a mechanical or chemi-mechanical process, in rolls of a width exceeding 15 cm, weighing 40 g/m<sup>2</sup> or more, supercalendered. Supercalendered paper in rolls weighing less than 40 g/m<sup>2</sup> continues to be imported under statistical reporting number 4802.61.3010.

category included uncoated mechanical paper products other than SC paper, such as uncoated directory and book paper, as does current HTS 4802.61.3091.<sup>9</sup> Statistical reporting number 4802.61.3090 was subdivided to cover supercalendered paper imports separately under HTS 4802.61.3035 as of July 1, 2014.

## THE PRODUCT

### Description and applications

#### Paper Product Categories<sup>10</sup>

The global paper industry produces five broad categories of printing and writing paper products, differentiated by the surface characteristics of the paper and the processes by which their wood fibers are obtained. These five categories, ranked in descending order by overall quality and price, are described below:

Coated free sheet—clay coated paper predominately composed of chemically obtained fibers (90 percent or more by weight), used primarily for permanent and higher priced publications such as premium magazines, gift books, and art reproductions.

Uncoated free sheet—similar in composition to coated free sheet but without coating and used primarily for xerographic paper, printing, drawing, and writing paper (e.g., letterhead, stationery).

Coated groundwood—clay coated paper made with substantial proportions of mechanically derived pulp, generally used for multi-colored publications that remain in use from several days to a month—primarily magazines, merchandising catalogues, and better quality newspaper inserts.<sup>11</sup>

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<sup>9</sup> The statistical reporting number for SC paper, HTS 4802.61.3035, became effective in July 2014 and includes SC paper with a basis weight of 40 g/m<sup>2</sup> (“gsm”) or more. Petitioner stated that it believes that virtually all SC paper subject to this petition is being imported under 4802.61.3035 and that little, if any, SC paper is produced that would have a basis weight of less than 40 gsm, which would enter the United States under statistical reporting number 4802.61.3010.

<sup>10</sup>The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Preliminary)*, USITC Publication 4108, November 2009, p. I-9.

<sup>11</sup> Coated groundwood paper contains more than 10 percent mechanical pulp by weight. Paper products that contain predominately mechanical pulp are generally called “groundwood” or “mechanical” papers in the paper industry.

In 2014, the North American market for coated groundwood accounted for \*\*\* short tons whereas the SC paper market accounted for \*\*\* short tons. Thus, the North American coated groundwood market is approximately \*\*\* percent larger than the SC paper market. Port Hawkesbury’s postconference brief, exh. 1, attachment F (citing statistics from the Pulp and Paper Products Counsel).



Uncoated groundwood—similar in composition to coated groundwood but without the coating, used primarily for directory stock, lesser quality drawing and writing paper, black and white publications, and relatively short-lived color publications, such as newspaper inserts.

Newsprint—a low quality uncoated groundwood paper designed exclusively for newspapers and similar publications commonly disposed of within a day.

Uncoated groundwood paper is comprised of four categories of paper—SC paper (more fully described *infra*), directory paper, high-bright paper, and high-bulk paperback book paper. Directory paper is a lower-weight paper frequently used in the production of telephone directories. High-bright paper is paper with high levels of brightness and opacity used in the production of such things as catalogs, advertising inserts, and direct mail items. High-bulk paperback book paper is paper that has lower levels of brightness and is a thick paper relative to its weight; as its name implies, it is used primarily in the production of paperback books. Directory paper, high-bright paper, and high-bulk paperback book paper lack the gloss of SC paper.<sup>12</sup>

### **SC Paper**

SC paper is an uncoated printing paper made from mechanical pulp, chemical pulp, fillers, and additives.<sup>13</sup> The finish (surface) of the SC paper is produced by the movement of the paper web through a supercalender, a vertical stack of alternating steel rolls and cotton rolls. The rolls apply heat and pressure to the paper, imparting a gloss to the surface and increasing its smoothness and density. The extent of the supercalendering determines the extent of the gloss. Gloss and smoothness can also be imparted to the paper web through a less rigorous calendaring process known as soft (nip) calendaring, which involves fewer steel rolls and cotton rolls than that of a supercalender. Supercalenders can be on-line (part of the paper machine) or off-line (a stand-alone unit separate from the paper machine). Soft nip calenders are typically on-line.<sup>14</sup> SC paper is sold in rolls with widths ranging from 15 to 150 inches. It is generally not sold in sheets nor turned into sheets by end users or distributors before printing.<sup>15</sup>

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<sup>12</sup> *Global Pulp & Paper Fact & Price Book 2006*, 161-62. Bedford, Massachusetts: RISI, Inc., 2006.

<sup>13</sup> SC paper is produced primarily with mechanical pulp with chemical pulp added to strengthen the end product. Conference transcript, p. 77 (Drechsel) (“mainly mechanical pulp {is used in the production of} SC paper. You use some of the chemical pulp . . . as a reinforcing pulp. If you think of how you see concrete, you have rebar and concrete in the cement. Think of the chemical pulp as the rebar, and the cement would be the mechanical pulp.”).

<sup>14</sup> Petition, pp. I-3-I-6.

<sup>15</sup> Petition, pp. I-4, I-10; Conference transcript, p. 22 (Drechsel).

## Physical Characteristics of SC Paper

The primary physical characteristics of all paper products, including SC paper, include: (1) brightness, (2) basis weight, (3) finish, (4) opacity, (5) smoothness, and (6) caliper.<sup>16</sup>

### **Brightness**

Brightness is a measure of the paper's ability to reflect light. The higher the brightness, the greater the contrast is between the paper and the colors printed upon it. In the paper industry, brightness can be measured using several established methods, the most common being the (1) GE Brightness Scale, which is more common in North America, and (2) ISO Brightness Scale, which is more common in the Europe. The two scales differ slightly in how they measure brightness and as a result ISO brightness is approximately one to two units lower than GE brightness. In the GE Brightness Scale, brightness ranges from 1, a totally black grade, to 100, the brightest measured grade. Typical GE brightness levels for SC paper range from 63 to 75.

### **Basis Weight**

Basis weight, a traditional unit of measurement in the U.S. paper industry, is the weight in pounds of a ream of paper (500 sheets of paper) of a given size (the basis).<sup>17</sup> The size of the basis can differ for various paper products. The typical basis size for SC paper is 25 inches by 38 inches. Basis weights for SC paper range from about 28 lbs. (41.4 g/m<sup>2</sup>) to about 50 lbs. (74.0 g/m<sup>2</sup>).

### **Finish**

The finish on a paper product refers to the characteristics of the surface of the paper. The most common finishes are gloss, dull, and matte. Paper with a gloss finish has a very hard and smooth surface, which results in a printed image that is lustrous and shiny in appearance. Paper with a dull finish has a smooth surface but lacks luster or gloss. Paper with a matte finish also has a smooth surface but lacks gloss.

### **Opacity**

Opacity is a measure of the amount of light which is transmitted through the paper. The higher the opacity the less likely a printed image on one side of the paper will show through to the other side. The opacity measurement is expressed as a percentage of the light that cannot pass through the sheet of paper. For example, a measurement of 98 percent opacity means

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<sup>16</sup> The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Final)*, USITC Publication 4192, November 2010, pp. I-15-I-17.

<sup>17</sup> In the metric system, the weight of paper is measured in grams per square meter (g/m<sup>2</sup>).

that 98 percent of the light cannot pass through the paper. Therefore, when measuring opacity, the higher the percentage of opacity then the less transparent the paper.

### ***Smoothness***

Smoothness is the even and consistent continuity of the surface of the paper. Smoothness can be measured by a number of methods. The Bekk method measures smoothness in units of time (seconds) for a given volume of air to pass across the surface of the paper. Using this method, the longer the time measured then the smoother the paper. For example, a surface that measures 500 Bekk seconds is smoother than a surface that measures 200 Bekk seconds. Another method, the Parker-Print Surface (“PPS”) method is designed specifically for measuring the surface roughness of printing papers and also uses forced air passing over the surface of the paper to quantify smoothness. Using this method, the lower the PPS value the smoother the paper. Generally, paper products with a gloss finish have the smoothest surface.

### ***Caliper***

Caliper is the thickness of the paper, measured in thousandths of an inch and typically expressed as points (e.g., 10 points equals 0.010 inch, 8 points equals 0.008 inch, etc.).

### **Grades of SC Paper**

SC paper is produced in a continuum of grades—SCA++, SCA+, SCA, SCB, and SNC. SCA++, SCA+, SCA, and SCB are produced by the supercalendering process. SNC is produced by the soft nip calendaring process. The grades correspond to the brightness and smoothness levels of SC paper, with SCA++<sup>18</sup> being the brightest and smoothest and SNC being the least bright and smooth.<sup>19</sup>

Table I-1 shows the grades of SC paper produced by U.S. and Canadian producers. Unless otherwise footnoted, all firms shipped commercially in the United States the grades of SC paper that they produce. Port Hawkesbury, Irving, \*\*\*, and UPM-Finland reported producing a SCA++ grade SC paper during the period of investigation.<sup>20</sup> No domestic

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<sup>18</sup> Port Hawkesbury stated that its unique SCA++ SC paper, which it has branded as “Artisan,” is of such a high quality that it has created new demand in the market for SC paper from customers who previously would have only considered coated groundwood for their end uses. It estimated that \*\*\*. Respondent Port Hawkesbury’s prehearing brief, pp. 23-24; Respondent Port Hawkesbury’s postconference brief, exh. 1, attachments D and E.

Petitioner stated that \*\*\*. Petitioner’s postconference brief, p. 38.

<sup>19</sup> Petition, pp. I-4, I-6; Conference transcript, p. 100 (Ostrowski).

<sup>20</sup> Hearing transcript of October 23, 2015 (“Hearing transcript”), p. 221 (Ostrowski); U.S. importer questionnaire responses of \*\*\*, question II-8.

producer manufactures SCA++ or SNC grade SC paper.<sup>21</sup> Madison stated that it could not reach the brightness requirements of SCA++ grade SC paper without modification of its current production processes.<sup>22</sup> Verso testified that based on customer interest and the fact that its SCA+ met its customer’s requirements, it found the production of a SCA++ grade SC paper to be “not viable.”<sup>23</sup>

**Table I-1**  
**SC paper: Grades of SC paper produced by U.S. and Canadian producers**

\* \* \* \* \*

Table I-2 shows the brightness, gloss, and opacity levels for SC paper made by U.S. and Canadian producers. When comparing SCA++ grade with SCA+ grade, there is overlap with respect to the specifications of gloss and opacity. The difference between the grades is a slight brightness premium in SCA++.<sup>24</sup>

**Table I-2**  
**SC paper: Range of brightness, gloss, and opacity levels for grades of SC paper made by U.S. and Canadian producers**

Grades of SC paper	Brightness	Gloss	Opacity
SCA++	74-76	47-55	86-95
SCA+	69-71	44-57	83-95
SCA	67-75	33-52	82-93
SCB	63-68	30-35	84-92
SNC	63	29	86-89

*Source:* Information gathered from company websites.

**End Uses of SC Paper**

SC paper is sold to end users such as retailers, publishers, catalogers, and printers and to paper merchants/brokers. It is used to make a variety of printed materials which require high quality color printing and photographic images, such as magazines, retail inserts, flyers, directories, catalogs, direct mail materials, corporate brochures, and coupons.<sup>25</sup>

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<sup>21</sup> Hearing transcript, p. 120 (Drechsel)(“We do not have the ability to make the SNC grade, but our lower grade of the SCB does compete within that continuum with the SNC grade.”).

<sup>22</sup> Hearing transcript, p. 105 (Drechsel)(“We have production limitations on improving the brightness on the heavier basis weights products. So we do not make what would be termed SCA++ . . .”).

<sup>23</sup> Hearing transcript, pp. 106-107 (Clancy).

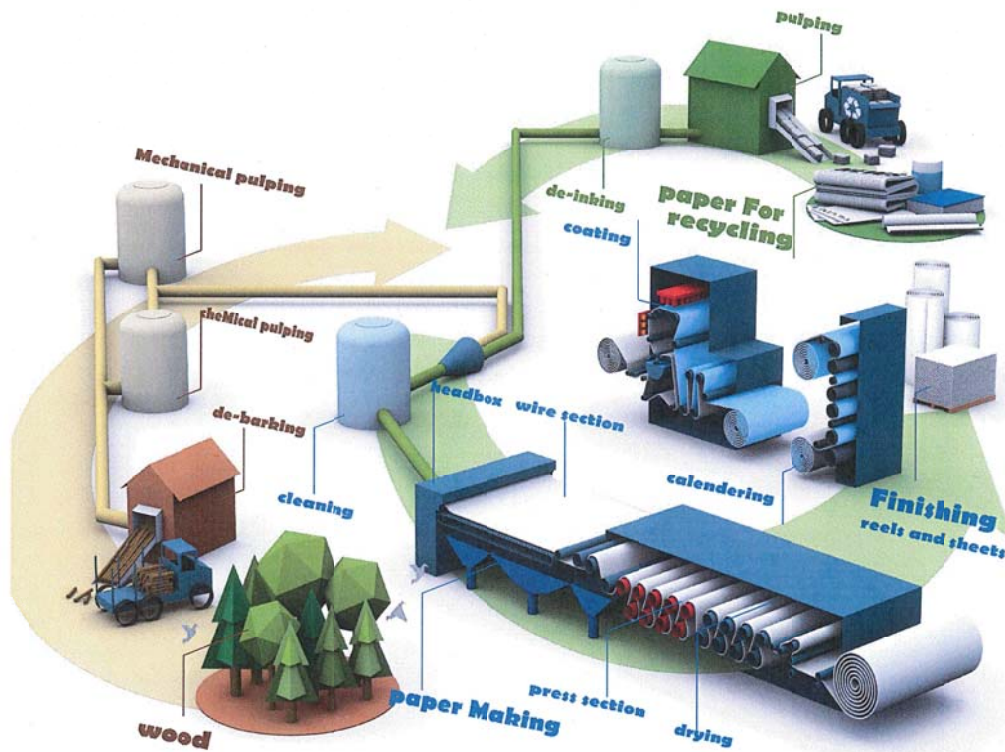
<sup>24</sup> Hearing transcript, p. 103 (Drechsel)(“Generally, there’s a brightness increase on {SCA++}”).

<sup>25</sup> Petition, pp. I-3, I-11.

## Manufacturing processes<sup>26</sup>

As illustrated in figure I-1, the production of SC paper from harvested log to final end use product includes the following manufacturing processes: (1) the production of pulp, (2) the production of the substrate paper, and (3) the supercalendering and finishing processes.

Figure I-1  
SC paper: Papermaking process



Source: <http://www.paperonline.org/uploads/paper%20making.pdf> (accessed February 23, 2015).

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<sup>26</sup>The information in this section is drawn from *Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from China and Indonesia, Investigation Nos. 701-TA-470-471 and 731-TA-1169-1170 (Final)*, USITC Publication 4192, November 2010, pp. I-19-I-22; Petition, pp. I-3-I-10; Conference transcript, pp. 22-25, 50, 77 (Drechsel); Saltman, David, Laura M. Thompson, and Kathleen Bennett. *Pulp & Paper Primer Second Edition*. Atlanta, GA: TAPPI PRESS, 1998, pp. 14-16; UPM, *Making Paper*, pp. 8-11, found at <http://www.upmpaper.com/en/papers/downloads/brochures/Pages/default.aspx> (accessed March 12, 2015); Smook, Gary. *2<sup>nd</sup> Edition Handbook of Pulp & Paper Terminology*. Bellingham, Washington: Angus Wilde Publications Inc., 2001, p. 157; and Conference transcript, p. 34 (Johnston).

## The Production of Pulp

SC paper is made from mechanical pulp, chemical pulp,<sup>27</sup> fillers, and additives.<sup>28</sup> The mechanical pulp portion is larger than the chemical pulp portion; the greater strength of the chemical pulp acts to reinforce the lower strength mechanical pulp. Mechanical pulping breaks the solid wood apart into wood fibers by one of three mechanical processes—groundwood, pressure groundwood, and thermomechanical. All three processes begin with the removal of the bark from the logs in a debarking machine. In the groundwood process, logs are ground against a rotating grindstone with an abrasive surface while a shower of water cleans and cools the grindstone and washes the fibers off of it; in the pressure groundwood process, the logs are pretreated with steam and then ground against a rotating grindstone accompanied by elevated air pressure and water temperature. In the thermomechanical process, the debarked logs are chipped into small, uniformly sized chips in a chipper. The wood chips are placed into refiners where, under heat and pressure, they are broken apart into fibers between two rotating disks. Chemical pulping breaks the solid wood apart into wood fibers by a chemical process. The wood logs are debarked and chipped and the chips are cooked under pressure with water and chemicals in a digester cooking vessel to separate the cellulose fibers from the lignin, the glue that holds the fibers together, and other impurities.<sup>29</sup>

The resulting wood pulp from both the mechanical and chemical processes is bleached to attain a level of whiteness and brightness required for the grade of paper being produced. The paper can be made from both pulp made from hardwood trees (hardwood pulp) and pulp made from softwood trees (softwood pulp). The short hardwood fibers help provide a good printing surface, while the longer softwood fibers provide strength to the sheet. Different materials are added to the pulp, including fillers such as kaolin clay and calcium carbonate for brightness, opacity, and smoothness, additives (dyes for shade control and optical brighteners for whiteness), and sizing agents for moisture control. The exact proportions of these materials are determined by the specifications for the particular type of paper that is being produced. The fillers and additives used in the production of SC paper enable the calendaring process to produce the glossy finish that characterizes this grade of paper. A large volume of water is also added.

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<sup>27</sup> Chemical pulp produced using a sulphate chemical process is commonly referred to as “Kraft pulp” in the paper industry.

<sup>28</sup> SC paper can also contain recycled fiber, which is recycled paper returned to the paper mill where it is repulped and combined with virgin pulp.

<sup>29</sup> The advantages of mechanical pulp are a higher yield (more than 90 percent of the wood is converted into pulp) and high opacity; the disadvantages are low strength and yellowing of the paper after a time. The advantages of chemical pulp are good strength, resistance to yellowing of the paper, and easier bleaching; the disadvantages are a lower yield (only 60 percent of the wood is converted into pulp) and more waste product to be treated.

## **The Production of the Substrate Paper**

At this stage of the manufacturing process, the pulp mixture is 99.5 percent water and it is ready to be run continuously through a paper machine. A paper machine has three major parts—the base sheet forming section (the wet end), the press section, and the dryer section. The mixture is pumped out onto a continuously moving wire web that is usually oriented horizontally and which loops around rollers at both ends. As the wire web moves along, water drains through it, the fibers begin to bond, and a sheet (web) of paper begins to form on the wire. The web at this point has 80 percent water content. The web of paper leaves the moving wire and enters the press section, where a set of steel rollers squeezes more water out of the web, reducing its water content to about 65 percent. The web then proceeds into the dryer section and passes over and under successive steam-heated drying cylinders. This drying process removes most of the remaining water from the web of paper.

## **The Supercalendering and Finishing Processes**

The web then undergoes a calendaring process on a supercalender or a series of supercalenders.<sup>30</sup> A supercalender is a vertical stack of alternating steel rolls and cotton rolls, generally 10 to 12 rolls. The web snakes around each roll, with the point of contact between each of the rolls (the nip) applying heat, pressure, and friction to the web, adding gloss and smoothness and reducing stiffness. The extent of the supercalendering determines the extent of the gloss. Supercalenders can be situated at the end of the paper machine or away from the paper machine as a separate unit. Soft nip calendered paper undergoes less calendaring than supercalendered paper. This calendaring process usually occurs on-line and involves only two to four hard and soft rolls through which the web is wound. After supercalendering or soft nip calendaring, the web of paper is wound onto large reels (jumbo rolls or parent rolls), which are transported to the finishing department where a slitter/rewinder unwinds and slits them into smaller width rolls ranging from 15 to 150 inches and rewinds them onto narrower reels. The reels are wrapped and labeled for delivery to customers. Until the reels actually leave the paper mill for the customer, they are kept in climate-controlled areas and monitored carefully via inventory control software.

## **DOMESTIC LIKE PRODUCT ISSUES**

The petitioner contended that the Commission should find one domestic like product coextensive with the scope of the investigation as identified by Commerce.<sup>31</sup> In the preliminary phase of this investigation, respondent Irving presented three alternative

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<sup>30</sup> Calendaring is a general term to describe the process of pressing the paper web by passing it through a series of rolls to further finish and improve its surface. The type of calendaring is determined by the kind of paper to be produced.

<sup>31</sup> Petitioner's postconference brief, p. 5.

definitions of the domestic like product.<sup>32</sup> These alternative definitions include: (1) SCA and SCB grade SC paper should be considered separate domestic like products, (2) the definition of the domestic like product should be expanded to include coated groundwood paper,<sup>33</sup> and (3) the definition of the domestic like product should be expanded to include Hi-Brite paper<sup>34</sup> and newsprint.<sup>35</sup>

The Commission addressed and declined to adopt each of the alternative definitions presented in the preliminary phase of this investigation. With regard to whether to define two domestic like products, namely, SCA grade and SCB grade, the Commission found that:<sup>36</sup>

*Evidence in the record of the preliminary phase of this investigation does not indicate the existence of a clear dividing line between SCA paper and SCB paper. In particular, there is no industry standard on what distinguishes the two products. Moreover, SCA paper and SCB paper share similar physical characteristics and uses and may overlap in ranges of brightness and gloss; are made using the same manufacturing facilities, production processes, and employees; and are sold in the same channels of distribution at roughly similar prices. The record indicates at least some interchangeability between the two types of paper, which would indicate some similarity in customer and producer perceptions. In view of the foregoing, we do not define SCA paper and SCB paper as separate domestic like products.<sup>37</sup>*

The Commission also declined to include coated groundwood paper<sup>38</sup> in the definition of the

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<sup>32</sup> Respondent Irving's postconference brief, pp. 2-11; Conference transcript, p. 144 (Connelly). In the preliminary phase of this investigation, no other respondent offered an alternative definition of the domestic like product.

<sup>33</sup> Irving defined "coated groundwood paper" as coated groundwood #5. Coated papers are generally categorized into 5 grades based on brightness and basis weight (#1 through #5). Generally, grades #1 through #3 are coated freesheet grades while grades #4 and #5 are coated groundwood grades, which is generally sold in rolls. However, in the market, there are small volumes of grade #4 that are sold as coated freesheet and grade #3 that are sold as coated groundwood in roll form.

<sup>34</sup> Hi-Brite paper is a specialty newsprint paper product that consists of a groundwood paper of higher brightness, basis weight and better quality surface finish than that of standard newsprint and is capable of reproducing higher quality images. Therefore, it is often used for advertising inserts. Hi-Brite is often referred to as "specialized or specialty newsprint."

<sup>35</sup> Respondent Irving's postconference brief, p. 2.

<sup>36</sup> In the preliminary phase of this investigation, respondents Irving and Port Hawkesbury also argued that there existed attenuated competition between U.S. shipments of U.S. producers and U.S. shipments of imports from Canada based on the grade of SC paper. The issue of attenuated competition is discussed in *Parts III & IV*.

<sup>37</sup> *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 8.

<sup>38</sup> In 1991, the Commission conducted antidumping investigations on coated groundwood paper, the scope of which contained "all coated groundwood paper regardless of basis weight, GE brightness, and

(continued...)



domestic like product and found that:

*{A}lthough coated groundwood paper has some overlap in uses and is interchangeable with SC paper for some applications, its physical characteristics, manufacturing process, price, and perception in the marketplace all differ from SC paper and indicate the existence of a clear dividing line between the two forms of paper. Therefore, for purposes of our preliminary determination, we decline to include coated groundwood paper in the domestic like product.<sup>39</sup>*

Finally, as to whether to include Hi-Brite paper and newsprint in the definition of the domestic like product, the Commission again declined and stated:

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*(...continued)*

the form in which the paper is sold (rolls, sheets, or other forms.)” *Coated Groundwood Paper From Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom, Inv. Nos. 731-TA-486-494 (Preliminary)*, USITC Publication No. 2359 (February 1991).

