

APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping Duties:

On behalf of NewPage Corporation:

JAMES C. TYRONE, Senior Vice President, Sales and Marketing, NewPage Corporation
 DOUGLAS K. COOPER, Vice President, General Counsel and Secretary, NewPage Corporation
 HOLLY HART, Legislative Director, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union (USW), AFL-CIO
 TOM CALDWELL, President, United Steelworkers Local 676, Luke, Maryland
 HARRY STAFFORD, Chief Shop Steward, United Steelworkers Local 676, Luke, Maryland
 KENNETH R. BUTTON, Ph.D., Senior Vice President, Economic Consulting Services, LLC
 REBECCA L. WOODINGS, Consultant, King & Spalding, LLP
 BONNIE B. BYERS, Consultant, King & Spalding, LLP

 GILBERT B. KAPLAN, Esquire
 STEPHEN A. JONES, Esquire
 King & Spalding, LLP
 Washington, D.C.

In Opposition to the Imposition of Antidumping Duties:

On behalf of Unisource Worldwide, Inc., Gold East Paper (Jiangsu) Co., Ltd., Gold Hua Sheng Paper Co., Ltd., PT. Pindo Deli Pulp and Paper Mills, and PT. Pabrik Kertas Tjiwi Kimia Tbk.:

ALLAN R. DRAGONE, Chief Executive Officer, Unisource Worldwide, Inc.
 TERRY E. HUNLEY, External Advisor, Global Paper Solutions, Inc.

 DAVID E. BOND, Esquire
 FRANK H. MORGAN, Esquire
 SCOTT S. LINCICOME, Esquire
 White & Case, LLP
 Washington, D.C.

APPEARANCES: (Cont'd.)

In Opposition to the Imposition of Antidumping Duties:

On behalf of Korea Paper Manufacturers' Association and its members Hankuk Paper Mfg. Co., Ltd., Hongwon Paper Mfg. Co., Ltd., Kyesung Paper Co., Ltd., Namhan Paper Co., Ltd., Shinho Paper Co., Ltd., and Shinmoorim Paper Mfg. Co., Ltd.:

TAEHYON (TED) CHO, Deputy Manager, Moorim USA
DON SHIN, General Manager, Moorim USA
RICK ANDERSON, Vice President of Purchasing,
PaperlinX North America (Spicers Paper and Kelly
Paper)
DANIEL KLETT, Economist, Capital Trade, Inc.

DONALD B. CAMERON, Esquire
JULIE C. MENDOZA, Esquire
Kaye Scholer, LLP
Washington, D.C.

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 MR. CARPENTER: Good morning, and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 antidumping Investigation Nos. 701-TA-444-446 and
7 731-TA-1107-1109 concerning imports of Coated Free
8 Sheet Paper From China, Indonesia, and Korea.

9 My name is Robert Carpenter. I'm the
10 Commission's Director of Investigations, and I will
11 preside at this conference. Among those present from
12 the Commission staff are, from my far right, Diane
13 Mazur, the supervisory investigator; on my right,
14 Debra Baker, the investigator; on my left, Peter
15 