In the preliminary phase of these investigations, the Commission issued a negative determination with regard to U.S. imports from Austria, Italy, the Netherlands, or Sweden. In the final phase investigations, the Commission issued a negative determination with regard to U.S. imports from the remaining countries under investigation. *Coated Groundwood Paper From Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 and 494 (Final)*, USITC Publication No. 2467 (December 1991).

In the preliminary phase of those investigations, respondents argued that the definition of the domestic like product should be expanded to include, *inter alia*, supercalendered paper. The Commission rejected that argument finding:

*With regard to supercalendered paper, since it is an uncoated product, the production process is necessarily different. Moreover, given the differences in the production processes, the ability to shift production is even more limited than with free sheet and would require even more financial investment and alteration of equipment. There are no "swing- machines capable of producing coated groundwood paper and supercalendered paper. The lack of a coating results in a product that is duller than coated groundwood paper and more closely resembles newsprint. Its color clarity is also inferior to coated groundwood paper. Further, the end uses for supercalendered paper are limited to short-lived, throwaway publications such as children's workbooks and newspaper inserts. The differences between supercalendered paper and coated groundwood paper are also reflected in significant price differences (up to \$100 per ton).*

*Coated Groundwood Paper From Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom, Inv. Nos. 731-TA-486-494 (Preliminary)*, USITC Publication No. 2359 (February 1991), pp. 7-8. The Commission did not revisit the issue in its final phase investigations.

<sup>39</sup> *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 10.

*The record indicates, that although Hi-Brite and newsprint have some overlap in uses and channels of distribution with SC paper and are interchangeable with certain types of SC paper for some applications, SC paper has different physical characteristics and a distinct manufacturing process with different fillers and additives and supercalendering. These distinctions in physical characteristics and manufacturing processes support finding a clear dividing line between the products. Accordingly, for purposes of our determination in the preliminary phase of this investigation, we do not include Hi-Brite and newsprint with SC paper in the definition of domestic like product.<sup>40</sup>*

In the final phase of this investigation, during the questionnaire comment period and at the Commission's hearing, no party raised the issue of an alternative definition of the domestic like product.<sup>41</sup> Commission staff did not request data from market participants regarding alternative definitions of the domestic like product.

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<sup>40</sup> *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 11.

<sup>41</sup> Petitioner prehearing brief, pp. 5-9; Hearing transcript, p. 45 (TrendI). During the questionnaire comment phase, respondent parties did request that the Commission collect data to further their argument that competition is attenuated between grades of SC paper. *See Parts III & IV.*

## PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

### U.S. MARKET CHARACTERISTICS

SC paper is sold primarily as paper for newspaper inserts, fliers, catalogs, magazines, and direct mail, as well as other advertising and publication materials.<sup>1</sup> Each purchase of SC paper is a customized order in terms of quantity, roll size, and distribution point.<sup>2</sup> Purchasers, especially retailers, will vary the type of SC paper, roll size, and printing process that they will use based on its specific objective.<sup>3</sup> SC paper is shipped in roll form to printers located throughout the United States.<sup>4</sup>

As discussed in *Part I*, SC paper is produced in five continuum grades (SCA++, SCA+, SCA, SCB, and SNC) that indicate the brightness and smoothness levels of the SC paper, with SCA++ being the brightest and smoothest and SNC being the least bright and smooth.<sup>5</sup> According to respondent Irving, SCA grade paper is used primarily for magazines, catalogs, and other high-end publications, while SCB and SNC grades are used primarily for low-end advertising flyers, inserts, tabloids, and coupons.<sup>6</sup> However, petitioner argues that all grades of SC paper share the same physical characteristics and are sold to the same end users.<sup>7</sup>

According to parties in support and opposed to the petition, as well as a majority of purchasers, the U.S. market for SC paper is experiencing a structural decline due to the shift of commercial advertising from print to digital media, and the resultant sharp decline in print periodicals such as newspapers and magazines.<sup>8</sup> Whereas this decline has had a direct effect of reducing demand for SC paper, it has also indirectly increased demand as firms substitute SC paper for higher-cost coated groundwood (CGW)/lightweight coated (LWC) paper, which historically has been more expensive than SC paper. Apparent U.S. consumption of SC paper fluctuated during 2012-2014. Overall, apparent U.S. consumption in 2014 was 15.5 percent higher than in 2012 on a quantity basis (8.8 percent on a value basis).

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<sup>1</sup> Petition, volume 1, p. 14.

<sup>2</sup> Conference transcript, pp. 79-80 (Johnston).

<sup>3</sup> Conference transcript, p. 83 (Clancy).

<sup>4</sup> Conference transcript, p. 22 and p. 32 (Drechsel).

<sup>5</sup> Petition, volume 1, p. 4.

<sup>6</sup> Respondent Irving's postconference brief, p. 3.

<sup>7</sup> There is no independent standards organization that sets the standards of SC paper grades.

According to petitioner, the grade is what the producer sells it as and the purchaser believes it is buying, although higher grades of paper are brighter and smoother. Hearing transcript, pp. 61 (Johnston) and 103 (Drechsel).

<sup>8</sup> Petitioner's prehearing brief, p. 22; Respondent Port Hawkesbury's prehearing brief, p. 11.

## U.S. PURCHASERS

The Commission received 24 usable questionnaire responses from firms that bought SC paper during 2012-2014.<sup>9</sup> Fifteen responding purchasers are end users (8 retailers, 5 publishers, 2 catalog companies, and 1 “other” end user (\*\*\*)),<sup>10</sup> six are merchants/brokers, three are printers, and one was “other” (a business process outsourcer). Seven of 11 responding distributors reported competing with their suppliers in the SC paper market. In general, responding U.S. purchasers were located mainly in the Midwest (10) and Northeast (8).<sup>11</sup> The largest purchasers of SC paper are \*\*\*, which represented \*\*\* percent of all purchases reported by purchasers in 2014 and \*\*\* percent of apparent consumption in 2014. Between 2012 and 2014, responding firms’ purchases of SC paper increased 25.3 percent, with purchases of U.S. product decreasing by 15.3 percent while purchases of imports from Canada and nonsubject sources increased by 33.1 and 55.7 percent, respectively. In addition to data regarding the subject product, the USITC collected data from purchasers regarding the size of their coated groundwood (CGW) purchases. Among responding firms, purchases of CGW decreased 4.7 percent, with purchases from domestic and nonsubject sources decreasing by 7.3 and 8.0 percent, respectively, while purchases of CGW imported from Canada increased by 8.7 percent.

## CHANNELS OF DISTRIBUTION

SC paper is sold to merchants/brokers and to end users (retailers, catalog companies, publishers, or printers).<sup>12</sup> U.S. producers and importers sold mainly to end users, as shown in table II-1. While brokers and end users purchase SC paper, the product is always shipped to the purchasers’ printer of choice.<sup>13 14</sup>

**Table II-1**

**SC paper: U.S. producers’ and importers’ U.S. commercial shipments, by sources and channels of distribution, 2012-2014, January to June 2014, and January to June 2015**

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<sup>9</sup> The USITC received purchase quantity information from 24 purchasers. Twenty-three purchased domestic SC paper, 24 purchased imports of the subject merchandise from Canada, and 17 purchased imports of SC paper from other sources.

<sup>10</sup> \*\*\*.

<sup>11</sup> Four were in the Southeast, one was in the \*\*\*, and one did not report its location.

<sup>12</sup> Petition, volume 1, p. 11.

<sup>13</sup> Conference transcript, p. 61 and p. 85 (Johnston), and p. 160 (Ostrowski).

<sup>14</sup> When printers purchase SC paper, they are buying product for a specific end user. SC paper is not held in inventories. Conference transcript, p. 82 (Johnston).

## GEOGRAPHIC DISTRIBUTION

U.S. producers and importers reported selling SC paper to all regions in the contiguous United States (table II-2). SC paper is shipped directly to a printer. According to Madison, printers are located throughout the United States, but are more concentrated in the Midwest, Northeast, and Southeast regions of the country.<sup>15</sup> For U.S. producers, \*\*\* percent of sales were within 100 miles of their production facility, \*\*\* percent were between 101 and 1,000 miles, and \*\*\* percent were over 1,000 miles. Importers sold \*\*\* percent within 100 miles of their U.S. point of shipment, \*\*\* percent between 101 and 1,000 miles, and \*\*\* percent over 1,000 miles.<sup>16</sup>

**Table II-2**

**SC paper: Geographic market areas in the United States served by U.S. producers and importers**

Region	U.S. producers	Importers
Northeast	3	4
Midwest	3	4
Southeast	3	4
Central Southwest	3	4
Mountain	3	4
Pacific Coast	3	4
Other <sup>1</sup>	1	2
All regions (except Other)	3	4
Reporting firms	3	4

<sup>1</sup> All other U.S. markets, including AK, HI, PR, and VI, among others.

*Source:* Compiled from data submitted in response to Commission questionnaires.

## SUPPLY AND DEMAND CONSIDERATIONS

### U.S. supply

#### Domestic production

Based on available information, U.S. producers of SC paper have the ability to respond to changes in demand with small-to-moderate changes in the quantity of shipments of U.S.-produced SC paper to the U.S. market. The main contributing factors to this degree of

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<sup>15</sup> Conference transcript, p. 84 (Johnston).

<sup>16</sup> According to Irving, because of the cost of freight and its total supply cost, it is very difficult for it to compete on the West Coast, due to the prohibitive cost of moving product by either truck or rail. Conference transcript, p. 120 (Moshier). However, in its questionnaire response, it indicated that it shipped SC paper \*\*\*.

responsiveness of supply are slightly increasing unused capacity, limited existence of alternative markets, and low levels of available inventory.

### ***Industry capacity***

Petitioners assert that paper machines are designed to run all the time, 24 hours per day.<sup>17</sup> U.S. producers' capacity increased by \*\*\* percent during 2012-14 while production decreased by \*\*\* percent. Domestic capacity utilization decreased from \*\*\* percent in 2012 to \*\*\* percent in 2014 and was \*\*\* percent in January to June 2015 compared with \*\*\* percent in January to June 2014 (figure II-1).<sup>18</sup> This slightly declining, yet moderately high, level of capacity utilization suggests that U.S. producers may have some ability to increase production of product in response to an increase in prices.

**Figure II-1**  
**SC paper: U.S. producers' capacity, production, and capacity utilization, 2012-14**

\* \* \* \* \*

### ***Alternative markets***

U.S. producers' exports accounted for \*\*\* percent or less of their total shipments during 2012-14. The small percentage of export shipments indicates that U.S. producers may have limited ability to shift shipments between the U.S. market and other markets in response to price changes.

### ***Inventory levels***

All domestic production of SC paper is made on a produced-to-order basis, so inventory levels reflect working inventory.<sup>19</sup> U.S. producers' end-of-year inventories increased from \*\*\* percent of total shipments in 2012 to \*\*\* percent in 2013, then returned to 2012 levels in 2014. Inventory levels were higher at the end of June 2015 (\*\*\* percent) than in June 2014 (\*\*\* percent), although the difference between the lower year-end and the higher mid-year inventory levels may be due to variations in seasonal demand. These inventory levels and because all SC paper is produced to order suggest that U.S. producers have limited to no ability to respond to changes in demand with changes in the quantity shipped from inventories.

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<sup>17</sup> Hearing transcript, pp.50 (Drechsel) and 74 (Hart).

<sup>18</sup> According to Madison and Verso, SC paper mills are designed to run 24-7 maintaining high capacity utilization rates. Conference transcript, p. 20 (Drechsel).

<sup>19</sup> Hearing transcript, p. 63 (Johnston).

### ***Production alternatives***

Two of three responding U.S. producers stated that they could switch production from SC paper to other paper products. Producer \*\*\* can and did produce \*\*\* using the same equipment, and producer \*\*\* reported that it can and did switch production between SC paper and \*\*\*. \*\*\*.

### ***Supply constraints***

One of three U.S. producers reported that their firm was unable to supply SC paper since 2012. \*\*\* stated that it faces supply constraints “only occasionally in the busy fall period (September-November) when customers request additional tonnage beyond forecast.”

Nine of the 23 responding purchasers reported supply constraints during the period under review. Two reported problems caused by the fire/explosion at Verso’s Sartell, Minnesota mill. Others reported having to purchase on allocation, weather delays, declined orders, an inability to agree on business terms, declined orders due to quantity, and an inability to meet required delivery. When purchasers were asked about the impact of Verso’s fire, 7 of 24 purchasers reported that there was some impact on the market. Two of these purchasers reported that they could not compensate with purchases of identical product from another source: one of these reported that it lost 10,000 tons a year of business due to the shutdown of the mill, and the other reported that it “had to settle for a lesser grade of SCA+.”

### ***Subject imports from Canada***<sup>20</sup>

Based on available information, producers of SC paper from Canada have the ability to respond to changes in demand with small changes in the quantity of shipments of SC paper to the U.S. market. The main contributing factors to this degree of responsiveness of supply are limited unused capacity and some existence of alternate markets.

### ***Industry capacity***

Respondent Port Hawkesbury stated that although paper mills are designed to run at 100 percent, 24 hours a day every day is not realistic, and its plant shuts down to undergo maintenance and when electricity gets too expensive.<sup>21</sup> Canadian producers’ capacity to produce SC paper increased irregularly during the period of investigation. Canadian producers’ capacity utilization decreased from \*\*\* percent in 2012 to \*\*\* percent in 2014, and was \*\*\* percent in the first half of 2015 compared with \*\*\* percent in the first half of 2014 (figure II-2). This high level of capacity utilization suggests that Canadian producers may have limited ability to increase production of SC paper in response to an increase in prices.

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<sup>20</sup> The Commission received four questionnaire responses from Canadian producers. These firms’ exports to the United States accounted for \*\*\* U.S. imports of SC paper from Canada during 2012-14.

<sup>21</sup> Hearing transcript, pp. 172-3 (Ostrowski).

### **Alternative markets**

Canadian producers have limited ability to divert shipments of SC paper to or from alternative markets in response to changes in price of SC paper. Canadian producers primarily export SC paper to the United States, but also sell a small share of their production in their home market and to other markets.<sup>22</sup> Shipments of SC paper from Canada to the United States increased from \*\*\* percent in 2012 to \*\*\* percent in 2014. Shipments of SC paper to all other markets fluctuated during the POI, decreasing overall from \*\*\* to \*\*\* percent between 2012 and 2014.

**Figure II-2**  
**SC paper: Canadian producers' capacity, production, and capacity utilization, 2012-14**

\* \* \* \* \*

### **Inventory levels**

Canadian producers have a very limited, if any, ability to use inventories as a means of increasing shipments of SC paper. At the conference, one respondent stated that the majority of their production is produced to order,<sup>23</sup> although each responding importer reported that all of the SC paper it sells is made on a produced-to-order basis. The ratio of inventories as a share of total shipments increased from \*\*\* percent in 2012 to \*\*\* percent in 2014. Similar to domestic firms' inventory level trends, mid-year inventory levels were higher (\*\*\* percent of total shipments in interim 2014 and \*\*\* percent in interim 2015) for Canadian foreign producers.

### **Production alternatives**

Two of the four Canadian producers reported that no other products could be produced using the same machinery and equipment used in the production of SC paper. The other two, however (\*\*\*), reported that they can produce other paper products, including "select 65 paper," coated groundwood #3-#5, and uncoated mechanical Hi-Brites.

### **Supply constraints**

Three of seven importers reported that their firm was unable to supply SC paper since 2012. \*\*\* reported that it faced supply constraints occasionally during the fall period (September-November), when customers request additional tonnage beyond their forecast.

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<sup>22</sup> According to Irving, Canadian producers of SC paper have "always" focused on the U.S. market not only because of the size of the U.S. market, but also because many large Canadian retailers (e.g., Hudson Bay and Target) produce and print their retail flyer inserts in the United States for shipment to Canada for distribution. Conference transcript, p. 119 and p. 146 (Mosher).

<sup>23</sup> Conference transcript, p. 160 (Mosher).



Importer \*\*\* reported that it only has two paper machines with no additional capacity. \*\*\* reported that it accepted more orders than it could deliver on time by normal transportation during March and June of 2013. It stated that this was primarily due to \*\*\*.

### **Nonsubject imports**

The largest sources of nonsubject imports during January 2012-June 2015 were Finland, Norway, Netherlands, Sweden, Germany, and Belgium. Imports from nonsubject countries accounted for 14.2 percent (by volume) of total imports and during that time.

### **U.S. demand**

Based on available information, the overall demand for SC paper is likely to experience moderate-to-large changes in response to changes in price, especially between grades. The main contributing factors are the availability of substitute products and the moderate-to-high cost share of SC paper in most of its end-use products.

### **End uses**

U.S. demand for SC paper depends on the demand for U.S.-produced downstream products. Reported end uses included retail inserts, retail circulars and coupons, magazines, and catalogs.

### **Cost share**

SC paper accounts for a moderate-to-high share of the cost of the end-use products in which it is used. Two U.S producers, 1 importer, and 16 purchasers reported that the cost share of SC paper in magazines, retail circulars, catalogs, and newspaper inserts ranged between 12 percent and 100 percent,<sup>24</sup> with the majority of responding firms reporting ranges of 25 to 57 percent.

### **Business cycles**

All 3 U.S. producers, 6 of 7 responding importers, and 20 of 24 responding purchasers indicated that the market was subject to business cycles. The vast majority of firms indicated that demand for SC paper is higher in the second half of the year due to increased advertising promotions leading up to the holiday season. Firms noted that because a large share of SC paper is used for retail advertising and catalog business, SC paper follows the retail business cycle. One purchaser noted that this resulted in overcapacity in the first half of the calendar year and tight/oversold capacity in the second half of the year.

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<sup>24</sup> Purchasers \*\*\* reported that SC paper accounted for 96, 99, and 100 percent, respectively, of the cost of retail circulars/inserts.

All 3 responding U.S. producers, 5 of 7 responding importers, and 6 of 23 responding purchasers indicated that the market was subject to distinct conditions of competition. Producers \*\*\* reported that SC paper competes primarily on price. The majority of firms reported that with the increased use of e-retailing, SC paper must compete with lower cost digital media. \*\*\* also stated that papermaking is a capital-intensive business with paper machines designed to run at full capacity 365 days per year. Several firms reported that there has been a significant consolidation of retailers as well as the disappearance of some regional retailers, who had historically relied heavily on the SC paper in their advertising, which has contributed to the decline in demand for SC paper. Purchaser \*\*\* stated that there is "no SCB or SNC available in the USA, and that the majority of SC paper capacity is located in Canada, which necessitates sourcing from there." Respondent PHP stated that domestic firms do not actively solicit SCB business, but that anyone that makes SCA can also make SCB.<sup>25</sup> Petitioner Verso, however, noted that it does produce SCB.<sup>26</sup>

All 3 U.S. producers, all 5 responding importers, and 14 of 22 responding purchasers indicated that there have been changes to the business cycle and conditions of competition since 2012. All three U.S. producers and the majority of importers noted the re-start of the Port Hawkesbury mill in Nova Scotia, Canada in the fourth quarter of 2012 had increased market supply.<sup>27</sup> Two purchasers reported that the quality of SC paper has improved; one of these stated that SC paper produced at Port Hawkesbury is a better substitute for groundwood paper. Purchasers also reported a number of other changes: that occasionally LWC makers produce SC paper on their machines which increased supply; periodicals switching to SC paper has increased demand; declining demand has created an oversupply situation; fewer suppliers and fewer choices; and currency fluctuations have affected the market.

## **Demand trends**

Most firms reported a decrease in U.S. demand for SC paper since January 1, 2012 (table II-3). The majority of firms attributed the declining demand to the replacement of paper with various forms of digital media and the shrinking circulation of newspapers, which are a primary distribution means for retail inserts.<sup>28</sup> One importer, \*\*\*, reported an increase in demand due to increased substitution of SCA+ paper for LWC paper. Most responding purchasers (13 of 21) reported a decrease in demand, 7 reported an increase in demand, and 1 indicated fluctuating

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<sup>25</sup> Hearing transcript, pp. 175 and 280 (Ostrowski).

<sup>26</sup> Hearing transcript, p. 105 (Clancy).

<sup>27</sup> However, respondent Irving stated that SC paper production capacity in Canada has been reduced by 50 percent since 2007, with seven Canadian SC paper mills ceasing production since that time. Conference transcript, p. 126 (Mosher).

<sup>28</sup> According to Madison, two large retailers, Kohl's and Target Corp., recently announced a large shift away from advertising insert programs to more e-marketing resources. Kohl's announced that it will be cutting its advertising insert program by 40 percent this year. Target Corp. recently (earlier in 2015) laid off its entire group that managed the free-standing insert program. Conference transcript, p. 65 (Johnston).

demand for SC paper since 2012. Purchasers that reported a decrease in demand most often attributed the decline to reduced use of print media circulation, print media advertising, or an increased in the use of electronic media. The purchasers that reported an increase in demand attributed the growth to the substitution of SC paper for LWC paper or to the increased quality of SC paper which reportedly encourages this type of substitution. All responding producers and importers reported a decrease in demand outside the United States, citing similar trends of increased use of digital media. Most purchasers (13 of 18) agreed that demand outside the U.S. had decreased and the three reporting increased demand reported that the increase was due to substitution into SC paper.<sup>29</sup>

**Table II-3**  
**SC paper: Firms’ responses regarding U.S. demand and demand outside the United States**

Item	Increase	No change	Decrease	Fluctuate
<b>Demand in the United States</b>				
U.S. producers	0	0	3	0
Importers	1	0	6	0
Purchasers	7	0	13	1
Purchasers’ end-use products	4	0	11	3
<b>Demand outside the United States</b>				
U.S. producers	0	0	3	0
Importers	0	0	7	0
Purchasers	3	0	13	2

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers, importers, and purchasers were asked to report how significant various factors had affected prices for SC paper on a scale of one to five, where “1” indicated a minimal effect and “5” indicated a substantial effect (table II-4). U.S. producers and importers reported that competition from subject imports had the most substantial effect on prices. Importers also identified the decline in demand for paper products and U.S. producer competition as having a substantial effect. Purchasers also reported these last two factors as having the most substantial effect on prices.<sup>30</sup>

<sup>29</sup> Both firms reporting that demand outside the U.S. had fluctuated gave no explanation.

<sup>30</sup> Fifteen of 18 responding purchasers indicated that demand for their end-use products affected their demand for SC paper.

Table II-4

**SC paper: Firms' perception regarding specific factors affecting prices for SC products**

Factor	Rating of the factor					No role	Average value from firms reporting an effect
	Minimal effect		Substantial effect				
	1	2	3	4	5		
<b>Long-term decline in demand for paper products.--</b>							
U.S. producers	1	1	1	0	0	0	2.0
Importers	0	1	1	0	4	0	4.2
Purchasers	2	1	4	10	7	0	3.8
<b>Competition from substitute products.--</b>							
U.S. producers	1	0	1	0	0	1	2.0
Importers	1	0	2	0	3	0	3.7
Purchasers	1	1	9	9	2	2	3.5
<b>Competition among U.S. producers.--</b>							
U.S. producers	0	2	0	0	1	0	2.0
Importers	0	1	1	1	3	0	4.2
Purchasers	1	6	5	8	3	1	3.3
<b>Competition from subject imports.--</b>							
U.S. producers	0	0	0	0	3	0	5.0
Importers	0	0	1	1	4	0	4.5
Purchasers	0	4	9	8	1	2	3.3
<b>Other factors.--</b>							
U.S. producers	2	0	0	0	1	0	2.3
Importers	1	0	0	1	2	0	3.8
Purchasers	2	0	1	3	0	1	2.8

Source: Compiled from data submitted in response to Commission questionnaires.

Firms were asked to rate how a number of factors have affected the overall demand for SC paper. Factors that firms most frequently reported caused substantial decreases in demand included the decline in demand for print media/periodicals and use of digital media (table II-5). On the other hand, four purchasers reported that use of digital media had increased demand for SC paper substantially<sup>31</sup> and 14 firms reported the shift in demand between coated groundwood and SC paper had increased demand for SC paper either moderately or substantially. The most common explanation for this shift between coated groundwood and SC paper was that the decline in demand for print media or budget cuts have caused some publishers to shift to less expensive SC paper.

<sup>31</sup> None of these purchasers explained why increased use of digital media had led to increased use of SC paper, reporting only that their use had increased.

**Table II-5**

**SC paper: Firms' perceptions regarding specific factors affecting demand for SC paper products**

Factor	Impact on demand for SC products							No opinion
	Decreased			No impact	Increased			
	Substantial	Moderate	Minimal		Minimal	Moderate	Substantial	
<b>Demand shift between coated groundwood and SC paper.--</b>								
U.S. producers	0	0	2	0	1	1	0	0
Importers	0	1	2	0	0	4	1	0
Purchasers	2	2	2	4	1	6	2	5
<b>Demand shift between newsprint/Hi-Brite paper and SC paper.--</b>								
U.S. producers	0	3	0	0	1	0	0	0
Importers	2	3	1	0	1	0	0	1
Purchasers	0	3	1	7	1	0	1	11
<b>Decline in demand for print media/periodical.--</b>								
U.S. producers	3	0	0	0	1	0	0	0
Importers	7	0	0	0	1	0	0	0
Purchasers	9	4	2	0	0	1	1	6
<b>Use of digital media.--</b>								
U.S. producers	3	0	0	0	1	0	0	0
Importers	5	0	1	0	1	1	0	0
Purchasers	9	6	1	1	0	1	4	3
<b>Other factors.--</b>								
U.S. producers	0	0	0	0	0	0	0	0
Importers	0	1	0	0	0	0	0	0
Purchasers	2	1	0	2	0	0	0	2

Source: Compiled from data submitted in response to Commission questionnaires.

**Substitute products**

Substitutes for SC paper include LWC paper, Hi-Brite newsprint, and uncoated mechanical paper. All producers and importers, along with all but one responding purchaser, indicated the existence of substitutes for SC paper. Firms were asked in which end uses could coated groundwood paper (CGW) and newsprint/Hi-Brite paper be used as substitutes; if there were other substitutes; if changes in the price of substitute affected the price of SC paper; and why it did or did not affect the price of SC paper. Most producers, 5 of 6 responding importers, and 13 of 20 responding purchasers reported that coated groundwood paper prices affected SC paper prices. Most purchasers and importers reported that coated groundwood paper was a substitute for SC paper in magazines, catalogues, newspaper inserts, and direct mail advertising.<sup>32</sup> In addition, 1 of the 3 U.S. producers, 5 of 6 responding importers, and 9 of 16 responding purchasers reported that newsprint/Hi-Brite paper prices affected SC paper prices.<sup>33</sup> Purchasers and importers reported newsprint/Hi-Brite paper was a substitute for SC paper in newspapers, newspaper inserts, direct advertising, flyers, and catalogs.<sup>34</sup>

<sup>32</sup> Responses of the producers were less clear.

<sup>33</sup> Two purchasers also reported that coated free sheet paper was a substitute for SC paper.

<sup>34</sup> Producers reported that newsprint/Hi-Brite paper could only be substituted for low grades of SC paper and low end uses. However, in its brief, Petitioner contends that newsprint is not interchangeable

(continued...)

Firms were also asked to report if the different grades of SC papers were “always,” “frequently,” “sometimes,” or “never” substitutable with coated groundwood paper, Hi-Brite paper, and different grades of SC paper (table II-6). Pairs for which the most common response was “frequently” were CGW vs SCA; Hi-Brite vs SNC; SCA++ vs SCA+, SCA+, and SCA; and SCB vs SNC. Pairs for which the most common response was “sometimes” were CGW vs SCA+ and SCA; Hi-Brite vs SCA and SCB; SCA++ vs SCA; SCA+ vs SCB; and SCA vs SCB and SNC. Pairs for which the most common response was “never” were SGW vs SNC, Hi-Brite vs SCA++ and SCA+; SCA++ vs SNC; and SCA+ vs SNC.<sup>35</sup> These answer patterns are consistent with CGW being most substitutable for higher grade SC paper (SCA++ and SCA+) and Hi-Brite being more substitutable with lower grade SC paper (SC and SNC).

**Table II-6**  
**SC paper: Substitutability between different types of SC paper and other types of paper**

Paper type pair	Number of U.S. producers reporting				Number of U.S. importers reporting				Number of purchasers reporting				Number of all responding firms			
	A	F	S	N	A	F	S	N	A	F	S	N	A	F	S	N
CGW vs SCA++	0	1	2	0	1	4	1	0	7	10	5	1	8	15	8	1
CGW vs SCA+	0	0	3	0	1	3	2	0	5	8	10	1	6	11	15	1
CGW vs SCA	0	0	3	0	0	0	6	0	3	4	14	1	3	4	23	1
CGW vs SCB	0	0	1	2	0	0	4	2	3	0	8	10	3	0	13	14
CGW vs SNC	0	0	1	2	0	0	2	4	2	0	4	15	2	0	7	21
Hi-brite vs SCA++	0	0	1	2	0	0	2	4	2	0	5	13	2	0	8	19
Hi-brite vs SCA+	0	0	1	2	0	0	2	4	3	0	5	13	3	0	8	19
Hi-brite vs SCA	0	0	2	1	0	0	5	1	3	0	11	7	3	0	18	9
Hi-brite vs SCB	0	1	2	0	1	2	3	0	3	4	12	2	4	7	17	2
Hi-brite vs SNC	0	1	2	0	1	2	3	0	3	9	6	2	4	12	11	2
SCA++ vs SCA+	1	2	0	0	1	5	0	0	6	12	5	0	8	19	5	0
SCA++ vs SCA	1	1	1	0	1	2	3	0	4	4	13	2	6	7	17	2
SCA++ vs SCB	1	0	1	1	0	1	3	2	3	0	9	9	4	1	13	12
SCA++ vs SNC	1	0	1	1	0	0	3	3	3	0	7	10	4	0	11	14
SCA+ vs SCA	1	2	0	0	1	5	0	0	5	11	8	0	7	18	8	0
SCA+ vs SCB	1	0	1	1	0	1	3	2	3	0	14	5	4	1	18	8
SCA+ vs SNC	1	0	1	1	0	0	3	3	3	0	8	10	4	0	12	14
SCA vs SCB	1	1	1	0	0	4	2	0	3	7	11	1	4	12	14	1
SCA vs SNC	1	0	2	0	0	2	3	1	3	0	14	4	4	2	19	5
SCB vs SNC	1	2	0	0	1	4	1	0	4	6	9	2	6	12	10	2

Note.--A = Always, F = Frequently, S = Sometimes, N = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

(...continued)

with newsprint because “the surface porosity of the newsprint makes it largely unsuitable for printing graphic material, particularly in high resolutions and color.” Petitioner’s prehearing brief, p. 9.

<sup>35</sup> Equal numbers reported “sometimes” and “never” for CGW vs SCB and SCA++ vs SCB.

Port Hawkesbury reported that there is an ongoing industry-wide transition from coated groundwood paper to SCA+ and SCA++ paper. It reported that it has a number of customers that have converted from coated groundwood paper to SC paper.<sup>36</sup> Port Hawkesbury stated that in the first half of 2013, a major publisher (\*\*\*) made a wholesale switch from coated groundwood to SCA+ paper. As a leader in that market segment, \*\*\* “opened the floodgates for using SCA+ and SCA++.”<sup>37</sup> It stated that all of its SCA++ sales are to former CGW paper purchasers.<sup>38</sup>

For each grade of SC paper and coated groundwood paper, purchasers were also asked to estimate the percent increase in price that would lead them to consider purchasing/using alternative grades of, or substitutes for, SC paper and what those alternatives would be. The majority of purchasers noted they would switch one grade higher or lower than the one in question, although a few noted that they could substitute up or down two grades (e.g., SCA for SCA++). More purchasers reported they would consider lower grades than higher grades. The effect across grades was varied, but a plurality for all grades noted that a 5 to 10 percent increase in price would lead them to consider switching (table II-7).<sup>39</sup> Generally, purchasers of higher-grade SC paper will consider switching for a smaller change in price.

**Table II-7**  
**SC paper: Change in price that would lead purchasers to consider switching grades or to a substitute paper type**

Paper type	Percent change in price				
	Up to 5	Over 5 to 10	Over 10 to 20	Over 20	Average
CGW	4	6	2	0	6.3
SCA++	5	6	2	0	6.1
SCA+	6	8	1	0	6.2
SCA	4	5	4	0	8.5
SCB	4	7	2	1	10.0
SNC	5	5	1	0	6.4

Source: Compiled from data submitted in response to Commission questionnaires.

<sup>36</sup> Respondent Port Hawkesbury’s prehearing brief, pp. 23-24.

<sup>37</sup> Conference transcript, p. 107 (Ostrowski).

<sup>38</sup> Hearing transcript, p. 218 (Ostrowski).

<sup>39</sup> Most of the responses were at the higher end of the range of price differences.

Historical prices for SC paper and LWC paper are presented in figure II-3. According to \*\*\*, the price of LWC No. 5 (34 lb.) paper was \*\*\* percent higher than the price of SC paper (SCA grade) in both 2012 and 2013. The price of LWC No. 5 (40 lb.) paper was \*\*\* percent higher than SC paper in 2012 and \*\*\* percent higher in 2013. Between 2012-13, prices for SC paper (SCA grade, 35 lb.) fell \*\*\* percent, prices for LWC paper (34 lb.) decreased \*\*\* percent, and prices for LWC paper (40 lb.) fell \*\*\* percent.

**Figure II-3**  
**Historical U.S. prices for SC paper, LWC No. 5 (34 lb.) paper, and LWC No. 5 (40 lb.) paper, by years, 2000-2013**

\* \* \* \* \*

### **SUBSTITUTABILITY ISSUES**

The degree of substitution between domestic and imported SC paper depends upon such factors as relative prices, quality (e.g., grades, reliability of supply, etc.), and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there is moderate-to-high degree of substitutability between domestically produced SC paper and subject product imported from Canada.

#### **Lead times**

SC paper is manufactured on a produced-to-order basis. U.S. producers and subject importers both reported that 100.0 percent of their commercial shipments were produced-to-order. U.S. producers reported that lead times ranged from 35 to 45 days. U.S. importers reported that lead times ranged from 28 to 45 days. Six of 24 responding purchasers buy SC paper daily, 8 weekly, 6 monthly, and 4 at some other frequency; only 1 of 5 reported increasing its frequency of purchases.

#### **Knowledge of country sources**

Twenty-three purchasers indicated they had marketing/pricing knowledge of domestic product, 22 of Canadian product, and 13 of nonsubject countries, including Austria, Finland, Germany, Norway, and Sweden or “Europe” generally.

As shown in table II-8, most purchasers and their customers either “sometimes” or “never” make purchasing decisions based on the producer or country of origin. Of the eight purchasers that reported that they “always” or “usually” make decisions based the manufacturer, reasons included: capacity and viability of producer; quality; service; reliability; cost; location relative to printer; approved supplier; environmental compliance; exchange rates; and ability to distribute. No purchaser reported any domestic content requirement for its purchases of SC paper, and only 2 of 24 purchasers or their customers specifically ordered SC paper from one country over other possible sources of supply.



**Table II-8****SC paper: Purchasing decisions based on producer and country of origin**

<b>Purchaser/Customer Decision</b>	<b>Always</b>	<b>Usually</b>	<b>Sometimes</b>	<b>Never</b>
Purchaser makes decision based on producer	3	6	6	8
Purchaser's customers make decision based on producer	0	3	8	7
Purchaser makes decision based on country	1	2	8	12
Purchaser's customers make decision based on country	0	1	4	13

Source: Compiled from data submitted in response to Commission questionnaires.

### Factors affecting purchasing decisions

The most often cited top three factors firms consider in their purchasing decisions for SC paper were price (21 firms), quality (18 firms), and availability (10 firms) as shown in table II-9. Quality was the most frequently cited first-most and second-most important factor (cited by 7 firms each), followed by price (6 firms each). Price was the most frequently reported third-most important factor (8 firms), but was cited among the top three factors most frequently. Purchasers also listed other factors that were important, but not among the top three. These include quality and environmental concerns (5 firms), service (3 firms), and capacity, discounts, diversification of sources, exchange rates, financial status, price, problem recovery, product range.

**Table II-9****SC paper: Ranking of factors used in purchasing decisions as reported by U.S. purchasers, by factor**

<b>Factor</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Total</b>
Quality	7	7	4	18
Price	6	7	8	21
Availability	3	2	5	10
Reliability	2	2	0	4
Range	1	0	0	1
Location	0	2	2	4
Other <sup>1</sup>	4	3	4	11

<sup>1</sup> Other factors include: traditional supplier; "\*\*\*\*", manufacturer stability, and business conduct as first factors; supply chain capabilities, customer service and relationship, and capacity/tonnage as second factors; contracts, flexibility in timing orders, freight costs, and supplier surcharges as third factors.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchasers were asked to list factors that helped them determine the quality of SC paper. Quality factors listed by purchasers included appearance (opacity, brightness, gloss, color, mottle, and shade); touch (smoothness, surface, finish and feel); performance (runability, printability, ink lay; ink mileage; skip dot percentage, color rendition; press waste; and print

quality); tensile strength; and consistency (order to order consistency, basis weight consistency, free of defects, consistent trim, and consistent bulk).<sup>40</sup>

Half of purchasers (12 of 24) reported that they “usually” purchase the lowest-priced product for their purchases, 11 reported “sometimes” purchasing lowest-priced, and one “never” purchased lowest-priced SC paper.

When asked if they purchased SC paper from one source although a comparable product was available at a lower price from another source, 17 purchasers reported reasons. Among those that stated the source along with the reason(s), purchasers noted buying from Canada (for roll width, capacity, and/or quality, with purchaser \*\*\* stating that it does so even though it is not the lowest cost SCA+ paper available), Europe (for capacity), Norway (for delivery time and compliance with environmental policy), and the United States (for \*\*\*). Additionally, \*\*\*. Eleven of the 16 responding firms did not specify the source, but noted a variety of reasons why they had purchased higher-priced SC paper, including: availability, a commitment to its current supplier and strategic sourcing, customer preferences, customer service, environmental performance, lead time, maintenance of a diversified supply base, mode of transportation, payment terms, product offers, quality, supplier manufacturing capacity and stability, and transit capability.

Eight of 22 purchasers reported that certain types of product were only available from a single source. A number of purchasers reported that Canadian and/or European suppliers were better able to provide a number of products including: SCA++ (76 and 80 bright), 45 lb. and heavier SC paper, high bulk, and SNC from Canada; high bulk/finish and 100-percent recycled SCB paper from Europe. In addition, one purchaser (\*\*\*) reported that SCA ++, SCA+, and SCB are more readily available from Canadian sources, another purchaser (\*\*\*) reported that SCA++, SCB, and SNC are not available in the United States, and a third, (\*\*\*), stated that only one U.S. machine makes SCA+ in the United States and it does not produce enough to satisfy U.S. demand.

### **Importance of specified purchase factors**

Purchasers were asked to rate the importance of 21 factors in their purchasing decisions (table II-10). The factors rated as “very important” by more than half of responding purchasers were price and reliability of supply (23 each); product consistency and quality of mechanical performance meets industry standards (21 each); quality of finished product meets industry standards (20); availability/producer capacity (19); delivery time/transit time and technical support/customer service (18 each); offset quality<sup>41</sup> (15); delivery terms (14); and flexibility of supply (12). Factors for which more firms reported the factor was not important than reported it was very important included minimum quantity requirements and exchange rate (13 each report this was not important); packaging (11); and availability of a variety of SC paper grades and extension of credit (9 each).

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<sup>40</sup> One purchaser reported quality was uniform in the industry.

<sup>41</sup> “Offset quality” refers to how well the paper is able to reproduce the image when transferred during the printing process.

**Table II-10**  
**SC paper: Importance of purchase factors, as reported by U.S. purchasers, by factor**

Factor	Very important	Somewhat important	Not important
Availability/producer capacity	19	5	0
Availability of a variety of SC paper grades	7	8	9
Delivery terms	14	10	0
Delivery time/transit time	18	5	1
Discounts offered	9	13	1
Extension of credit	5	9	9
Exchange rate	2	8	13
Flexibility of supply	12	8	3
Minimum quantity requirements	1	10	13
Offset quality	15	8	1
Packaging	4	9	11
Price	23	1	0
Product consistency	21	3	0
Product range	8	8	8
Quality of mechanical performance meets industry standards	21	3	0
Quality of mechanical performance exceeds industry standards	6	12	5
Quality of finished printed product meets industry standards	20	3	1
Quality of finished printed product exceeds industry standards	5	13	5
Reliability of supply	23	1	0
Technical support/customer service	18	6	0
U.S. transportation costs	9	11	4

Source: Compiled from data submitted in response to Commission questionnaires.

### Supplier certification

Most purchasers (16 of 24) require their suppliers to become certified or qualified to sell SC paper to their firm. Purchasers reported that the time to qualify a new supplier ranged from 12 to 180 days with 7 of the 12 responding firms reporting average qualification times ranging from 60 to 100 days. Suppliers were qualified based on a number of factors including: the quality of the vendor (financial audits, legal risks, and reputation); the quality of the product; reliability/delivery; printing tests; price; and environmental concerns. One purchaser reported that foreign suppliers had failed in their attempts to qualify product, or had lost their approved status since 2012. \*\*\* were both rejected based on offset printing results.

## Changes in purchasing patterns

Purchasers were asked about changes in their purchasing patterns from different sources since 2012 (table II-11). Overall, the reasons cited for changing patterns for U.S. and Canadian suppliers were broadly similar. Reasons noted for decreased purchases of U.S. product included: availability; change in print strategy; decline in newspaper circulation; demand for lighter weight; end use customers' switch from SCA to SCB, which "has not been produced in the United States;"<sup>42</sup> environmental compliance; fewer sources of "+" grade; price; print location; program reductions; and trim. In contrast, reasons for increased purchases from U.S. producers included: change from newsprint to SC paper; budget reductions; U.S. price was lowest; captured price difference between SC paper and CGW grades \*\*\*; and better availability of light weight SCB.

**Table II-11**  
**SC paper: Changes in purchase patterns from U.S., Canada, and nonsubject countries**

Source of purchases	Did not purchase	Decreased	Increased	Constant	Fluctuated
United States	1	12	6	2	3
Canada	0	5	11	4	4
Other	5	4	11	2	2

Source: Compiled from data submitted in response to Commission questionnaires.

Reasons reported for decreased purchases of Canadian product included: changes in print marketing strategy and declines in newspaper circulation; move to lighter weight; shift from SC paper to uncoated mechanical grades in the first quarter of 2015; and program reductions. On the other hand, reasons for increased purchases of Canadian SC paper included: additional sources of + grade; availability; budget reductions; captured price difference between SC paper and GCW grades \*\*\*; changed from newsprint to SC paper; environmental compliance; grade shifting; improved market share with existing customers; price; and switching to SCB from SCA in order to reduce costs.

Purchasers reported contacting an average of two to five suppliers in order to procure SC paper. Only two of 21 purchasers reported contacting only one supplier, while two reported contacting up to eight suppliers.

Fourteen of 24 responding purchasers reported that they had changed suppliers since January 1, 2012. Specifically, firms dropped or reduced purchases from NewPage/Verso, Irving, Norcel, Resolute, and Port Hawkesbury. Their reasons for dropping or reducing purchases from these suppliers included: a change in paper grades; management of multiple suppliers; not supplying the roll width needed; price; and the Sartell mill closure.

Purchasers added or increased purchases from Holmen (Sweden), Irving, Norcel, NewPage/Verso, Norske, Stora Enso, Horizon, and Port Hawkesbury. Their reasons for this

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<sup>42</sup> \*\*\* purchaser questionnaire response, II-3.

change included: diversification of the supply chain; increased competition; move from CGW to SCA+; price; reduction of supply chain risks; and “unique grade and properties.” Firms also reported changes because of supply source consolidation.

Half (12 of 24) of the responding purchasers reported the existence of new suppliers; Port Hawkesbury was the new supplier most frequently mentioned, although some remarked that its mill was not new (but rather reopened). The only other new supplier mentioned by purchasers was Holmen (Germany and Sweden). Purchasers were also asked how the reopening of the Port Hawkesbury mill had affected the U.S. market; most (17 of 23) purchasers reported that this mill change had affected the U.S. market either slightly (5) or somewhat (12). Changes reported included: better availability of high-quality SC paper; continued undersupply in the U.S. market; “helped balance the effect of other mills’ closing;” “helped keep customers in the SC paper market;” increased tonnage; oversupply in the U.S. market; and price adjustments.

Purchasers were then asked about the credibility of Port Hawkesbury as a supplier to the U.S. market since it has reopened. Only one of the 23 responding purchasers reported that it was (somewhat) less credible, 10 reported that its credibility was unchanged, 10 reported that it was somewhat more credible, and 3 reported it was much more credible. Firms reporting that it was more credible reported superior quality (best in market SCA+), timely deliveries/reliability, service, and introduced products.<sup>43</sup>

### **Importance of purchasing domestic product**

One responding purchasers reported that purchasing U.S.-produced product was an important factor in their purchasing decisions. None reported that domestic product was required by law or required by their customers, but \*\*\* reported that for \*\*\* percent of its purchases, its purchases were required to be sourced domestically due to shorter lead times and that “Madison excels at lightweight roto quality” paper.

### **Comparisons of domestic products, subject imports, and nonsubject imports**

Purchasers were asked a number of questions comparing SC paper produced in the United States, subject countries, and nonsubject countries. First, purchasers were asked for a country-by-country comparison on the same 21 factors (table II-12).

Most purchasers reported that U.S. and Canadian SC paper were comparable on all 21 factors. Twenty-one purchasers compared SC paper from United States with SC paper and from Canada with SC paper from nonsubject countries; most responding purchasers reported that SC paper was comparable on all factors except delivery/transit time.<sup>44</sup>

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<sup>43</sup> When asked about whether they had made any public statements regarding the re-opening of Port Hawkesbury, no purchaser reported making any.

<sup>44</sup> Not all purchasers responded for all the factors.

**Table II-12**  
**SC paper: Purchasers' comparisons between U.S.-produced and imported product**

Factor	U.S. vs. Canada			U.S. vs. nonsubject			Canada vs. nonsubject		
	S	C	I	S	C	I	S	C	I
Availability/producer capacity	1	15	7	1	13	7	5	14	2
Availability of a variety of SC Paper grades	0	14	9	0	13	8	3	16	2
Delivery terms	1	21	1	5	13	2	4	15	1
Delivery time/transit time	5	18	0	12	6	2	12	6	3
Discounts offered	0	20	0	0	17	1	0	17	1
Extension of credit	0	22	0	0	20	0	0	20	0
Exchange rate	0	11	9	0	11	7	1	17	0
Flexibility of supply	3	14	6	4	15	2	6	12	3
Minimum quantity requirements	2	20	0	2	17	1	4	13	3
Offset quality	0	20	2	2	18	0	4	16	0
Packaging	0	23	0	0	21	0	0	21	0
Price	1	20	2	0	20	1	2	17	2
Product consistency	0	21	2	0	21	0	1	20	0
Product range	0	17	6	1	13	7	3	15	1
Quality of mechanical performance meets industry standards	0	23	0	1	20	0	2	19	0
Quality of mechanical performance exceeds industry standards	0	22	0	1	19	0	2	19	0
Quality of finished printed product meets industry standards	0	23	0	0	20	1	0	21	0
Quality of finished printed product exceeds industry standards	0	21	1	0	19	1	0	20	0
Reliability of supply	1	18	3	4	16	1	5	16	0
Technical support/customer service	1	22	0	1	20	0	2	18	1
U.S. transportation costs	6	14	1	2	18	0	2	14	3

<sup>1</sup> A rating of superior means that price/U.S. transportation costs is generally lower. For example, if a firm reported "U.S. superior," it meant that the U.S. product was generally priced lower than the imported product.

Note.--S=first listed country's product is superior; C=both countries' products are comparable; I=first list country's product is inferior.

Source: Compiled from data submitted in response to Commission questionnaires.

### Comparison of U.S.-produced and imported SC paper

In order to determine whether U.S.-produced SC paper can generally be used in the same applications as imports from Canada and nonsubject countries, U.S. producers, importers, and purchasers were asked whether the products can "always," "frequently," "sometimes," or "never" be used interchangeably. As shown in table II-13 most responding U.S. producers and importers reported that product from all countries was "frequently" interchangeable. Most purchasers reported that SC paper from all country pairs were either "always" or "frequently" interchangeable.

**Table II-13**

**SC paper: Interchangeability between SC paper produced in the United States and in other countries, by country pairs**

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting				Number of purchasers reporting			
	A	F	S	N	A	F	S	N	A	F	S	N
<b>U.S. vs. subject countries:</b> U.S. vs. Canada	1	2	0	0	0	5	1	0	11	10	1	0
<b>Nonsubject countries comparisons:</b> U.S. vs. nonsubject	1	2	0	0	1	5	1	0	7	10	4	0
Canada vs. nonsubject	1	2	0	0	1	6	0	0	7	10	4	0

Note.--A=Always, F=Frequently, S=Sometimes, N=Never.

Source: Compiled from data submitted in response to Commission questionnaires.

As can be seen from table II-14, 14 of 23 responding purchasers reported that domestically produced product “always” met minimum quality specifications. Sixteen of 23 responding purchasers reported that the Canadian SC paper “always” met minimum quality specifications.

**Table II-14**

**SC paper: Ability to meet minimum quality specifications, by source<sup>1</sup>**

Source	Always	Usually	Sometimes	Rarely or never
United States	14	9	0	0
Canada	16	7	0	0
Nonsubject countries	8	8	0	0

<sup>1</sup> Purchasers were asked how often domestically produced or imported SC paper meets minimum quality specifications for their own or their customers’ uses.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchasers were asked if there were differences between grades SCA++, SCA+, SCA, SCB, SCN, and “other” among different country sources. Most of the responding purchasers reported no difference by grades for any country pair (table II-15). Nine purchasers reported one or more differences between U.S. and Canadian product based on these criteria: Canada offers a greater variety of brightness and basis weights in SCA++ and SCA+; Canada produces more lower basis weight SC paper; differences in press performance, smoothness, opacity, gloss, shade, fiber sources, and finish; the U.S. product is not of equal quality; and “there is no U.S. manufacture of SCA++, and little Canadian production.” Purchasers reported similar differences between U.S. and Canadian SC paper when compared with nonsubject SC paper.<sup>45</sup>

<sup>45</sup> The only difference not mentioned in the Canada comparison mentioned in the nonsubject was that U.S. product tended to be more “blue-white” than nonsubject product.

**Table II-15**  
**SC paper: Differences in grades between country pairs**

Country pair	No	Yes					
		SCA++	SCA+	SCA	SCB	SNC	Other
<b>U.S. vs. subject countries:</b> U.S. vs. Canada	15	6	4	2	4	0	1
<b>Nonsubject countries comparisons:</b> U.S. vs. nonsubject	12	2	4	5	3	1	0
Canada vs. nonsubject	13	3	4	5	2	1	1

Source: Compiled from data submitted in response to Commission questionnaires.

Purchaser \*\*\* stated that there is only one mill in the United States that makes good quality SCA+, and that in order to source SCA++, it requires importing from Canada or Europe. Importer \*\*\* stated that it does not believe that there is any significant production of SCB grade paper in the United States. It believes that the small volume of SCB paper sold by U.S. producers was made on SCA machines and thus the product was actually downgraded SCA.<sup>46</sup> Importer \*\*\* stated that U.S. and Canadian products were only “sometimes” interchangeable for several reasons: it stated that brightness levels as well as heavier basis weights are made in Canada and are not manufactured by U.S. producers; it contends that the Canadian SC paper offset quality is generally more acceptable to printers because of clay fillers used in the process versus the precipitated calcium carbonate filler used in the paper made by U.S. producers; and finally, that U.S. producers do not actively sell the variety and volume of SCB grade products that the Canadian manufacturers offer.

Producers and importers were asked if they currently produced/supplied or were able to produce/supply different grades of SC paper (table II-16). Most responding importers were currently supplying SCA++, while no U.S. producer was currently producing this grade (one producer reported it was able to produce this grade). Most responding producers and importers were currently producing/supplying all other grades except SNC. No U.S. producer was currently producing (or able to produce) SNC, and 3 of 7 responding importers reported currently supplying SNC. Over 90 percent of the SC paper responding purchasers bought were in grades that most U.S. producers currently produce (table II-16). Purchasers were also asked if U.S. producers or importers from Canada were unwilling or unable to supply any of the listed grades (table II-17). Most purchasers reported that neither the U.S. nor Canada were unable or unwilling to supply any grade. The most common inability/unwillingness to supply noted by purchasers was the domestic producers’ ability/willingness to supply SCA++ material, which was indicated by eight purchasers.

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<sup>46</sup> Importer questionnaire response, section III-18.



**Table II-16**  
**SC paper: Producers and importers ability to produce/supply grades of SC paper and share of purchasers purchases by grade**

			SCA++	SCA+	SCA	SCB	SNC
U.S. producers	Currently producing	Yes	0	2	3	2	0
		No	3	1	0	1	3
	Able to produce	Yes	1	2	3	2	0
		No	2	1	0	1	3
Importers	Currently supply	Yes	5	6	7	7	3
		No	2	1	0	0	4
	Able to supply	Yes	4	5	5	5	3
		No	2	1	0	0	3
Purchasers <sup>1</sup>	Share of purchases (percent)		2.7	22.1	24.2	40.4	6.4

<sup>1</sup> Purchasers also reported that 5 percent of their purchases were of “other” grades.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table II-17**  
**SC paper: Purchasers reporting producers or importers were unable or unwilling to supply grades of SC paper**

		SCA++	SCA+	SCA	SCB	SNC
U.S. producers	No	15	18	18	15	13
	Yes	8	4	3	5	5
Importers from Canada	No	20	20	19	16	15
	Yes	2	2	2	3	3

Source: Compiled from data submitted in response to Commission questionnaires.

Producers, importers, and purchasers were asked to assess how often differences other than price were significant in sales of SC paper from the United States, subject, or nonsubject countries. As seen in table II-18, all responding U.S. producers and most responding importers reported there was either “sometimes” or “never” differences other than price for all country pairs. Purchaser responses were more varied. The most common response for all country pairs was that there were “sometimes” differences other than price, but the second most common response when comparing U.S. and Canadian SC paper was that there were “always” differences other than price. When comparing U.S. and Canadian SC paper with paper from other countries, the second most common response was that there were “frequently” differences other than price.

**Table II-18**

**SC paper: Significance of differences other than price between SC paper produced in the United States and in other countries, by country pair**

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting				Number of purchasers reporting			
	A	F	S	N	A	F	S	N	A	F	S	N
<b>U.S. vs. subject countries:</b> U.S. vs. Canada	0	0	1	2	0	2	3	1	5	5	8	5
<b>Nonsubject countries comparisons:</b> U.S. vs. nonsubject	0	0	2	1	0	2	5	0	3	6	11	2
Canada vs. nonsubject	0	0	2	1	0	2	4	1	3	7	9	3

Note.--A = Always, F = Frequently, S = Sometimes, N = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

**ELASTICITY ESTIMATES**

This section discusses elasticity estimates; parties were encouraged to comment on these estimates and should do so as an attachment to their prehearing brief. Respondent Port Hawkesbury agreed with the demand elasticity description in its prehearing brief,<sup>47</sup> and two parties commented on the elasticity estimates in the hearing. The economist for Respondent Port Hawkesbury agreed with the elasticity estimates presented in the prehearing report.<sup>48</sup> The economist for Petitioners, however, disagreed with the supply and demand elasticity estimates.

**U.S. supply elasticity**

The domestic supply elasticity<sup>49</sup> for SC paper measures the sensitivity of the quantity supplied by U.S. producers to changes in the U.S. market price of SC paper. The elasticity of domestic supply depends on several factors including the level of excess capacity, the ease with which producers can alter capacity, producers' ability to shift to production of other products, the existence of inventories, and the availability of alternate markets for U.S.-produced SC paper. Analysis of these factors earlier indicates that the U.S. industry has the ability to somewhat increase or decrease shipments to the U.S. market; an estimate in the range of 2 to 4 is suggested.

Petitioner's economist believes that this supply elasticity is too high because mills have a large incentive to run their mills at capacity constantly.<sup>50</sup> The supply curve would become completely inelastic at the point of running at capacity, but the domestic industry is not at that

<sup>47</sup> Respondent Port Hawkesbury's prehearing brief, p. 11.

<sup>48</sup> Hearing transcript, p. 288 (Malashevich).

<sup>49</sup> A supply function is not defined in the case of a non-competitive market.

<sup>50</sup> Hearing transcript, p. 292 (S. Kaplan).

point. From its current production levels, small upward changes in price would likely induce the domestic industry to increase its production, while small downward changes in price would likely not induce much change in its production levels. Therefore, in the relevant range (of less than 100 percent capacity utilization and no exports) the supply curve is likely kinked such that at prices higher than market prices it is very elastic, but at prices lower than current market prices, the supply curve is much less elastic.

### **U.S. demand elasticity**

The U.S. demand elasticity for SC paper measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of SC paper. This estimate depends on factors discussed earlier such as the existence, availability, and commercial viability of substitute products, as well as the component share of the SC paper in the production of any downstream products. Based on the available information, the aggregate demand for SC paper is likely to be elastic. In the prehearing phase, a range of -2 to -4 was suggested.

Petitioner's economist believes that this demand elasticity is too high.<sup>51</sup> As there are multiple grades of SC paper, there is substitution among these grades when small differences in prices occur. Incidents such as \*\*\* show that purchasers could switch entire orders from one grade to another or into and out of subject product based on price differences.<sup>52</sup> For grades on the high and low ends of the spectrum, therefore, or among the grades within the scope, the elasticity is likely to be higher, and in the range suggested. However, the elasticity of demand with respect to price changes in mid-range SC paper is likely to be lower. Thus, the overall elasticity of demand may be lower than originally suggested and closer to unitary.

### **Substitution elasticity**

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported products.<sup>53</sup> Product differentiation, in turn, depends upon such factors as quality (e.g., chemistry, appearance, etc.) and conditions of sale (e.g., availability, sales terms/ discounts/ promotions, etc.). Based on available information, the elasticity of substitution between U.S.-produced SC paper and imported SC paper is likely to be in the range of 4 to 7.

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<sup>51</sup> Hearing transcript, p. 292 (S. Kaplan).

<sup>52</sup> Hearing transcript, p. 295 (Byers).

<sup>53</sup> The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject products (or vice versa) when prices change.



## PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the subsidies was presented in *Part I* of this report and information on the volume and pricing of imports of the subject merchandise is presented in *Part IV* and *Part V*. Information on the other factors specified is presented in this section and/or *Part VI* and (except as noted) is based on the questionnaire responses of three U.S. producers of SC paper, Madison, Resolute, and Verso, which accounted for 100.0 percent of total U.S. production of SC paper during the period of investigation.

### U.S. PRODUCERS

The Commission sent U.S. producer questionnaires to three firms, Madison, Resolute, and Verso, which were identified in the petition and during the preliminary phase of this investigation as U.S. producers of SC paper.<sup>1</sup> The Commission received responses from all three firms which reported domestic production activities during the period of investigation. Table III-1 lists U.S. producers of SC paper, their production location(s), positions on the petition, total production, and shares of total production during the period of investigation.

**Table III-1**

**SC paper: U.S. producers of SC paper, their positions on the petition, production locations, production, and shares of reported production, 2012-June 2015**

Firm	Position on petition	Production location(s)	Share of production (percent)
Madison <sup>1</sup>	Petitioner	Madison, ME	***
Resolute USA <sup>2</sup>	***	Catawba, SC	***
Verso <sup>3</sup>	Petitioner	Duluth, MN Sartell, MN	***
Total			100.0

<sup>1</sup>Madison is currently owned by a joint venture between Northern SC Paper Corp. (in which The New York Times Co. owns an \*\*\* percent equity stake) and UPM-Kymmene, Inc. of Naperville, IL, which is a wholly owned subsidiary of UPM-Kymmene Oyj of Helsinki, Finland, a large producer of paper products including SC paper in Europe.

<sup>2</sup>Resolute USA is an affiliate of Resolute FP Canada Inc. of Montreal, Quebec, Canada.

<sup>3</sup>\*\*\*.

*Source:* Compiled from data submitted in response to Commission questionnaires.

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<sup>1</sup>The petition did not identify Resolute USA as a U.S. producer of SC paper. Nonetheless, Resolute USA did submit a U.S. producer questionnaire response during both the preliminary and final phases of this investigation.

### **Madison Paper Industries, Inc.**

Madison is a joint venture between of UPM-Kymmene, Inc. (“UPM”) and the New York Times Co. It produces mechanical pulp and SC paper at one paper mill located in Madison, Maine. UPM is a wholly owned U.S. subsidiary of UPM-Kymmene Oyj, a large forest products producer with paper mills located in Finland, Germany, the United Kingdom, France, Austria, China, and the United States, and is headquartered in Helsinki, Finland.<sup>2</sup> Madison reported that in recent years, it has attempted to improve the efficiency of its production process and to trim costs at its sole paper production line. For example, in 2013, it converted its energy source from oil to natural gas saving the company \$\*\*\* in 2014. Madison also reported installing diamond grinding surfaces thereby improving its mechanical pulping process and saving the company \$\*\*\* in 2014, as the diamond surfaces require significantly less electricity to operate than the prior stone grinding surfaces.<sup>3</sup>

### **Resolute FP US Inc.**

Resolute is an integrated forest products company headquartered in Montreal, Quebec, Canada whose operations include pulp production, paper production, and wood products production (lumber for residential construction) in the United States, Canada, and South Korea. Its paper mills produce approximately 5.0 million tons of paper, which includes commercial printing papers and newsprint. Its U.S. affiliate, Resolute USA, owns a paper and pulp mill in Catawba, South Carolina, which produces pulp, specialty coated papers, and SC paper.<sup>4</sup> Resolute USA reported that at the Catawba mill \*\*\*.<sup>5</sup>

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<sup>2</sup> In addition to the Madison paper mill, in the United States, UPM operates a paper mill in Grand Rapids, Minnesota that produces lightweight coated paper. <http://www.upmpaper.com/en/about-us/mills/united-states/Pages/default.aspx>, accessed on March 25, 2015.

<sup>3</sup> Petitioner’s postconference brief, pp. 34-35 and “Answers to Questions from Commission Staff,” p. 14. Madison also reported other technological improvements during the period of investigation such as \*\*\*. U.S. producer questionnaire response of Madison, question II-2.

<sup>4</sup> Resolute USA operates mills that produce newsprint in Augusta, Georgia; Calhoun, Tennessee; Grenada, Mississippi; and Usk, Washington. It also operates mills that produce pulp in Coosa Pines, Alabama; Fairmont, West Virginia; and Menominee, Michigan. [http://www.resolutefp.com/Operations/Pulp\\_and\\_Paper/](http://www.resolutefp.com/Operations/Pulp_and_Paper/) accessed March 25, 2015.

<sup>5</sup> Resolute USA reported that in 2014, \*\*\* percent of its total production at its Catawba mill was SC paper and \*\*\* percent consisted of coated paper products. U.S. Producer Questionnaire of Resolute, question II-3a.

It also reported that \*\*\*. U.S. producer questionnaire response of Resolute USA, II-2.

## Verso Corp.

Verso is an integrated U.S. producer of printing papers, specialty papers, and pulp headquartered in Memphis, Tennessee. It operates eight paper mills located in Kentucky, Maine, Maryland, Michigan, Minnesota, and Wisconsin, which account for a total annual production capacity of approximately 3.6 million tons of paper. Verso produced coated groundwood paper and SC paper at its Sartell, Minnesota paper mill.<sup>6</sup> However, a fire in May 2012, caused major damage to the mill rendering it inoperable. In August 2012, Verso announced that it would not reopen the Sartell mill citing “the length of time that it would take to rebuild the mill structures and systems that were destroyed in the Memorial Day fire and explosion, and the marketplace challenges that would present.” The closure of the Sartell paper mill reduced Verso's annual coated groundwood capacity by 180,000 tons or approximately 20 percent, and eliminated its approximately 35,000 tons of annual SC paper capacity.<sup>7</sup>

On January 6, 2014, Verso announced that it planned to acquire the assets of NewPage Holdings, Inc. (“NewPage”), which had filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in September 2011. On January 7, 2015, Verso announced the completion of its acquisition of NewPage in a transaction valued at approximately \$1.4 billion. Among the assets Verso purchased from NewPage was the Duluth, Minnesota paper mill, which produces SC paper and pulp.<sup>8</sup> Among NewPage’s prior assets not part of the Verso acquisition included NewPage’s Port Hawkesbury paper mill located in Port Hawkesbury, Nova Scotia, Canada.<sup>9</sup> During the bankruptcy reorganization, NewPage’s Port Hawkesbury mill was sold to

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<sup>6</sup> Verso produced coated free sheet, coated groundwood, other uncoated papers, specialty papers, and pulp at its other paper mills.

<sup>7</sup> Press release of Verso Corp., “*Verso Paper Corp. Announces Permanent Shutdown of Sartell Mill*,” <http://investor.versoco.com/releasedetail.cfm?ReleaseID=697800>, accessed March 25, 2015.

\*\*\*. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” p. 9.

Verso stated that the anticipation of the re-opening of the Port Hawkesbury paper mill played a part in its decision to permanently shutter the Sartell mill. It also stated that the cost to repair and re-open the Sartell mill after the fire \*\*\*. Petitioner’s postconference brief, p. 32.

Port Hawkesbury argued that the re-opening of its mill could not have been a primary reason for Verso to decide to shutter its Sartell mill. It added that in August 2012, the timeframe in which Verso decided to permanently shutter its Sartell mill, even Port Hawkesbury officials did not know whether its mill would be re-opened because of the uncertainty of the final sales transaction of the mill. Port Hawkesbury’s prehearing brief, pp. 15-16; Port Hawkesbury’s postconference brief, exh. 1, attachment A.

<sup>8</sup> The U.S. producer questionnaire response of Verso reports data for the production of SC paper in both the Duluth and Sartell paper mills throughout the period of investigation.

<sup>9</sup> Petitioner stated that when NewPage operated the Port Hawkesbury mill raw material (wood), energy (electricity), and transportation costs were so high that they prevented NewPage from operating it profitably. It reported that in 2010, the last full year that NewPage operated the Port Hawkesbury mill, \*\*\*. Petitioner’s postconference brief, “Answers to Questions from Commission Staff,” pp. 2 and 5.

Port Hawkesbury argued that the mill has undergone a significant restructuring since NewPage operated it which have greatly reduced costs and increased profitability. It reported that the mill once

(continued...)

Pacific West Commercial Corp. (“Pacific West”), an affiliate of Stern Partners, a Vancouver, Canada based private equity firm.<sup>10</sup> In October 2012, Pacific West restarted production of SC paper at the mill as Port Hawkesbury Paper LP.

### U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Table III-2 presents U.S. producers’ production, capacity, and capacity utilization. Total U.S. capacity of SC paper increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>11</sup> Total U.S. production of SC paper decreased from 2012 to 2014 by \*\*\* percent and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. Capacity utilization rates for SC paper production ranged from \*\*\* percent in January-June 2015 to \*\*\* in 2012.

Both petitioner and respondents agreed that the production of SC paper is a capital intensive activity and that high, virtually 100 percent, capacity utilization rates are necessary for the economic viability of individual paper mills.<sup>12</sup>

Petitioner and respondents also agreed that the potential in the industry for shifting production among various paper products on the same manufacturing equipment is very low.<sup>13</sup> Paper production lines are primarily dedicated to the production of a particular paper product

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(...continued)

ran an unprofitable newsprint production line which has since been shuttered. It also reported that it now produces its SCA++ at the facility, which is a new high-margin product that NewPage did not produce at the mill. Port Hawkesbury’s postconference brief, exh. 1, attachment B.

<sup>10</sup> Stern Partners also has ownership interests in other paper manufacturers including Alberta Newsprint Co. and West Linn Paper Co. <http://www.sternpartners.com/investments/index.html> accessed on March 25, 2015. West Linn Paper Co. conducts marketing and sales operations for the SC paper produced at Port Hawkesbury. <http://www.wlinpco.com/papers/supercalendered.aspx> accessed March 30, 2015.

<sup>11</sup> The close of Verso’s Sartell, Minnesota mill \*\*\*. Petitioner’s postconference brief, p. 32.

<sup>12</sup> Petitioner testified that a new greenfield paper and pulp manufacturing facility would presently cost approximately \$500 to \$700 million. Petitioner’s prehearing brief, p. 10; Petitioner’s postconference brief, p. 14; Conference transcript, p. 20 (Drechsel). All parties testified that paper mills are designed to run “24/7” with very little scheduled downtime for maintenance. Petitioner’s prehearing brief, pp. 10-11; Petitioner’s postconference brief, pp. 14-15; Port Hawkesbury’s postconference brief, p. 8.

<sup>13</sup> \*\*\*. U.S. producer questionnaire of \*\*\*. Respondent Resolute’s postconference brief, p. 13 (\*\*\*).



type and switching production between products is a process that requires substantial amounts of time and resources.<sup>14</sup>

\*\*\* reported that because of low priced U.S. imports from Canada, it was forced to \*\*\*. \*\*\* reported production was \*\*\*.

\*\*\* reported that in 2014, \*\*\* percent of its total production at its Catawba mill was SC paper and \*\*\* percent consisted of coated paper products, which it produces on a separate production line.<sup>15</sup> It also reported that \*\*\*.<sup>16</sup>

\*\*\* capacity and production \*\*\*.

**Table III-2**

**SC paper: U.S. producers' production, capacity, and capacity utilization, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

**U.S. PRODUCERS' U.S. SHIPMENTS AND EXPORTS**

As presented in table III-3, the volume of U.S. shipments of SC paper decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The value of U.S. shipments decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The volume of export shipments of SC paper decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The value of export shipments decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. U.S. producers reported that their principal export markets were \*\*\* during the period of investigation.

**Table III-3**

**SC paper: U.S. producers' U.S. shipments, exports shipments, and total shipments, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

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<sup>14</sup> Petitioner's postconference brief, p.8; Port Hawkesbury's postconference brief, p. 23; Conference transcript, pp. 55-56 (Drechsel) (describing the high costs of switching production between products in the "tens of millions.").

<sup>15</sup> U.S. Producer Questionnaire of \*\*\*, question II-3a. \*\*\*. Ibid. at questions II-3f and II-13.

<sup>16</sup> U.S. producer questionnaire response of \*\*\*, II-2. In 2014, \*\*\* percent of its total production was SC paper and \*\*\* percent consisted of coated paper products. In 2012, \*\*\* percent of the mill's production consisted of SC paper and the remaining portion lightweight coated paper. Ibid.

## U.S. Producers' U.S. Commercial Shipments of SC Paper by Grade

As noted in *Part I*, SC paper is sold by grade. The grades correspond to the brightness and smoothness levels of SC paper, with SCA++ being the brightest and smoothest and SNC being the least bright and smooth. Respondent Port Hawkesbury contended that Canadian producers primarily produced and sold grades SCA++ and SCA+ grades of SC paper, while U.S. producers primarily produced and sold SCA grade SC paper.<sup>17</sup> In the preliminary phase of this investigation, respondent Irving also contended that competition is limited because the domestic industry makes limited quantities of SCB grade paper and no soft nipped (SNC) paper, while Canadian producers produce these grades.<sup>18</sup> Therefore, respondents argued that there was attenuated competition at the higher and lower grades of SC paper.<sup>19</sup> Table III-4 presents U.S. producers' U.S. commercial shipments during the period of investigation, by grade.<sup>20</sup> As shown in Table III-4, during the entire period of investigation, U.S. producers of SC paper \*\*\*. In 2014, of their total reported U.S. commercial shipments, \*\*\* percent were SCA grade, \*\*\* percent were SCA+ grade, and \*\*\* percent were SCB grade. Data showing U.S. imports and U.S. apparent consumption, by grade, are presented in *Part IV*.

**Table III-4**

**SC paper: U.S. producers' U.S. commercial shipments, by grade, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

## U.S. PRODUCERS' INVENTORIES

Table III-5 presents U.S. producers' end-of-period inventories of SC paper and the ratio of these inventories to U.S. producers' production, U.S. shipments, and total shipments over the period of investigation.

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<sup>17</sup> Port Hawkesbury's prehearing brief, p. 14; Port Hawkesbury's Postconference Brief, 3.

<sup>18</sup> Irving's Postconference Brief, 13-14.

<sup>19</sup> During the preliminary phase of this investigation, the Commission found that pricing data indicated that the domestic industry is producing and selling SCB, SCA, and SCA+ grades of SC paper and that the parties agreed that there is at least some interchangeability among SC paper products of different grades. Nonetheless, the Commission stated that it would "further explore substitutability between SC paper grades in the final phase of this investigation, including the extent to which differences in grades supplied may limit competition between subject imports and the domestic like product." *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 19 & n.122.

<sup>20</sup> See also Table I-1 (Grades of SC paper produced by U.S. and Canadian producers).

**Table III-5**

**SC paper: U.S. producers' inventories, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

**U.S. PRODUCERS' IMPORTS AND PURCHASES**

\*\*\* U.S. producers, Resolute USA, reported U.S. imports or purchases of imports from Canada.<sup>21</sup> Table III-6 presents Resolute USA's volume of U.S. imports of SC paper from Canada, its U.S. production, and the ratio of its U.S. imports to U.S. production.<sup>22</sup>

**Table III-6**

**SC paper: Resolute USA's U.S. production, subject imports, ratio to U.S. production, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

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<sup>21</sup> In the final phase of this investigation, petitioner argued that Resolute USA should be excluded from the U.S. industry as a related party because \*\*\*. Petitioner's prehearing brief, pp. 9-10.

Respondent Port Hawkesbury also argued that Resolute USA's \*\*\* and should be excluded from the domestic industry. Respondent Port Hawkesbury's prehearing brief, pp. 7-10.

In the preliminary phase of this investigation, the Commission did exclude Resolute USA from the domestic industry and stated:

*We find that Resolute USA's primary interest is not in \*\*\*. Accordingly, we find that appropriate circumstances exist to exclude Resolute USA from the definition of the domestic industry and we define the domestic industry to include all U.S. producers of SC paper with the exception of Resolute USA.*

Confidential Views of the Commission; *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 12.

Petitioner also claimed that Verso should not be deemed a related party and excluded from the U.S. industry on the basis that the Port Hawkesbury mill was owned and operated by NewPage with which it completed its purchase and merger in January 2015. Verso stated that NewPage closed the Port Hawkesbury mill in September 2011; and therefore, neither NewPage nor Verso, as its successor-in-interest were U.S. importers of SC paper from the Port Hawkesbury mill during the period of investigation. Petitioner's postconference brief, "Answers to Questions from Commission Staff," p. 5.

<sup>22</sup> Appendix D presents the summary data concerning the U.S. market excluding Resolute USA.

## U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Data provided by U.S. producers on the number of production and related workers (“PRWs”) engaged in the production of SC paper,<sup>23</sup> the total hours worked by such workers, wages paid to such PRWs, productivity, and unit labor costs during the period of investigation are presented in table III-7.

### Table III-7

**SC paper: Average number of production and related workers, hours worked, wages paid to such employees, hourly wages, productivity, and unit labor costs, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

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<sup>23</sup> \*\*\* U.S. Producer Questionnaires of \*\*\*, question II-2.

## **PART IV: U.S. IMPORTS, APPARENT U.S. CONSUMPTION, AND MARKET SHARES**

### **U.S. IMPORTERS**

The Commission sent U.S. importer questionnaires to 36 firms identified in the petition as possible U.S. importers of SC paper.<sup>1</sup> The Commission received questionnaire responses from eight firms. Among those responses, seven U.S. importer questionnaires contained relevant U.S. import data, which accounted for 100.0 percent of U.S. imports of SC paper from Canada and approximately \*\*\* percent of U.S. imports from nonsubject countries.<sup>2</sup>

Table IV-1 lists all responding U.S. importers of SC paper, their headquarter locations, and their share of quantities of U.S. imports, by source, during the period of investigation.

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<sup>1</sup> In the preliminary phase of this investigation, most of the firms listed in the petition as possible U.S. importers of SC paper were in fact purchasers and not U.S. importers of the subject product.

In the final phase of this investigation, one firm, Scout Sourcing, Inc., submitted a U.S. importer questionnaire, but actually is a purchaser of the subject product.

In light of the U.S. import data coverage ratios for subject and nonsubject imports, the nonresponding U.S. importers are most likely also purchasers.

<sup>2</sup>All four of the Canadian producers of SC paper, which accounted for 100 percent of production of SC paper in Canada, reported that they act as the sole importer of record for their firms' U.S. imports of SC paper from Canada.

Estimated data coverage of U.S. imports from nonsubject countries is compiled by comparing total imports from outside North America as reported by RISI, \*\*\* tons of SC paper, to total reported U.S. imports from nonsubject sources compiled from U.S. importer questionnaires, \*\*\* tons for 2013, the last data for which RISI reported. Respondent Irving's postconference brief, exh. 12, p. 46 (RISI data).

**Table IV-1**  
**SC paper: U.S. importers, by source, 2012-June 2015**

Firm	Headquarters	Share of imports by source (percent)		
		Canada	All other sources	All sources
Catalyst USA <sup>1</sup>	Seattle, WA	***	***	***
Irving <sup>2</sup>	Saint John, New Brunswick, Canada	***	***	***
Port Hawkesbury <sup>3</sup>	Port Hawkesbury, Nova Scotia, Canada	***	***	***
Resolute USA <sup>4</sup>	Catawba, SC	***	***	***
Stora Enso <sup>5</sup>	Stamford, CT	***	***	***
Unisource <sup>6</sup>	Norcross, GA	***	***	***
UPM <sup>7</sup>	Naperville, IL	***	***	***
Total		***	***	***

<sup>1</sup> Catalyst USA is a wholly owned subsidiary of Catalyst Paper Corp. of Richmond, British Columbia, Canada. Catalyst is the sole importer of record for its parent corporation's U.S. imports of SC paper from Canada.

<sup>2</sup> Irving is a wholly owned subsidiary of Grand Forest Holdings, Inc. of Saint John, New Brunswick, Canada. Irving is the sole importer of record for its U.S. imports of SC paper from Canada.

<sup>3</sup> Port Hawkesbury is owned by Pacific West Commercial Corp. ("Pacific West"), an affiliate of Stern Partners, a Vancouver, Canada based private equity firm. Pacific West purchased the Port Hawkesbury paper mill from NewPage during the bankruptcy reorganization of NewPage. In October 2012, Pacific West restarted production of SC paper at the mill as Port Hawkesbury Paper LP. Port Hawkesbury is the sole importer of record for its U.S. imports of SC paper from Canada.

<sup>4</sup> Resolute USA is an affiliate of Resolute FP Canada Inc. of Montreal, Quebec, Canada. Resolute USA is the sole importer of record for its parent corporation's U.S. imports of SC paper from Canada.

<sup>5</sup> Stora Enso North American Sales, Inc. is a wholly owned subsidiary of Stora Enso Oyj of Helsinki, Finland, which is a producer of SC paper in Belgium, Germany, and Sweden. It reported \*\*\*.

<sup>6</sup> Unisource Worldwide, Inc. is \*\*\*.

<sup>7</sup> UPM is a wholly owned subsidiary of UPM-Kymmene Oyj of Helsinki, Finland, a large producer of paper products including SC paper in Europe. UPM reported \*\*\*.

Source: Compiled from data submitted in response to Commission questionnaires.

## U.S. IMPORTS

Table IV-2 presents data for U.S. imports of SC paper from Canada and nonsubject countries. The U.S. import data are compiled using responses to the Commission's U.S. importer questionnaire.<sup>3</sup> As shown, the volume of U.S. imports of SC paper from Canada increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>4</sup> The value of U.S. imports of SC paper from Canada increased

<sup>3</sup> For much of the period of investigation, official import statistics compiled using HTS statistical reporting numbers 4802.61.3010 and 4802.61.3090 overstated U.S. imports of SC paper because the data included other uncoated mechanical papers such as directory and book paper. Effective July 2014, HTS 4802.61.3035 included only SC paper.

<sup>4</sup> Port Hawkesbury restarted production of SC paper in October 2012. Thus, U.S. import data reported for 2012 reflect only U.S. imports made by Port Hawkesbury in the fourth quarter of that year.

(continued...)

by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The volume of U.S. imports from nonsubject countries of SC paper decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The value of U.S. imports from nonsubject countries of SC paper decreased by \*\*\* percent from 2012 to 2014 was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The largest sources of U.S. imports of SC paper from nonsubject countries in 2014 were: (1) Finland, (2) Norway, (3) Sweden, (4) Belgium, and (5) Germany.<sup>5</sup>

**Table IV-2**

**SC paper: U.S. imports, by source, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

### U.S. Importers' U.S. Commercial Shipments of SC Paper by Grade

As noted in *Part III*, respondents have argued that there was attenuated competition at the higher and lower grades of SC paper. Respondent Port Hawkesbury contended that Canadian producers primarily produced and sold grades SCA++ and SCA+ grades of SC paper, while U.S. producers primarily produced and sold SCA grade SC paper.<sup>6</sup> In the preliminary phase of this investigation, respondent Irving also contended that competition is limited because the domestic industry makes limited quantities of SCB grade paper and no soft nipped (SNC) paper, while Canadian producers produce these grades.<sup>7</sup>

Petitioner argued that there is no attenuated competition due to the various grades of SC paper.<sup>8</sup> Citing questionnaire responses, including those of U.S. purchasers, and testimony at both the preliminary staff conference and hearing, petitioner stated that market participants deem all the grades of SC paper to be interchangeable and that there is no dispute that U.S. imports from Canada “serve the entire range of end uses in the U.S. market.” In short, all the grades of SC paper compete with one another in the U.S. market. Moreover, petitioner stated that contrary to respondent’s assertion, U.S. producers do produce the SCB and SCA+ grades of SC paper.<sup>9</sup>

During the preliminary phase of this investigation, the Commission found that pricing data indicated that the domestic industry is producing and selling SCB, SCA, and SCA+ grades of SC paper and that the parties agreed that there is at least some interchangeability among SC paper products of different grades. Nonetheless, the Commission stated that it would “further

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(...continued)

Respondent Port Hawkesbury’s postconference brief, p. 2; U.S. importer questionnaire response of Port Hawkesbury, II-7.

<sup>5</sup> Based on 2014 volume data of U.S. imports of uncoated mechanical paper provided by Commerce.

<sup>6</sup> Port Hawkesbury’s prehearing brief, p. 14; Port Hawkesbury’s Postconference Brief, 3; *See also*, Table I-1 (Grades of SC paper produced by U.S. and Canadian producers).

<sup>7</sup> Irving’s Postconference Brief, 13-14.

<sup>8</sup> Petitioner’s prehearing brief, pp. 43-45; Petitioner’s postconference brief, pp. 37-38.

<sup>9</sup> Petitioner’s prehearing brief, pp. 43-45; Petitioner’s postconference brief, pp. 37-38.

explore substitutability between SC paper grades in the final phase of this investigation, including the extent to which differences in grades supplied may limit competition between subject imports and the domestic like product.”<sup>10</sup>

In the final phase of this investigation, U.S. producers and importers were asked to submit U.S. commercial shipment data, by grade of SC paper. Table III-3 presents U.S. producers’ U.S. commercial shipments during the period of investigation, by grade of SC paper. U.S. importers’ U.S. commercial shipments, by grade of SC paper, are shown in Table IV-3. Table IV-4 presents U.S. apparent consumption and market shares during the period of investigation, by grade of SC paper. As shown in Table IV-4, U.S. producers of SC paper \*\*\*. The vast majority of U.S. commercial shipments by the domestic industry were of SCA+ and SCA. These two grades, however, accounted for the majority (\*\*\*) percent) of all U.S. commercial shipments during the period of investigation.

**Table IV-3**  
**SC paper: U.S. importers’ U.S. commercial shipments, by grade of SC paper, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

**Table IV-4**  
**SC paper: U.S. shipments of domestic product, U.S. shipments of imports, and apparent U.S. consumption, and U.S. market shares, by grade of SC paper, 2012-June 2015**

\* \* \* \* \*

**NEGLIGENCE**

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.<sup>11</sup> Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country of merchandise corresponding to a domestic like product where such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition or the initiation of the investigation. However, if there are imports of such merchandise from a number of countries subject to investigations initiated on the same day that individually account for less than 3 percent of the total volume of the subject merchandise, and if the imports from those countries collectively account for more than 7 percent of the volume of all

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<sup>10</sup> *Supercalendered Paper from Canada, Inv. No. 701-TA-530 (Preliminary)*, USITC Publication 4529 (April 2015), p. 19 & n.122.

<sup>11</sup> Sections 703(a)(1), 705(b)(1), 733(a)(1), and 735(b)(1) of the Act (19 U.S.C. §§ 1671b(a)(1), 1671d(b)(1), 1673b(a)(1), and 1673d(b)(1)).



such merchandise imported into the United States during the applicable 12-month period, then imports from such countries are deemed not to be negligible.<sup>12</sup>

The volume of U.S. imports from Canada from January 1, 2014 to December 31, 2014, which is the most recent 12-month period for which data are available, accounted for \*\*\* percent of total U.S. imports.

### **APPARENT U.S. CONSUMPTION AND U.S. MARKET SHARES**

Data on apparent U.S. consumption of SC paper are presented in table IV-5. From 2012 to 2014, the quantity of apparent U.S. consumption of SC paper increased by \*\*\* percent and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. The value of apparent U.S. consumption increased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>13</sup> In 2014, total U.S. capacity to produce SC paper accounted for \*\*\* percent of total apparent U.S. consumption.

Data on U.S. market shares for SC paper are also presented in table IV-5. From 2012 to 2014, U.S. producers' U.S. market share based on volume decreased by \*\*\* percentage points and by \*\*\* percentage points based on value and was higher by \*\*\* percentage points based on volume, but lower by \*\*\* percentage points based on value in January-June 2015 than in January-June 2014. U.S. imports from Canada increased their U.S. market share by \*\*\* percentage points from 2012 to 2014 based on volume and \*\*\* percentage points based on

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<sup>12</sup> Section 771 (24) of the Act (19 U.S.C § 1677(24)).

<sup>13</sup> All parties have attested to a secular decline in consumption of SC paper during the period of investigation. This secular decline is primarily caused by two cultural shifts in the market: (1) the continued migration of commercial advertising from print to digital online media; and (2) the rapid decline in subscription rates for print periodicals such as newspapers and magazines. Petitioner's prehearing brief, pp. 14-15, and 22; Petitioner's postconference brief, p. 15; Respondent Port Hawkesbury's prehearing brief, p. 11; Respondent Port Hawkesbury's postconference brief, p. 3; Conference transcript, p. 64 (Johnston) ("The industry, I think, would tend to be happy if the demand decline were only 5 percent. But it continues to be even greater than that from year to year. There have been blips here and there, but the overall trend since 2007, which was at the peak in the market, has been down significantly since then.").

Port Hawkesbury argued that even with the secular decline in consumption experienced by the SC paper market, the additional production capacity introduced into the market by the reopening of its mill did not disrupt the market as petitioner has contended. It cited to the shock to supply caused by the closure of Verso's Sartell mill (\*\*\*) as well as a demand shock caused by more and more of its customers switching from coated groundwood paper to SC paper. Respondent Port Hawkesbury's prehearing brief, pp. 10-18 and 23-24; Respondent Port Hawkesbury's postconference brief, p. 9.

Port Hawkesbury estimated that \*\*\*. Respondent Port Hawkesbury's prehearing brief, pp. 23-24; Respondent Port Hawkesbury's postconference brief, exh. 1, attachments D and E. For example, Port Hawkesbury reported that \*\*\*. Respondent Port Hawkesbury's postconference brief, exh. 1, attachments I. Port Hawkesbury estimated that in 2014, \*\*\*. Respondent Port Hawkesbury's prehearing brief, pp. 23-24.

value but was lower by \*\*\* percentage point based on volume (\*\* percentage point based on value) in January-June 2015 than in January-June 2014. U.S. imports from nonsubject countries decreased their U.S. market share by \*\*\* percentage points from 2012 to 2014 based on volume and \*\*\* percentage points based on value and was higher by \*\*\* percentage points based on volume (\*\* percent based on value) in January-June 2015 than in January-June 2014.

**Table IV-5**

**SC paper: U.S. shipments of domestic product, U.S. shipments of imports, and apparent U.S. consumption, and U.S. market shares, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

## **PART V: PRICING DATA**

### **FACTORS AFFECTING PRICES**

#### **Raw material costs**

SC paper is produced from mechanical pulp, Kraft pulp, mineral fillers and other additives. U.S. producers' raw materials costs as a share of cost of goods sold ("COGS") decreased from \*\*\* percent in 2012 to \*\*\* percent in 2014. Despite this decline, \*\*\* reported that the price of raw material inputs has increased since January 1, 2012 and \*\*\* reported that the cost of raw materials has fluctuated. Madison produces pressurized groundwood pulp, which it uses internally to produce SC paper but also purchases Kraft pulp on the open market.<sup>1</sup> \*\*\* reported that the cost of Kraft pulp increased approximately 8.4 percent from \$711 per ton in 2012 to \$771 per ton in 2014. It reported that the cost of wood has remained relatively flat while the cost of filler has increased modestly. \*\*\* stated that Kraft pulp accounts for approximately \*\*\* percent of raw material costs; therefore, the impact on its cost is "significant" although its effect on the market price of SC paper is "nil." \*\*\* reported that the due to the price competition for SC paper, it has had to absorb the rising costs of raw materials.

Producing SC paper is a very energy intensive process.<sup>2</sup> Verso reported that the share of COGS accounted for by energy costs was \*\*\* percent in 2014. Madison reported that the share of COGS accounted for by energy costs was \*\*\* percent in 2014.<sup>3</sup>

#### **Transportation costs to the U.S. market**

Transportation costs for SC paper shipped from Canada to the United States averaged 3.2 percent during 2012-2014. These estimates were derived from official import data and represent the transportation and other charges on imports.<sup>4</sup>

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<sup>1</sup> Conference transcript, p. 19 and p. 22 (Drechsel).

<sup>2</sup> Conference transcript, p. 27 (Drechsel).

<sup>3</sup> Petitioner's postconference brief, exhibit 1, p. 5.

<sup>4</sup> The estimated transportation costs were obtained by comparing the customs and c.i.f. values for all years combined (2012-14) for HTS subheadings 4802.61.3010, 4802.61.3090, and 4802.61.3035.

## U.S. inland transportation costs

All responding U.S. producers and importers reported that they typically arrange transportation to their customers. Both domestic and imported SC paper is shipped directly from the SC paper mill to the purchasers' printer of choice.<sup>5</sup> <sup>6</sup> SC paper is shipped via rail and truck.<sup>7</sup> U.S. producers reported that their U.S. inland transportation costs ranged from 10 to 11 percent while importers reported costs of 9 to 15 percent.

## Exchange rates

Nominal and real values of the Canadian dollar are presented on a monthly basis in figure V-1. Between January 2012 and June 2015, the nominal value of the dollar versus the Canadian dollar rose by 18.1 percent, while the real value of the U.S. dollar versus the Canadian dollar rose by 22.0 percent between January 2012 and March 2015 (the most recent month for which Canadian producer price index data are available).

Importer \*\*\* stated that the surge in the value of the U.S. dollar versus both the Canadian dollar and the Euro has considerably affected the conditions of competition. In general, a lower value Canadian dollar, relative to the U.S. dollar, results in U.S. producers "becoming the relatively higher-cost suppliers, who then naturally experience a deterioration in profitability." \*\*\* argues that exchange rates have placed pricing pressure on U.S. SC paper prices, and, in fact, the lower prices do "not derive from the producers' pricing behavior, but from the entirely exogenous fact of shifts in exchanges rates."<sup>8</sup> Furthermore, it contends that the stronger U.S. dollar has meant new competitive pressure from European suppliers.<sup>9</sup> Petitioner contends that U.S. purchasers are more likely to purchase SC paper from Canada "with such a favorable exchange rate, and price competition will intensify."<sup>10</sup> In fact, petitioner contends that there was pricing pressure before the major portion of the decline in exchange rates late in the period of investigation, and that these recent exchange rate movements mean that the domestic industry is even more vulnerable to harm.<sup>11</sup> Among purchasers, 2 reported that exchange rates were a "very important" factor in their purchasing decisions, 8 reported that they were "somewhat important," and 13 reported that they were "not important."

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<sup>5</sup> Conference transcript, p. 22 and p. 32 (Drechsel).

<sup>6</sup> Canadian producers ship SC paper from their mill in Canada to their purchasers' printer of choice in the United States.

<sup>7</sup> Conference transcript, p. 84 (Johnston). Importers Port Hawkesbury and Irving reported that they shipped approximately 70 and 80 percent of their product, respectively, by rail with the balance shipped by truck. Conference transcript, p. 158 (Ostrowski) and p. 159 (Mosher).

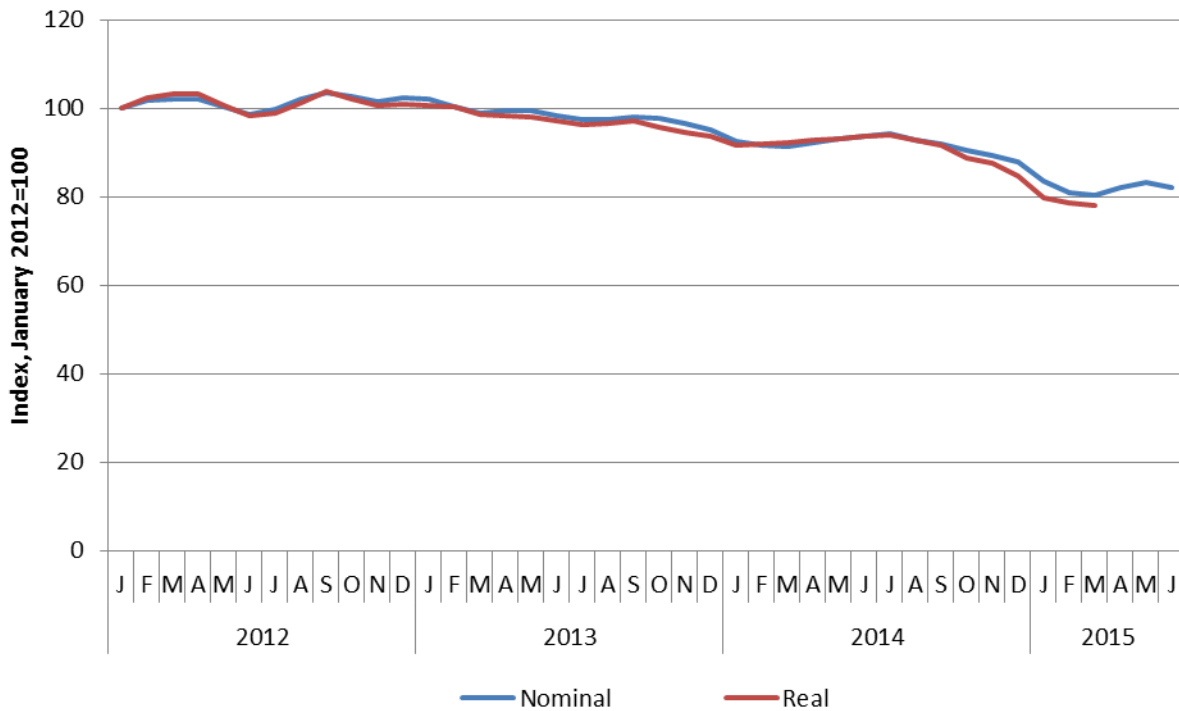
<sup>8</sup> Hearing transcript, p. 283 (Malashevich), and \*\*\* importer questionnaire response, section III-18(b).

<sup>9</sup> Hearing transcript, pp. 185-86 (Trendl).

<sup>10</sup> Petitioner's postconference brief, pp. 44-45.

<sup>11</sup> Hearing transcript, pp. 151 (Kaplan), 156-7 (Paterson), and 300 (Byers).

**Figure V-1**  
**Exchange rates: Indices of the nominal and real exchange rates between the Canadian dollar and the U.S. dollar, monthly, January 2012-June 2015**



Source: FRED, St. Louis Federal Reserve Bank, series DEXCAUS, WPUFD4131, and CANPPDMMINMEI, retrieved September 28, 2015.

**PRICING PRACTICES**

**Pricing methods**

As presented in table V-1, U.S. producers and importers sell primarily through transaction-by-transaction negotiations and via contracts.<sup>12</sup> In addition, U.S. producers and importers reported using set price lists, and other methods such as volume sales agreements and letters of agreement.<sup>13</sup> Twenty-one of 23 responding purchasers noted that their purchases of SC paper involve negotiations.

<sup>12</sup> Importer Port Hawkesbury reported that it uses two methods to determine price. First, it calculates the differential based on transaction prices for lightweight coated (LWC) paper and market knowledge at the time of negotiation to determine whether or not the price is reasonable. Secondly, it receives feedback from the customer on whether or not another producer of SC paper has offered product at a better price. Conference transcript, p. 103 (Ostrowski).

<sup>13</sup> U.S. producer \*\*\* reported that \*\*\*. U.S. producer \*\*\*.

**Table V-1**

**SC paper: U.S. producers and importers reported price setting methods, by number of responding firms<sup>1</sup>**

<b>Method</b>	<b>U.S. producers</b>	<b>Importers</b>
Transaction-by-transaction	3	7
Contract	2	7
Set price list	0	1
Other	2	1

<sup>1</sup> The sum of responses down may not add up to the total number of responding firms as each firm was instructed to check all applicable price setting methods employed.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers and importers reported selling most of their SC paper under annual contracts and short-term contracts.<sup>14</sup> As shown in table V-2, U.S. producers and importers reported their 2014 U.S. commercial shipments of SC paper by type of sale.

**Table V-2**

**SC paper: U.S. producers' and importers' shares of U.S. commercial shipments by type of sale, 2014**

<b>Type of sale</b>	<b>U.S. producers</b>	<b>Importers</b>
Long-term contracts	19.9	10.4
Annual contracts	51.5	30.3
Short-term contracts	21.2	47.9
Spot sales	7.5	11.3
Total	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

Two of three U.S. producers and three of four responding importers reported using short-term contracts. Both U.S. producers reported that the duration of their short-term contracts averaged \*\*\* days. Both U.S. producers indicated that price could not be renegotiated during the contract period and that the contracts were not indexed to price series or raw material costs. One of the two responding U.S. producers reported that the contracts included a meet-or-release clause. Although three importers reported using short-term contracts, two others that did not respond to the question regarding what types of contracts they use reported details of short-term contracts. Two importers reported that the duration of

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<sup>14</sup> According to petitioner, producers of SC paper pursue contract business as a priority because contract sales are more stable and allow producers to plan efficiently. However, from the restart of the Port Hawkesbury mill, petitioner contends that spot sales have increased and spot market prices have deteriorated over the POI. The petitioner anticipates that spot sales will increase in 2015 as producers lose accounts and look to the spot market to fill their order books. Petitioner's postconference brief, Exhibit 1, pp 3-4.

their short-term contracts averaged 3 months and two reported 6-month averages.<sup>15</sup> One importer reported an average of 90 days. Of the five responding importers that reported using short-term contracts, three indicated that prices could be renegotiated during the contract period; four indicated that contracts are not indexed to price series whereas one indicated that they are indexed; four indicated that contracts are not linked to raw material prices; one importer reported that contracts fixed quantity; and one importer indicated that contracts fixed both price and quantity. One of four responding importers reported that the contracts included a meet-or-release clause.

All three U.S producers and five of six responding importers reported using annual (365 day) contracts. In contrast to their short-term contracts, all three U.S. producers indicated that price could be renegotiated during the contract period. In the preliminary phase, \*\*\* indicated that contracts fixed quantity and \*\*\* indicated that contracts fixed both price and quantity.<sup>16</sup> Of the three responding U.S. producers, \*\*\* reported that the contracts included a meet-or-release clause whereas \*\*\* annual contracts do not. All three producers indicated that prices are not linked to raw material prices, but two indicated that prices may be linked to price series. All five importers indicated that price could be renegotiated during the contract period; one importer indicated that contracts fixed quantity and one importer indicated that contracts fixed both price and quantity. Of the five responding importers, three indicated that the contracts did not include a meet-or-release clause. All five responding importers reported that annual contract prices are not linked to raw material prices. Two reported that annual contracts are not linked to an outside price series, one reported that they are; and two reported that annual contracts both are and are not linked to price series, depending on the contract.

U.S. producers \*\*\* reported using long-term contracts with an average duration of two years. Both U.S. producers indicated that price could be renegotiated during the contract period with one firm indicating that contracts fixed quantity and the other firm indicating that contracts fixed both price and quantity. Both U.S. producers reported that the contracts did include a meet-or-release clause. Both producers also indicated that prices are not linked to raw material prices but that prices may be linked to price series. Two importers (\*\*\*) indicated that they use long-term contracts, with \*\*\* stating that they average two years in length. Both importers reported that price could be renegotiated during the contract period, but only one reported that contracts do not typically include a meet-or-release clause. Like the U.S. producers, both importers indicated that prices are not linked to raw material prices but that prices may be linked to price series.

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<sup>15</sup> The final importer noted that its short-term contracts could range from 1 to 365 days in length. For this importer's long-term contracts, the reported length spanned 1 to 3 years.

<sup>16</sup> In this final phase, only one producer (\*\*\*) responded to this question.

## Sales terms, discounts, and rebates

U.S. producers and importers typically quote prices on a delivered basis. \*\*\* U.S. producers reported offering quantity discounts and/or annual total volume discounts, whereas only importers \*\*\* offer these discounts, and only with certain customers. Importer \*\*\* offers an early payment discount for some customers. \*\*\* U.S. producers and four of five responding importers issue rebates. Three purchasers reported receiving quantity discounts, 6 receive annual total volume discounts, 6 receive early payment discounts, and 11 receive no discounts. In addition, 6 purchasers reported receiving rebates, with 4 receiving it via account credit, 2 via check, and 1 in cash, depending on the vendor.

U.S. producer \*\*\* its total volume discount apply during the negotiation process if that customer is willing to increase its volume. \*\*\* offers a discount for mill proximity and self-trim. Producer \*\*\* also noted smaller discounts driven by supply chain savings such as freight savings from shipping to alternative printing plants that are closer to its SC paper mill.

In terms of rebates, producers', importers', and purchasers' responses noted that the programs used vary by supplier, and even from the same supplier, both in terms of basis (flat rate or percentage) and time frame (monthly, quarterly, yearly, etc.). Producer \*\*\* reported that if they are earned, it is usually tied to volume thresholds and can be on a dollar-per-hundredweight or percentage basis. It also noted a few instances of "masking" rebates for customers who specify their paper supplier even if a third party buys the paper.<sup>17</sup> Both responding producers, but only one of four responding importers reported using these indirect rebates. Only one of 24 responding purchasers (\*\*\* ) noted that it received an indirect rebate.

All U.S. producers' and four of five responding importers' rebates depend on reaching certain volume thresholds. Any of importer \*\*\*'s customers are potentially eligible for rebates. Producers paid rebates either in the form of account credits or checks/wire transfers. Three importers use account credits to supply their customers' rebates, two use cash, and two use checks/wire transfers. Rebate recipients include brokers, merchants, printers, publishers, and retailers.

Producers' average rebate amounts were much higher than importers' average rebates on a per short ton basis. The rebate given by domestic producers increased from 29.7 dollars per short ton in 2012 to 32.7 dollars in 2013, but decreased to 30.3 dollars in 2014. Importers' average rebates decreased from 7.0 dollars per short ton in 2012 to 6.0 dollars per short ton in 2014. Purchasers reported that their rebates were, on average, 18.6 dollars per short ton in 2012, 15.0 dollars per short ton in 2013 and 14.9 dollars per short ton in 2014. Each producer, importer, and purchaser noted that they accounted for rebates in different manners.

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<sup>17</sup> In this case, the invoiced price is not reflective of the negotiated price. Producer \*\*\*, which also uses volume and masking rebates, further explained the masking rebates, stating that they "have no effect on the final net transaction price seen by the customer. Masking rebates occur when a printer or intermediary is administering a contract on behalf of an end-user (e.g., a retailer, publisher, etc.) and the net price is being masked from this printer/intermediary in order to prevent further price erosion."



Two U.S. producers and all four responding importers reported sales terms of net 30 days. U.S. producer \*\*\* reported sale terms of net 21 days for SCA+ grade paper and net 30 days for SCA and SCB grades. Importer \*\*\* reported net sales terms of net 21 days for plus grades.

### Price leadership

Purchasers identified eight suppliers as price leaders in the SC paper market leading prices upward and five suppliers leading prices downward. Among suppliers exhibiting upward price leadership, three purchasers identified Irving and Port Hawkesbury, two identified “UPM,” Verso, and NewPage (now part of Verso), and one purchaser each identified Catalyst, Cellmark, and Resolute. Among suppliers exhibiting downward price leadership, three purchasers identified “UPM,” two identified Resolute and Irving, and one purchaser each identified NewPage (now part of Verso) and Norske.

Respondent Port Hawkesbury contends that the price of SC paper is led instead by the price of coated groundwood paper.<sup>18</sup> A representative at the hearing stated that, when he was learning how the industry works, contracts for SC paper were required to maintain a 15 to 17 percent price differential between the two.<sup>19</sup>

### PRICE DATA

The Commission requested U.S. producers and importers to provide quarterly data for the total quantity and delivered value of the following SC paper products shipped to unrelated U.S. customers during January 2012-June 2015.

**Product 1**-- Grade SCA+ supercalendered paper, weighing 36 lb. (53 gsm), in rolls.

**Product 2**-- Grade SCA+ supercalendered paper, weighing 38 lb. (56 gsm), in rolls.

**Product 3**-- Grade SCA supercalendered paper, weighing 30 lb. (44 gsm), in rolls.

**Product 4**-- Grade SCA supercalendered paper, weighing 33 lb. (49 gsm), in rolls.

**Product 5**-- Grade SCA supercalendered paper, weighing 35 lb. (52 gsm), in rolls.

**Product 6**-- Grade SCB supercalendered paper, weighing 30 lb. (44 gsm), in rolls.

**Product 7**-- Grade SCB supercalendered paper, weighing 33 lb. (49 gsm), in rolls.

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<sup>18</sup> Respondent Port Hawkesbury prehearing brief, exh. A. This analysis uses a method of testing called “Granger causality” which tests whether, among two series of data, one series precedes the other. This test found that the coated groundwood price series preceded the SC paper price series, but not vice versa.

<sup>19</sup> Hearing transcript, pp. 267-8 (Ostrowski).

All three U.S. producers and four importers provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.<sup>20</sup> Pricing data reported by these firms accounted for approximately 56.5 percent of U.S. producers' shipments of product and 64.8 percent of U.S. shipments of subject imports from Canada during the period of investigation.

The majority of U.S. producers' price data was for sales of \*\*\* accounting for \*\*\* percent of reported domestic pricing product volume in January 2012-June 2015. Importers reported price data primarily for sales of \*\*\* accounting for \*\*\* percent of importers' reported pricing product volume in the same period. Price data for products 1-7 are presented in tables V-3 to V-9 and figures V-2 to V-8.<sup>21 22</sup>

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<sup>20</sup> Two firms, \*\*\* noted that the pricing data they submitted were competitive with two of the pricing products. \*\*\* provided pricing data for products 1 and 2 that included \*\*\*. \*\*\* provided pricing data for SCA+ grade paper, weighing 35 lbs., in rolls as its data for product 1 \*\*\*. The data were included in the pricing data analysis. Parties were invited to comment on this aspect of the pricing product data, but none did so.

<sup>21</sup> Occasionally shipments of SC paper do not meet the purchaser's standards for quality and may result in returns, credits, or other compensation. In some quarters with relatively few, if any, other sales, these instances were quite noticeable. In other quarters, it may be masked by large volumes of regular-priced SC paper. Typically, these returns were for small quantities. To ensure comprehensiveness and consistency of the data, these quantities were included in the data.

<sup>22</sup> Pricing data for \*\*\* which excludes Resolute's sales of SC paper it produced and sold domestically are presented in Appendix D.

**Table V-3**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 1<sup>1</sup> and margins of underselling/(overselling), by quarters, January 2012-June 2015**

Period	United States		Canada		
	Price (per short ton)	Quantity (short tons)	Price (per short ton)	Quantity (short tons)	Margin (percent)
<b>2012:</b>					
Jan.-Mar.	\$***	***	\$***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	***	***	***	***	***
Oct.-Dec.	***	***	***	***	***
<b>2013:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	684	13,435	***
July-Sept.	***	***	721	16,725	***
Oct.-Dec.	***	***	718	19,134	***
<b>2014:</b>					
Jan.-Mar.	***	***	688	16,537	***
Apr.-June	***	***	687	16,571	***
July-Sept.	***	***	657	18,743	***
Oct.-Dec.	***	***	664	21,067	***
<b>2015:</b>					
Jan.-Mar.	***	***	670	19,062	***
Apr.-June	***	***	675	11,335	***

<sup>1</sup> Product 1: Grade SCA+ supercalendered paper, weighing 36 lb. (53 gsm), in rolls.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table V-4**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 2 and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table V-5**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 3 and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table V-6**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 4 and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table V-7**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 5<sup>1</sup> and margins of underselling/(overselling), by quarters, January 2012-June 2015**

Period	United States		Canada		
	Price (per short ton)	Quantity (short tons)	Price (per short ton)	Quantity (short tons)	Margin (percent)
<b>2012:</b>					
Jan.-Mar.	\$***	***	\$***	***	***
Apr.-June	775	23,291	***	***	***
July-Sept.	777	21,054	***	***	***
Oct.-Dec.	***	***	652	32,753	***
<b>2013:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	***	***	***	***	***
Oct.-Dec.	690	14,535	***	***	***
<b>2014:</b>					
Jan.-Mar.	710	5,913	***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	704	4,878	***	***	***
Oct.-Dec.	680	10,590	659	14,805	3.2
<b>2015:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***

<sup>1</sup> Product 5: Grade SCA supercalendered paper, weighing 35 lb. (52 gsm), in rolls.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table V-8**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 6<sup>1</sup> and margins of underselling/(overselling), by quarters, January 2012-June 2015**

Period	United States		Canada		
	Price (per short ton)	Quantity (short tons)	Price (per short ton)	Quantity (short tons)	Margin (percent)
<b>2012:</b>					
Jan.-Mar.	\$***	***	\$691	38,582	***
Apr.-June	***	***	661	53,730	***
July-Sept.	***	***	683	51,714	***
Oct.-Dec.	***	***	669	57,043	***
<b>2013:</b>					
Jan.-Mar.	***	***	666	69,581	***
Apr.-June	***	***	667	71,520	***
July-Sept.	***	***	678	56,685	***
Oct.-Dec.	***	***	685	87,214	***
<b>2014:</b>					
Jan.-Mar.	***	***	643	76,926	***
Apr.-June	***	***	637	84,394	***
July-Sept.	***	***	633	89,614	***
Oct.-Dec.	***	***	634	93,755	***
<b>2015:</b>					
Jan.-Mar.	***	***	632	79,169	***
Apr.-June	***	***	633	86,148	***

<sup>1</sup> Product 6: Grade SCB supercalendered paper, weighing 30 lb. (44 gsm), in rolls.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table V-9**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 7<sup>1</sup> and margins of underselling/(overselling), by quarters, January 2012-June 2015**

Period	United States		Canada		
	Price (per short ton)	Quantity (short tons)	Price (per short ton)	Quantity (short tons)	Margin (percent)
<b>2012:</b>					
Jan.-Mar.	\$***	***	\$648	63,058	***
Apr.-June	***	***	648	72,454	***
July-Sept.	***	***	660	53,186	***
Oct.-Dec.	***	***	652	100,662	***
<b>2013:</b>					
Jan.-Mar.	***	***	634	43,960	***
Apr.-June	***	***	626	67,673	***
July-Sept.	***	***	650	75,161	***
Oct.-Dec.	***	***	659	71,734	***
<b>2014:</b>					
Jan.-Mar.	***	***	635	68,407	***
Apr.-June	***	***	606	72,457	***
July-Sept.	***	***	604	55,662	***
Oct.-Dec.	***	***	611	70,028	***
<b>2015:</b>					
Jan.-Mar.	***	***	605	35,494	***
Apr.-June	***	***	568	17,415	***

<sup>1</sup> Product 7: Grade SCB supercalendered paper, weighing 33 lb. (49 gsm), in rolls.

Source: Compiled from data submitted in response to Commission questionnaires.

**Figure V-2**

**SC paper: Weighted-average prices and quantities of domestic and imported product 1, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-3**

**SC paper: Weighted-average prices and quantities of domestic and imported product 2, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-4**

**SC paper: Weighted-average prices and quantities of domestic and imported product 3, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-5**  
**SC paper: Weighted-average prices and quantities of domestic and imported product 4, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-6**  
**SC paper: Weighted-average prices and quantities of domestic and imported product 5, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-7**  
**SC paper: Weighted-average prices and quantities of domestic and imported product 6, by quarters, January 2012-June 2015**

\* \* \* \* \*

**Figure V-8**  
**SC paper: Weighted-average prices and quantities of domestic and imported product 7, by quarters, January 2012-June 2015**

\* \* \* \* \*

### Price trends

Prices for SC paper decreased during 2012-14. Table V-10 summarizes the price trends, by country and by product. As shown in the table, domestic price decreases ranged from \*\*\* to \*\*\* percent during January 2012 – June 2015 while import price decreases ranged from \*\*\* to \*\*\* percent across six of the seven requested products.<sup>23 24</sup> Prices increased for the seventh product by 1.4 percent. Domestic prices declined for all of the seven pricing products.

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<sup>23</sup> According to Madison, U.S. producers began to experience price pressure in late 2012 when Port Hawkesbury announced that its mill was coming online and would begin shipping paper in 2013, with pressure from Port Hawkesbury continuing into 2014 and 2015. Conference transcript, pp. 75-76 (Johnston). Purchasers \*\*\* reported that the re-opening of the Port Hawkesbury mill created downward price pressure.

<sup>24</sup> Petitioner stated that \*\*\*. Petitioner’s postconference brief, pp. 21-22.

**Table V-10**  
**SC paper: Summary of weighted-average delivered prices for products 1-7 from the United States and Canada**

Item	Number of quarters	Low price (per short ton)	High price (per short ton)	Change in price (percent)
Product 1: United States	14	\$652	\$784	(14.8)
Canada	14	657	733	(7.9)
Product 2: United States	14	626	740	(7.0)
Canada	14	651	728	1.4
Product 3: United States	14	732	846	(11.0)
Canada	14	677	740	(4.8)
Product 4: United States	14	711	811	(12.3)
Canada	14	676	747	(7.9)
Product 5: United States	14	680	785	(13.1)
Canada	14	641	683	(0.2)
Product 6: United States	14	661	722	(3.6)
Canada	14	632	691	(8.4)
Product 7: United States	14	648	777	(7.8)
Canada	14	568	660	(12.3)

*Source:* Compiled from data submitted in response to Commission questionnaires.

Prices of imported Canadian products 6 and 7, the two products which accounted for the majority of Canada's pricing data, declined more than those products produced in the United States. Prices of domestically produced SC paper decreased in 52 of 91 quarters, whereas prices of SC paper imported from Canada decreased in 51 of 91 quarters, and the average quarterly decline in prices was larger than the average quarterly price increase for both domestic SC paper and that imported from Canada.

### Price comparisons

As shown in table V-11, prices for SC paper imported from Canada were below those for U.S.-produced product in 81 of 98 instances (2.3 million short tons); margins of underselling ranged from 0.5 percent to 16.2 percent. In the remaining 17 instances, prices for SC paper from Canada were between 0.04 percent and 7.8 percent above prices for the domestic product (430,000 short tons).

**Table V-11**



**SC paper: Instances of underselling/(overselling) and the range and average of margins, by country, January 2012-June 2015**

Product	Underselling				
	Number of quarters	Quantity (short tons)	Average margin (percent)	Margin Range (percent)	
				Min	Max
Product 1	11	165,235	3.7	0.5	7.1
Product 2	4	14,672	7.7	4.6	11.7
Product 3	14	135,577	8.9	5.1	13.1
Product 4	14	129,589	7.8	3.3	13.0
Product 5	14	239,987	8.4	2.4	16.2
Product 6	10	746,374	5.7	2.5	9.3
Product 7	14	867,351	9.3	2.6	15.1
<b>All products</b>	<b>81</b>	<b>2,298,785</b>	<b>7.5</b>	<b>0.5</b>	<b>16.2</b>
Product	(Overselling)				
	Number of quarters	Quantity (short tons)	Average margin (percent)	Margin Range (percent)	
				Min	Max
Product 1	3	49,127	(1.0)	(0.1)	(1.9)
Product 2	10	131,094	(4.6)	(0.7)	(7.8)
Product 6	4	249,701	(1.9)	(0.0)	(3.3)
<b>All products</b>	<b>17</b>	<b>429,922</b>	<b>(3.3)</b>	<b>(0.0)</b>	<b>(7.8)</b>

Source: Compiled from data submitted in response to Commission questionnaires.

**LOST SALES AND LOST REVENUE**

The Commission requested U.S. producers of SC paper to report any instances of lost sales or revenue they experienced due to competition from imports of SC paper from Canada during January 2012 to June 2015. Of the responding U.S. producers, \*\*\* reported that they had to either reduce prices or roll back announced price increases. The 22 lost sales allegations totaled \$\*\*\* and involved \*\*\* short tons of SC paper, and the 245 lost revenue allegations totaled \$\*\*\* and involved \*\*\* short tons of SC paper. Staff contacted all 21 purchasers and a summary of the information obtained is presented in tables V-12 and V-13.<sup>25 26</sup> No responding purchaser confirmed a lost sale or lost revenue allegation.<sup>27</sup>

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<sup>25</sup> A few allegations were made that were not included. Lost sale allegations excluded from the tabulation were excluded because the alleged import price was not lower than the competing domestic price, and therefore the sale could not be lost due to the existence of lower-priced imports. Lost revenue allegations excluded from the tabulation were excluded because the domestic rejected and accepted prices were equal.

<sup>26</sup> Petitioner also submitted other descriptive data regarding competition at certain purchasers. Some of these descriptions may have been included in submitted lost sale/lost revenue allegations, whereas  
(continued...)

Purchasers responding to the lost sales allegations also were asked whether they shifted their purchases of SC paper from U.S. producers to suppliers of SC paper from Canada since 2012. In addition, they were asked whether U.S. producers reduced their prices in order to compete with suppliers of SC paper from Canada. Ten purchasers (\*\*\*) reported that they did not shift purchases of SC paper from U.S. producers to subject imports since 2012, whereas three (\*\*\*) listed price among seven factors that it considered in matching its customer with the right producer of SC paper. \*\*\* indicated that it switched for quality or availability reasons, but not price. Purchaser \*\*\* stated that price was the reason that it switched to subject product, but also relayed that “Every opportunity we bid is different. The subject importers were not always the low bid, nor does a low price mean the best deal. There were many instances where US or European options were low bids.” Three purchasers, \*\*\*, stated that they were unable to definitively answer the question since they do not know all of the factors which their customers consider for specific purchases. During the preliminary phase of this investigation, one of the responding purchasers (\*\*\*) reported that it had shifted purchases of SC paper from U.S. producers to subject imports since 2012; however, in that response \*\*\* did not provide an explanation for the shift. In the final phase, \*\*\* stated that it did not switch to subject imports, but stated that “Generally, Canadian SCA+ imports and {sic} have not been priced below U.S. producers. Our purchase decisions were more influenced by product quality.”

Three of nine responding purchasers which reported a definitive answer stated that U.S. producers had reduced their prices in order to compete with the prices of subject imports since 2012. \*\*\* stated that based on its experience, U.S. producers did not reduce their prices of SC paper to compete with Canadian imports. It stated that “pricing is negotiated annually as a strike price for the following fiscal year. Pricing varies, leaving Canadian purchases sometimes higher in price than \*\*\* U.S. purchases.” Purchaser \*\*\* stated that the U.S. producers had to lower their prices in response to prices from Canada, adding that “The price is determined by the marketplace which is usually the imports fighting with each other,” but also that “Availability and supply chain have influenced the business more than price.” Purchaser \*\*\* commented that “At the end of 2012, New Page approached \*\*\* with a new rebate offer as a way to grow with us, regardless of the grade. They did this on their own.” The remaining six purchasers reported that they “don’t know” if U.S. producers reduced their prices to compete with imports from Canada.

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(...continued)

others were not submitted as formal lost sale/lost revenue allegations. Petitioner’s prehearing brief, pp. 25-35.

<sup>27</sup> Responses were received from purchasers for 15 of the 22 lost sale allegations and 85 of the 245 lost revenue allegations. For the majority of responses, the purchasers either disagreed with the allegation or could not recognize the transaction from the data supplied.

**Table V-12**  
**SC paper: U.S. producers' lost sales allegations**

\* \* \* \* \*

**Table V-13**  
**SC paper: U.S. producers' lost revenue allegations**

\* \* \* \* \*



## PART VI: FINANCIAL EXPERIENCE OF U.S. PRODUCERS

### BACKGROUND

Three U.S. producers, Madison, Resolute USA, and Verso, reported their financial results on SC paper.<sup>1</sup> Madison and Verso, petitioners in this investigation, accounted for the majority of reported SC paper sales volume (\*\*\*, respectively). Resolute USA accounted for the remaining \*\*\*.<sup>2</sup> A verification of Madison's U.S. producer questionnaire was conducted on September 22-23, 2015. Changes resulting from verification are reflected in this and other relevant sections of the staff report.<sup>3</sup>

The SC paper operations of Madison and Verso are integrated in terms of mechanical pulp, while kraft pulp, which is used in smaller relative proportions, \*\*\*.<sup>4</sup> Resolute USA produces both kraft pulp and mechanical pulp.<sup>5</sup>

With respect to underlying SC paper manufacturing operations, Madison and Resolute USA remained essentially unchanged during the period of investigation. In contrast, Verso's SC paper operations reflect the permanent closure of its Sartell, MN paper mill in 2012 and the acquisition in early 2015 of NewPage's Duluth, MN paper mill, as part of Verso's formal acquisition of NewPage.<sup>6 7</sup> NewPage itself entered and exited Chapter 11 bankruptcy in 2011 and late 2012, respectively.<sup>8</sup>

While SC paper manufacturing operations were not directly impacted, Madison's ownership changed in 2011 with UPM's acquisition of Myllykoski Corporation which was a general partner of Madison. The UPM acquisition resulted in subsequent changes in Madison's

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<sup>1</sup> All three companies reported their financial results for calendar-year periods and on the basis of generally accepted accounting principles (GAAP).

<sup>2</sup> The relevant U.S. paper operations of Madison and Verso \*\*\*. Madison and Verso U.S. producer questionnaire responses to question III-5. \*\*\*. \*\*\* U.S. producer questionnaire response to question III-5.

<sup>3</sup> Staff verification report, p. 2.

<sup>4</sup> While Verso's 2014 10-K reports that it produces and resells chemical pulp, \*\*\*. Verso 2014 10-K, p. 6. \*\*\* U.S. producer questionnaire response to question III-7.

<sup>5</sup> \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor. In addition to kraft pulp, as noted above, Resolute USA's Catawba paper mill also produces thermomechanical pulp. *New Fiberline, PM conversion repositions Bowater mill with expanded product mix*, PaperAge, April/May 2004, pp. 16-20. March 30, 2015 e-mail with attachment from counsel for \*\*\* to USITC auditor.

<sup>6</sup> \*\*\*. Petitioner's postconference brief, pp. 9-10.

<sup>7</sup> Verso and NewPage entered into a merger agreement on January 3, 2014 which was finalized on January 7, 2015. Verso 2014 10-K, p. 3. When considering the company-specific financial information presented in this section of the report it should be noted that, while overall amounts are presented for Verso as a single entity, the underlying NewPage component (i.e., the Duluth, MN paper mill) was directly operated by NewPage, as opposed to Verso, during 2012-14.

<sup>8</sup> In terms of the reported SC paper financial results, the NewPage bankruptcy reportedly \*\*\*. Petitioner's postconference brief, p. 10.

\*\*\*.<sup>9</sup> As noted in Part III of this report, Madison reported multiple production curtailments during interim 2015 which reflected compressed profit margins and higher winter energy costs, specifically electricity.<sup>10</sup> The direct and indirect impact of these curtailments on SC paper financial results is described in the *Cost of goods sold* and *Gross profit or loss* sections below. As also noted below, Madison undertook a number of cost-cutting measures during the period which impacted reported financial results.<sup>11</sup>

## OPERATIONS ON SC PAPER

Income and loss data for U.S. producers are presented in table VI-1. A variance analysis of overall financial results is presented in table VI-2.<sup>12</sup> Table VI-3 presents selected company-specific data as referenced in this section of the report.

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<sup>9</sup> Verification report, p. 3.

<sup>10</sup> Conference transcript, p. 20, p. 29 (Drechsel). As a general matter and as described in petitioner's postconference brief, \*\*\*. Petitioner's postconference brief, p. 6.

To illustrate that 2015 curtailments were not a typical response to higher winter energy costs, Madison noted that \*\*\*. Petitioner's postconference brief, p. 7.

<sup>11</sup> As described by a company official ". . . Madison Paper has done everything in its power to trim costs. In 2013, for example, we converted fuel use in our boilers from oil to natural gas. We have also invested in new pulp grinding technology. Our pressurized ground wood pulp mill is one of a kind. We employ only diamond grinding surfaces to manufacture ground wood pulp, whereas other manufactures of ground wood pulp utilize ceramic grinding surfaces to produce their pulp. The diamond surfaces have significantly reduced the amount of electricity required to produce the quality of pulp needed for the SC manufacturing process. Other investments to improve the quality of the product offered, such as paper defect sensors, and to further reduce the power required to manufacture the paper, high efficiency motors and agitators, have been made." Conference transcript, pp. 25-26 (Drechsel).

<sup>12</sup> The Commission's variance analysis is calculated in three parts: sales variance, cost of sales variance, and selling, general and administrative ("SG&A") expense variance. Each part consists of a price variance (in the case of the sales variance) or a cost or expense variance (in the case of the cost of sales variance and SG&A expense variance), and a volume variance. The sales or cost/expense variance is calculated as the change in unit price or per-unit cost/expense times the new volume, while the volume variance is calculated as the change in volume times the old unit price or per-unit cost/expense. Summarized at the bottom of the table, the price variance is from sales; the cost/expense variance is the sum of those items from the cost of sales and SG&A variances, respectively, and the volume variance is the sum of the volume components of the net sales, cost of sales, and SG&A expense variances.

In general, the utility of the variance analysis is enhanced when product mix remains the same throughout the period. \*\*\*. Petitioner's postconference brief, p. 6. \*\*\*.

**Table VI-1**

**SC paper: Results of operations of U.S. producers, 2012-14, January-June 2014, January-June 2015**

\* \* \* \* \*

Source: Compiled from data submitted in response to Commission questionnaires.

**Table VI-2**

**SC paper: Variance analysis on the operations of U.S. producers, 2012-14, January-June 2014, January-June 2015**

\* \* \* \* \*

Source: Compiled from data submitted in response to Commission questionnaires.

**Table VI-3**

**SC paper: Results of operations of U.S. producers, by firm, 2012-14, January-June 2014, January-June 2015**

\* \* \* \* \*

Source: Compiled from data submitted in response to Commission questionnaires.

**Sales volume and value**

SC paper revenue was classified as commercial sales and consists primarily of U.S. commercial shipments.<sup>13</sup> Notwithstanding somewhat different company-specific trends, export sales volume represented \*\*\* share of total SC paper revenue.<sup>14</sup>

As noted at the staff conference, SC paper sales are generally made to order with little finished goods inventory maintained by the U.S producers.<sup>15</sup> The general requirement that SC paper mills operate at high capacity utilization rates appears to be facilitated, at least in part, by customer forecasts which are used to plan production.<sup>16</sup>

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<sup>13</sup> \*\*\*. Verification report, p. 8.

<sup>14</sup> \*\*\*. Petitioner’s postconference brief, p. 10, p. 14. \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor.

<sup>15</sup> Conference transcript (Johnston), pp. 79-80.

<sup>16</sup> With regard to Verso’s overall operations, the company’s 2014 10-K states that “{m}any of our customers provide us with forecasts of their paper needs, which allows us to plan our production runs in advance, optimizing production over our integrated mill system thereby reducing costs and increasing overall efficiency.” Verso 2014 10-K, p. 42.

The revenue section of the table VI-2 variance analysis indicates that period-to-period declines in total SC paper revenue were primarily the result of consecutive negative price variances, while smaller sales volume variances were alternately negative in 2012-13 and then positive in 2013-14. In contrast, for the interim period a negative volume variance was the dominant variance and was substantially larger (\*\*\*) compared to the corresponding negative price variance (\*\*\*)).

As shown in table VI-3, the pattern of company-specific average sales value was directionally \*\*\* reporting declines in average sales values. The \*\*\* was in interim 2015 compared to interim 2014 when \*\*\* U.S. producer to report higher average sales value.<sup>17</sup> In contrast, the directional pattern of company-specific sales volume was mixed. The U.S. industry's 2012-13 negative sales volume variance was \*\*\*, while the 2013-14 positive sales volume variance noted above was \*\*\*.<sup>18</sup> In interim 2015 compared to interim 2014, \*\*\* of the U.S. producers reported lower sales volume: \*\*\* accounting for the largest relative decline (\*\* short tons), followed by \*\*\* (\*\* short tons), and \*\*\* (\*\* short tons).

## Cost of goods sold

### Other Factory Costs

As a share of total COGS, the other factory costs category is the single largest component (ranging from \*\*\* percent in 2012 to \*\*\* percent in interim 2014) (see table VI-1). Among the U.S. producers and in addition to a number of other common elements, other factory costs include energy, machine clothing, and maintenance.<sup>19</sup> As noted previously, industry witnesses at the Commission's staff conference and hearing emphasized the high fixed cost nature of SC paper production which in turn requires high capacity utilization.<sup>20</sup>

As shown in table VI-3, the directional trend of company-specific average other factory costs was \*\*\*: \*\*\* reported declines in its average other factory costs during the full-year period and then a somewhat lower average other factory costs in interim 2015 compared to

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<sup>17</sup> \*\*\*.

<sup>18</sup> \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor. \*\*\*. Petitioner's postconference brief, p. 14.

<sup>19</sup> \*\*\*. Petitioner's postconference brief, p. 11, p. 15. \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor.

In addition to including energy in other factory costs, U.S. producers indicated that they produce some of their own energy requirements directly and indirectly. Conference transcript, p. 21 (Drechsel), and March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor. \*\*\*. Ibid.

<sup>20</sup> Conference transcript, p. 20 (Drechsel). Hearing transcript, p. 50 (Drechsel), pp. 55-56 (Paterson).

As described by Verso with respect to its overall operations, "{w}e run our paper machines on a nearly continuous basis for maximum efficiency. Any downtime at any of our paper mills, including as a result of or in connection with planned maintenance and capital expenditure projects, results in unabsorbed fixed costs that could negatively affect our results of operations for the period in which we experience the downtime." Verso 2014 10-K, p. 14.



interim 2014;<sup>21</sup> \*\*\* reported stable average other factory costs in 2012 and 2013, an increase in average other factory costs in 2014, and somewhat higher average other factory costs in interim 2015 compared to interim 2014;<sup>22</sup> \*\*\* reported increases in average other factory costs during the full-year period and then a \*\*\* lower average other factory costs in interim 2015 compared to interim 2014.<sup>23</sup>

### **Raw material**

Raw material costs represent the second-largest component of SC paper COGS (ranging from \*\*\* percent in interim 2014 to \*\*\* percent in 2012) (see table VI-1). While underlying raw material input usage is company-specific, basic SC paper raw materials are generally the same for the U.S. producers and primarily reflect wood (pulpwood for groundwood pulp), kraft pulp, and filler. The proprietary nature of specific input usage, such as fillers, was noted at the staff conference.<sup>24</sup>

The U.S. industry's average raw material cost decreased during the full-year period, but was marginally higher in interim 2015 compared to interim 2014. Directionally, the pattern of average raw material costs reported by \*\*\*<sup>25</sup> and \*\*\*<sup>26</sup> was \*\*\*, while \*\*\* reported a \*\*\* increase in 2013 average raw material costs which, at least in part, presumably reflects the subsequent impact of \*\*\* which took place in 2012 (see footnote 29).<sup>27</sup>

### **Direct labor**

As a share of total COGS, direct labor is the smallest component (ranging from \*\*\* percent in 2012 to \*\*\* percent in interim 2015) (see table VI-1). As shown in table VI-3, company-specific average direct labor costs remained within a similar range during most of period. \*\*\*.<sup>28</sup>

## **Gross profit or loss**

On an overall basis, the U.S. industry's SC paper COGS-to-sales ratio increased throughout the period. The obverse of this pattern was a steady contraction in gross profit which declined on both an absolute basis and as a percentage of sales.

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<sup>21</sup> \*\*\*. Verification report, p. 4.

<sup>22</sup> \*\*\*. September 30, 2015 response to staff questions by counsel on behalf of \*\*\*.

<sup>23</sup> \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor. \*\*\*. September 29, 2015 response to staff questions by counsel on behalf of \*\*\*. \*\*\*. March 30, 2015 e-mail with attachment from counsel for \*\*\* to USITC auditor.

<sup>24</sup> Conference transcript, p. 57 (Drechsel).

<sup>25</sup> \*\*\*. Verification report, pp. 6-7. \*\*\*. Ibid.

<sup>26</sup> \*\*\*. September 30, 2015 response to staff questions by counsel on behalf of \*\*\*.

<sup>27</sup> \*\*\*. September 29, 2015 response to staff questions by counsel on behalf of \*\*\*.

<sup>28</sup> Verification report, p. 7.

As shown in table VI-3, the gross profit ratios of \*\*\* were in a similar range during the full-year period. Notwithstanding a continued decline in average sales value, the minor improvement in \*\*\* gross profit ratio in full-year 2014 was largely a function of lower average COGS which in turn primarily reflects the \*\*\* noted above. While \*\*\* reported a gross profit in interim 2015, compared to a gross loss in interim 2014, the company's interim 2015 gross profit ratio was lower than the full-year period gross profit ratios. In general, this reflects a combination of lower average sales value and higher average COGS in interim 2015. To the extent that \*\*\* average COGS declined by a relatively large amount in 2013 from the level reported in 2012, and then was essentially the same in 2013 and 2014, the contraction in the company's gross profit ratio during the full-year period reflects declines in corresponding average sales value. In contrast, \*\*\* transition to a gross loss in interim 2015 compared to a gross profit in interim 2014 reflects a combination of lower average sales value and higher average COGS (primarily the other factory costs component and to a lesser extent raw material costs) (see footnotes 22 and 26, respectively).

\*\*\* reported minimal gross profit in 2012 and then gross losses of increasing magnitude in 2013 and 2014 (see table VI-3). At the end of the period, the gross loss amount reported by \*\*\* in interim 2015 was somewhat lower compared to interim 2014. With regard to the pattern of gross losses in general, \*\*\* indicated that pricing and cost issues were both factors.<sup>29</sup>

### **SG&A expenses and operating income or loss**

\*\*\* sales and marketing of SC paper is not significantly different as compared to each other or Canadian producers. \*\*\* as compared to the SC paper operations of many of its U.S. and Canadian competitors.<sup>30</sup>

The U.S. industry's SG&A expenses increased somewhat in 2013, declined in 2014, and then were higher in interim 2015 compared to interim 2014. As shown in table VI-3, the increase in SG&A expenses in 2013 was attributable to \*\*\*<sup>31</sup> while the higher level of total SG&A expenses in interim 2015 compared to interim 2014 was due to \*\*\*.<sup>32</sup> The overall SG&A expense ratio remained within a relatively narrow range during the full year period but was somewhat higher in interim 2015 compared to interim 2014 (see table VI-1 and footnote 32).

While changes in the level of SG&A expenses impacted operating results during the full-year period, factors related directly to the gross level generally played a more important role. In contrast and in conjunction with the industry's decline to essentially breakeven gross profit in interim 2015, the level of SG&A expenses in interim 2015 had a more pronounced impact on operating results than in previous periods.

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<sup>29</sup> \*\*\*. September 29, 2015 response to staff questions by counsel on behalf of \*\*\*.

<sup>30</sup> \*\*\*. March 24, 2015 letter with attachment from counsel for \*\*\* to USITC auditor.

<sup>31</sup> \*\*\*. Verification report, p. 8.

<sup>32</sup> \*\*\*. September 30, 2015 response to staff questions by counsel on behalf of \*\*\*. \*\*\*. \*\*\* U.S. producer questionnaire response to question III-4. \*\*\*. USITC auditor notes (SC paper final) (posthearing).

**CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES**

Table VI-4 presents firm-specific capital expenditures and research and development (“R&D”) expenses related to operations on SC paper.

**Table VI-4**  
**SC paper: Capital expenditures and research and development expenses of U.S. producers, 2012-14, January-June 2014, January-June 2015**

\* \* \* \* \*

*Source:* Compiled from data submitted in response to Commission questionnaires.

\*\*\* reported capital expenditures, \*\*\* consistently accounted for \*\*\* and also reported modest increases during 2012-14, as well as somewhat higher capital expenditures in interim 2015 compared to interim 2014. \*\*\*.<sup>33</sup> \*\*\*.<sup>34</sup> In contrast with \*\*\* capital expenditures were notably lower in interim 2015 compared to interim 2014. \*\*\* capital expenditures during the period examined.<sup>35</sup>

As shown in table VI-4, \*\*\* U.S. producer to report R&D expenses. \*\*\*.<sup>36</sup>

**ASSETS AND RETURN ON INVESTMENT**

Table VI-5 presents data on the U.S. producers’ total assets, asset turnover (total sales divided by total assets), and return on assets.<sup>37</sup>

**Table VI-5**  
**SC paper: U.S. producers’ total assets, asset turnover, and return on assets, 2012-14**

\* \* \* \* \*

*Source:* Compiled from data submitted in response to Commission questionnaires.

<sup>33</sup> \*\*\* U.S. producer questionnaire response to III-13b (preliminary phase).

<sup>34</sup> \*\*\* U.S. producer questionnaire response to III-13.

<sup>35</sup> \*\*\*. \*\*\* U.S. producer questionnaire response to III-13b (preliminary phase).

<sup>36</sup> Petitioner’s postconference brief, p. 13.

<sup>37</sup> With respect to a company’s overall operations, staff notes that a total asset value (i.e., the bottom line on the asset side of a company’s balance sheet) reflects an aggregation of a number of assets which in many instances are not product specific. To the extent that the relevant operations of the two primary SC paper producers, Madison and Verso, are focused exclusively on SC paper, high-level allocation factors would generally not be required in order to report a total asset value specific to SC paper operations.

## CAPITAL AND INVESTMENT

The Commission requested U.S. producers of SC paper to describe any actual or potential negative effects on their return on investment or their growth, investment, ability to raise capital, existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments as a result of imports of SC paper from Canada. Table VI-6 tabulates the responses on actual negative effects on investment, growth and development, as well as anticipated negative effects. Table VI-7 and table VI-8, respectively, present narrative responses regarding actual and anticipated negative effects on investment, growth, and development of U.S. producers.

**Table VI-6**  
**SC paper: Negative effects of imports from subject sources on investment, growth, and development since January 1, 2012**

\* \* \* \* \*

*Source:* Compiled from data submitted in response to Commission questionnaires.

**Table VI-7**  
**SC paper: Narrative responses of U.S. producers regarding actual negative effects of imports from subject sources on investment, growth, and development since January 1, 2012**

\* \* \* \* \*

*Source:* Compiled from data submitted in response to Commission questionnaires.

**Table VI-8**  
**SC paper: Narrative responses of U.S. producers regarding anticipated negative effects of imports from subject sources on investment, growth, and development**

\* \* \* \* \*

*Source:* Compiled from data submitted in response to Commission questionnaires.

## PART VII: THREAT CONSIDERATIONS AND INFORMATION ON NONSUBJECT COUNTRIES

Section 771(7)(F)(i) of the Act (19 U.S.C. § 1677(7)(F)(i)) provides that—

*In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of the subject merchandise, the Commission shall consider, among other relevant economic factors<sup>1</sup>--*

- (I) if a countervailable subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement), and whether imports of the subject merchandise are likely to increase,*
- (II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,*
- (III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,*
- (IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices, and are likely to increase demand for further imports,*
- (V) inventories of the subject merchandise,*

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<sup>1</sup>Section 771(7)(F)(ii) of the Act (19 U.S.C. § 1677(7)(F)(ii)) provides that “The Commission shall consider {these factors} . . . as a whole in making a determination of whether further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted under this title. The presence or absence of any factor which the Commission is required to consider . . . shall not necessarily give decisive guidance with respect to the determination. Such a determination may not be made on the basis of mere conjecture or supposition.”

- (VI) *the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products,*
- (VII) *in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both),*
- (VIII) *the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and*
- (IX) *any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).<sup>2</sup>*

Information on the nature of the subsidies was presented earlier in this report; information on the volume and pricing of imports of the subject merchandise is presented in *Parts IV* and *V*; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in *Part VI*. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission on nonsubject countries.

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<sup>2</sup>Section 771(7)(F)(iii) of the Act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other WTO member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

## THE INDUSTRY IN CANADA

The petition listed four producers of SC paper in Canada.<sup>3</sup> The Commission received questionnaire responses from those four producers of SC paper in Canada, which accounted for all production of SC paper in Canada during the period of investigation.<sup>4</sup> These firms are identified in table VII-1 along with each firm’s capacity, production, and export shipment data.

**Table VII-1**

**SC paper: Reporting producers of SC paper in Canada, capacity, production, share of reported production, capacity utilization, exports to the United States, and share of exports to the United States, by firm, 2012-June 2015**

Firm	Production (short tons)	Share of reported production (percent)	Exports to the United States (short tons)	Share of reported exports to the United States (percent)	Total shipments (short tons)	Share of firm's total shipments exported to the United States (percent)
Catalyst	***	***	***	***	***	***
Irving	***	***	***	***	***	***
Port Hawkesbury	***	***	***	***	***	***
Resolute	***	***	***	***	***	***
Total	***	***	***	***	***	***

*Source:* Compiled from data submitted in response to Commission questionnaires.

### Producers of SC Paper in Canada

#### Catalyst

Catalyst is a producer of specialty printing papers, newsprint and pulp, headquartered in Vancouver, Canada with an annual production capacity of 2.3 million short tons (2.1 million metric tons) of paper and 551,156 short tons (500,000 metric) tons of pulp. It operates five paper mills, three of which are located in the metro Vancouver area and produce newsprint, lightweight coated paper, SC paper, and pulp.<sup>5</sup> In 2015, as part of the Verso merger with

<sup>3</sup> Petition, p. 1-8.

<sup>4</sup> Respondents agreed that the four producers in Canada from which the Commission received questionnaire responses accounted for all production of SC paper in Canada. Respondent Port Hawkesbury’s postconference brief, p. 1 n.2.

<sup>5</sup> Catalyst produces SC paper at two of its mills: (1) Powell River mill in Powell River, British Columbia; and (2) Port Alberni mill in Port Alberni, British Columbia. It reported that \*\*\*. Foreign Producer Questionnaire of Catalyst, questions II-4a & II-4e.

NewPage, U.S. antitrust authorities supervised the divestiture and sale to Catalyst of two of NewPage's pulp and paper mills in Rumford, Maine, which produces coated paper products used in the packaging industry, and Biron, Wisconsin, which produces coated groundwood papers. The addition of these mills increased Catalyst's overall production capacity by 65 percent.<sup>6</sup>

Catalyst reported that \*\*\* percent of its total sales in the most recent fiscal year were sales of SC paper. It reported SC paper capacity decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. Its capacity is projected to \*\*\* from 2014 to 2016. Catalyst's reported SC paper production decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>7</sup> Its production is projected to \*\*\* from 2014 to 2016. In 2014, \*\*\* percent of Catalyst's total shipments of SC paper were commercial shipments in its home market, \*\*\* percent were exported to the United States, \*\*\* percent were exported to other export markets such as \*\*\*. Catalyst reported that its sole U.S. importer of SC paper during the period of investigation was \*\*\*.

### Irving

J.D. Irving Limited is a privately owned company headquartered in Saint John, New Brunswick, Canada with operations in the following business segments: agriculture, construction, consumer products, energy, food, forestry and forestry products, retail and distribution, shipbuilding and industrial fabrication, and transportation and logistics. Among its forest and forestry products segment, its subsidiary, Irving Paper ("Irving"), produces solely SC paper with an annual production capacity of approximately \*\*\* short tons (\*\*\*) metric tons). It operates two SC paper production lines at its mill in Saint John, New Brunswick, Canada.

Irving reported that \*\*\* percent of its total sales in the most recent fiscal year were sales of SC paper. It reported that its SC paper capacity increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014. Its capacity is projected to \*\*\* from 2014 to 2016. Irving's reported SC paper production also increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>8</sup> Its production is projected to \*\*\* from 2014 to 2016. In 2014, \*\*\* percent of Irving's total shipments of SC paper were commercial shipments in its home market, \*\*\* percent were internally consumed, \*\*\* percent were exported to the United States, \*\*\* percent were exported to other export markets such as \*\*\*. Irving reported that \*\*\*.

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<sup>6</sup> <http://www.catalystpaper.com/about/history>

<sup>7</sup> Catalyst reported \*\*\*. Foreign Producer Questionnaire of Catalyst, question II-2.

<sup>8</sup> Irving reported that during the period of investigation, \*\*\*. Foreign Producer Questionnaire of Irving, question II-10.



## Port Hawkesbury

Prior to September 2011, the paper mill located in Port Hawkesbury, Nova Scotia, Canada, had been owned and operated by NewPage. The mill contained two paper production lines, one producing SC paper and the other newsprint. In September 2011, NewPage's Canadian subsidiary, which operated the mill, filed for bankruptcy protection under the Canadian equivalent of Chapter 11 of the U.S. Bankruptcy Code and production operations at the mill ceased. The mill, however, remained in "hot idle," a process that maintained the production equipment and supply lines and would enable a relatively quick return to production operations.<sup>9</sup> In August 2012, during the bankruptcy reorganization, the Port Hawkesbury mill was sold to Pacific West Commercial Corp. ("Pacific West"), an affiliate of Stern Partners, a Vancouver, Canada based private equity firm.<sup>10</sup> In October 2012, Pacific West restarted production of SC paper at the mill with an annual production capacity of \*\*\* short tons as Port Hawkesbury Paper LP. Respondent Port Hawkesbury reported that it completely reorganized and streamlined the mill and thereby reduced cost and increased efficiencies. It reported the following reorganization activities: \*\*\*.<sup>11</sup>

Port Hawkesbury reported that \*\*\* percent of its total sales in the most recent fiscal year were sales of SC paper. It reported SC paper capacity increased by \*\*\* percent from 2012 to 2014 as production ramped up after the period of "hot idle," and remained the same in January-June 2015 and in January-June 2014. Its capacity is projected to \*\*\* from 2014 to 2016. Port Hawkesbury's reported SC paper production increased by \*\*\* percent from 2012 to 2014, again, as production ramped up after the period of "hot idle," and was higher by \*\*\* percent in January-June 2015 than in January-June 2014. Its production is projected to \*\*\* from 2014 to 2016. In 2014, \*\*\* percent of Port Hawkesbury's total shipments of SC paper were commercial shipments in its home market, \*\*\* percent were exported to the United States, \*\*\* percent were exported to other export markets such as \*\*\*. Port Hawkesbury reported that \*\*\*.

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<sup>9</sup> Petitioner maintained that the government of Nova Scotia provided many of the resources to maintain the "hot idle," the duration of which totaled approximately one year. Petition, pp. II-2-II-3.

<sup>10</sup> Stern Partners also has ownership interests in other paper manufacturers including Alberta Newsprint Co. and West Linn Paper Co. <http://www.sternpartners.com/investments/index.html> accessed on March 25, 2015. West Linn Paper Co. conducts marketing and sales operations for the SC paper produced at Port Hawkesbury. <http://www.wlinpco.com/papers/supercalendered.aspx> accessed March 30, 2015.

<sup>11</sup> Respondent Port Hawkesbury's postconference brief, exh. 1, attachment J.

Petitioner stated that when NewPage operated the Port Hawkesbury mill raw material (wood), energy (electricity), and transportation costs were so high that they prevented NewPage from operating it profitably. It reported that in 2010, the last full year that NewPage operated the Port Hawkesbury mill, \*\*\*. Petitioner reported that \*\*\*. Petitioner's postconference brief, "Answers to Questions from Commission Staff," pp. 2 and 5.

## Resolute

Resolute is an integrated forest products company headquartered in Montreal, Quebec, Canada, whose operations include pulp production, paper production, and wood products production (lumber for residential construction) in the United States, Canada, and South Korea. Its 19 paper and pulp mills produce approximately 5.5 million short tons (5.0 million metric tons) of paper, which includes commercial printing papers and newsprint. Three of its paper mills in Canada produced SC paper during the period of investigation. These include: (1) Dolbeau paper mill in Dolbeau, Quebec;<sup>12</sup> (2) Kenogami paper mill in Jonquiere, Quebec; and (3) Laurentide paper mill in Grand-Mere, Quebec. Resolute reported that in November 2012 it closed down production on one SC paper production line at its Laurentide paper mill. In October 2014, it reported that it ceased all production operations at the Laurentide paper mill \*\*\*<sup>13</sup> The Laurentide paper mill reported an annual production capacity of 210,541 short tons of SC paper. Its wholly owned U.S. subsidiary, Resolute USA, owns and operates a paper and pulp mill in Catawba, South Carolina, which produces pulp, specialty coated papers, and SC paper.

Resolute reported that \*\*\* percent of its total sales in the most recent fiscal year were sales of SC paper. Its reported SC paper capacity decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014. Its capacity is projected to \*\*\* from 2014 to 2016 \*\*\*. Resolute's reported SC paper production decreased by \*\*\* percent from 2012 to 2014 and was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>14</sup> Its production is projected to \*\*\* from 2014 to 2016, \*\*\*. In 2014, \*\*\* percent of Resolute's total shipments of SC paper were commercial shipments in its home market, \*\*\* percent were internally consumed, \*\*\* percent were exported to the United States, \*\*\* percent were exported to other export markets such as \*\*\*. Resolute reported that its sole U.S. importer of SC paper during the period of investigation was \*\*\*.

### Data for the SC Paper Industry in Canada

Table VII-2 presents data for reported capacity, production, and shipments of SC paper for all reporting producers in Canada. Collectively, producers in Canada reported that SC paper

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<sup>12</sup> In October 2012, Resolute announced that it would resume operations at its Dolbeau paper mill after securing energy resources. The company press release stated that "this decision follows the receipt of a notice of acceptance of the tender regarding the sale of electricity to be produced at the Company's Mistassini cogeneration facility to Hydro-Québec."

<http://resolutefp.mediaroom.com/index.php?s=28238&item=135310>

<sup>13</sup> Foreign producer questionnaire response of Resolute, question II-4e; Respondent Resolute's postconference brief, p. 13; Press release, *Resolute Announces Permanent Closure of Laurentide Mill in Shawinigan, Quebec*, "The restart of a competitor's mill at the end of 2012, the high cost of fiber, as well as higher transportation and fuel costs, have affected the mill's competitiveness."

<http://resolutefp.mediaroom.com/index.php?s=28238&item=135267>

<sup>14</sup> Resolute reported that \*\*\*. Resolute also reported \*\*\*. Foreign Producer Questionnaire of Resolute, questions II-2 & II-10.

capacity increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014.<sup>15</sup> Capacity is projected to \*\*\*.<sup>16</sup> Their reported SC paper production increased by \*\*\* percent from 2012 to 2014, but was lower by \*\*\* percent in January-June 2015 than in January-June 2014. Production is projected to \*\*\*.<sup>17</sup> In 2014, producers in Canada reported that \*\*\* percent of their total shipments of SC paper were internally consumed, \*\*\* percent were commercial sales to their home market, \*\*\* percent were exported to the United States,<sup>18</sup> and \*\*\* percent were exported to other markets, including \*\*\*.

**Table VII-2**

**SC paper: Canada’s reported production capacity, production, shipments, and inventories, 2012-14, January-June 2014, January-June 2015, and projections for 2015 and 2016**

\* \* \* \* \*

**U.S. INVENTORIES OF IMPORTED MERCHANDISE**

Table VII-3 presents data on U.S. importers’ reported inventories of SC paper.

**Table VII-3**

**SC paper: U.S. importers’ inventories, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

**U.S. IMPORTERS’ OUTSTANDING ORDERS**

The Commission requested U.S. importers to indicate whether they imported or arranged for the importation of SC paper after June 30, 2015. \*\*\* U.S. importers of SC paper from Canada indicated that they had imported or arranged for importation since June 30, 2015. Table VII-4 presents the U.S. importers that had imported or arranged for the importation of the subject product from Canada and the quantity of those U.S. imports.

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<sup>15</sup> \*\*\*.

<sup>16</sup> \*\*\*.

<sup>17</sup> The changes in production are primarily due to the same causes mentioned for capacity.

<sup>18</sup> Petitioner and respondents agreed that producers of SC paper in Canada have historically been highly export-oriented and have focused primarily on the U.S. market for sales for the following reasons: (1) the large size of the U.S. market for SC paper; (2) lack of viable alternative export markets; and (3) the fact that many of the major retailers in Canada and the United States use printers and publishers located in the United States to print their advertising materials. Petitioner’s prehearing brief, pp. 11-12; Petitioner’s postconference brief, p. 19; Conference transcript, p. 119 (Mosher).

Table VII-4

SC paper: U.S. importers' orders of subject imports from Canada subsequent to June 30, 2015

\* \* \* \* \*

### ANTIDUMPING OR COUNTERVAILING DUTY ORDERS IN THIRD-COUNTRY MARKETS

There have been no antidumping or countervailing duty orders in third-country markets on SC paper from Canada.<sup>19</sup>

### INFORMATION ON NONSUBJECT COUNTRIES

In assessing whether the domestic industry is materially injured or threatened with material injury "by reason of subject imports," the legislative history states "that the Commission must examine all relevant evidence, including any known factors, other than the dumped or subsidized imports, that may be injuring the domestic industry, and that the Commission must examine those other factors (including non-subject imports) 'to ensure that it is not attributing injury from other sources to the subject imports.'"<sup>20</sup>

### Global Demand

\*\*\*<sup>21</sup>

### Global SC Paper Production

The vast majority of production of SC paper occurs in North America and Europe. Shipments of supercalendered magazine paper (a close approximation for SC paper) by European producers declined steadily between 2012 and 2014, from 4.7 million short tons (4.3 million metric tons) to 4.3 million short tons (3.9 million metric tons). European shipments of supercalendered magazine paper remain primarily within Europe; in 2014, only 17 percent of these shipments went to non-European countries.<sup>22</sup> According to the European Association of Graphic Paper Producers, European producers of supercalendered magazine paper include Holmen Paper, Laakirchen Papier, Norske Skog, Parenco, SCA Forest Products, Stora Enso, and UPM.

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<sup>19</sup> Conference transcript, p. 76 (Kaplan).

<sup>20</sup> *Mittal Steel Point Lisas Ltd. v. United States*, Slip Op. 2007-1552 at 17 (Fed. Cir. Sept. 18, 2008), quoting from Statement of Administrative Action on Uruguay Round Agreements Act, H.R. Rep. 103-316, Vol. I at 851-52; see also *Bratsk Aluminum Smelter v. United States*, 444 F.3d 1369 (Fed.Cir. 2006).

<sup>21</sup> Petition, exhibits I-7 and I-9 attachment A.

<sup>22</sup> European Association of Graphic Paper Producers, Monthly Statistics of the European Graphic Papers Industry. In 2014, the only significant supplier of SC paper to the United States, other than Canada, was Finland. Official U.S. import statistics, HTS number 4802.61.3035.

## Exporters of SC Paper

Export data specifically for SC paper are not available from global trade databases. However, export data are available for a broader category of products which includes other types of uncoated mechanical papers. These data, presented in table VII-5, provide a rough approximation of global exports of SC paper. In 2014, the five leading country exporters accounted for 87 percent of global exports of uncoated groundwood paper in rolls.

**Table VII-5**  
**Uncoated groundwood paper in rolls: Leading country exporters and total global exports, 2012-14**

Country	Calendar year		
	2012	2013	2014
	<b>Quantity (1,000 short tons)</b>		
Canada	2,082	2,233	2,114
Sweden	1,679	1,633	1,461
Germany	1,141	1,000	940
Austria	759	739	746
Norway	516	507	499
All other countries	1,011	960	872
Total global exports	7,188	7,072	6,632
Source: Global Trade Information Service, Inc. World Trade Atlas Database export data for HS number 4802.61, which includes other types of uncoated mechanical papers.			



**APPENDIX A**

***FEDERAL REGISTER NOTICES***





The Commission makes available notices relevant to its investigations and reviews on its website, [www.usitc.gov](http://www.usitc.gov). In addition, the following tabulation presents, in chronological order, *Federal Register* notices issued by the Commission and Commerce during the current proceeding.

<b>Citation</b>	<b>Title</b>	<b>Link</b>
80 FR 12036 March 5, 2015	<i>Supercalendered Paper From Canada; Institution of a Countervailing Duty Investigation and Scheduling of a Preliminary Phase Investigation</i>	<a href="https://federalregister.gov/a/2015-05012">https://federalregister.gov/a/2015-05012</a>
80 FR 15981 March 26, 2015	<i>Supercalendered Paper From Canada: Initiation of Countervailing Duty Investigation</i>	<a href="https://federalregister.gov/a/2015-06867">https://federalregister.gov/a/2015-06867</a>
80 FR 21263 April 17, 2015	<i>Supercalendered Paper From Canada; Determination</i>	<a href="https://www.federalregister.gov/articles/2015/04/17/2015-08882">https://www.federalregister.gov/articles/2015/04/17/2015-08882</a>
80 FR 45951 August 3, 2015	<i>Supercalendered Paper From Canada: Preliminary Affirmative Countervailing Duty Determination</i>	<a href="https://www.federalregister.gov/articles/2015/08/03/2015-18980">https://www.federalregister.gov/articles/2015/08/03/2015-18980</a>
80 FR 51309 August 24, 2015	<i>Supercalendered Paper From Canada; Scheduling of the Final Phase of a Countervailing Duty Investigation</i>	<a href="https://www.federalregister.gov/articles/2015/08/24/2015-20864">https://www.federalregister.gov/articles/2015/08/24/2015-20864</a>
80 FR 63535 October 20, 2015	<i>Supercalendered Paper From Canada: Final Affirmative Countervailing Duty Determination</i>	<a href="https://www.federalregister.gov/articles/2015/10/20/2015-26634/supercalendered-paper-from-canada-final-affirmative-countervailing-duty-determination">https://www.federalregister.gov/articles/2015/10/20/2015-26634/supercalendered-paper-from-canada-final-affirmative-countervailing-duty-determination</a>



**APPENDIX B**  
**HEARING WITNESSES**



## CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

**Subject:** Supercalendered Paper from Canada

**Inv. No.:** 701-TA-530 (Final)

**Date and Time:** October 22, 2015 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, DC.

### CONGRESSIONAL APPEARANCES:

**The Honorable Susan Collins, United States Senator, Maine**

**The Honorable Sherrod Brown, United States Senator, Ohio**

**The Honorable Amy Klobuchar, United States Senator, Minnesota**

**The Honorable Al Franken, United States Senator, Minnesota**

**The Honorable Angus S. King, Jr., United States Senator, Maine**

**The Honorable Richard M. Nolan, U.S. Representative, 8<sup>th</sup> District, Minnesota**

**The Honorable Bruce Poliquin, U.S. Representative, 2<sup>nd</sup> District, Maine**

### OPENING REMARKS:

Petitioners (**Gilbert B. Kaplan**, King & Spalding LLP)

Respondents (**Thomas J. Trendl**, Steptoe & Johnson LLP)

**In Support of the Imposition of the  
Countervailing Duty Order:**

King & Spalding LLP  
Washington, DC  
on behalf of

Coalition for Fair Paper Imports

**E. Russell Drechsel**, President *and* Chief Executive Officer,  
Madison Paper Industries

**David J. Paterson**, President and Chief Executive Officer,  
Verso Corporation

**Michael P. Johnston**, Vice President Distribution Sales,  
UPM-Kymmene, Inc.

**Michael A. Weinhold**, Senior Vice President of Sales, Marketing  
and Product Development, Verso Corporation

**Paul W. Clancy**, Vice President of Marketing and Business Development,  
Verso Corporation

**Holly R. Hart**, Legislative Director and Assistant to the International  
President, United Steel, Paper and Forestry, Rubber, Manufacturing,  
Energy, Allied Industrial and Service Workers International Union,  
AFL-CIO, CLC

**Michael L. Croteau**, President, United Steelworkers Local 36

**Bonnie B. Byers**, Consultant, King & Spalding LLP

**Dr. Seth Kaplan**, Senior Economic Advisor, Capital Trade Inc.

**Gilbert B. Kaplan** )  
  ) – OF COUNSEL  
**Brian E. McGill** )

**In Opposition to the Imposition of  
Countervailing Duty Order:**

Steptoe & Johnson LLP  
Washington, DC  
on behalf of

*and*

Law Offices of Gary N. Horlick  
Washington, DC  
on behalf of

*and*

Law Offices of Peggy A. Clark  
Washington, DC  
on behalf of

Port Hawkesbury Paper LP (“PHP”)

**Neil De Gelder**, President, Port Hawkesbury Investments Ltd.

**Shawn Lewis**, Vice President, General Counsel *and* Secretary,  
Port Hawkesbury Investments Ltd.

**Michael Ostrowski**, Vice President Supercalendered Sales, West Linn  
Paper Company

**Bob Kralik**, President, Publishing & Catalog, Gould North America

**Jerry Johnson**, Vice President Operations, Publishers Press

**Bruce Malashevich**, President, Economic Consulting Services LLC

**Steven Byers, Ph.D.**, Director of Financial Analysis Services,  
Economic Consulting Services LLC

**In Opposition to the Imposition of  
Countervailing Duty Order (continued):**

**Cara Groden**, Economist, Economic Consulting Services LLC

**Thomas J. Trendl** )  
**Nathan W. Cunningham** )  
 ) – OF COUNSEL  
**Gary N. Horlick** )  
**Peggy A. Clarke** )

Baker & Hostetler LLP  
Washington, DC  
on behalf of

Resolute Forest Products Inc.

**Matthew J. Clark**, Counsel, Government of Québec

**Elliot J. Feldman** ) – OF COUNSEL

**REBUTTAL/CLOSING REMARKS:**

Petitioners (**Bonnie B. Byers**, King & Spalding LLP)

Respondents (**Thomas J. Trendl**, Steptoe & Johnson LLP)



**APPENDIX C**  
**SUMMARY DATA**



**Table C-1**

**SC paper: Summary data concerning the U.S. market, 2012-14, January-June 2014, and January-June 2015**

\* \* \* \* \*



**APPENDIX D**

**TRADE, FINANCIAL, AND PRICING DATA EXCLUDING  
U.S. PRODUCER RESOLUTE USA**



**Table D-1**

**SC paper: Summary data concerning the U.S. market excluding U.S. producer Resolute USA, 2012-2014, January-June 2014, and January-June 2015**

\* \* \* \* \*

**Table D-2**

**SC paper: U.S. producers' commercial U.S. shipments, by grade, excluding Resolute USA**

\* \* \* \* \*

**Table D-3**

**SC paper: Apparent U.S. consumption and markets shares, by grade, excluding Resolute USA**

\* \* \* \* \*

Resolute submitted pricing data for pricing products 1, 2, and 5. Therefore, pricing data for products 3, 4, 6, and 7 do not change when Resolute USA's data are excluded. Therefore, the tables for those products in Part V are not replicated in this appendix.

**Table D-4**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 1<sup>1</sup> excluding sales of domestic product by Resolute USA and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table D-5**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 2<sup>1</sup> excluding sales of domestic product by Resolute USA and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table D-6**

**SC paper: Weighted-average delivered prices and quantities of domestic and imported product 5<sup>1</sup> excluding sales of domestic product by Resolute USA and margins of underselling/(overselling), by quarters, January 2012-June 2015**

\* \* \* \* \*

**Table D-7**

**SC paper: Summary of weighted-average delivered prices for products 1-7 from the United States excluding sales of domestic product by Resolute USA and Canada**

\* \* \* \* \*

**Table D-8**

**SC paper: Instances of underselling/(overselling) and the range and average of margins, by country excluding sales of domestic product by Resolute USA, January 2012-June 2015**

\* \* \* \* \*

**Table D-9**

**SC paper: Financial results of operations of U.S. producers excluding Resolute USA**

\* \* \* \* \*



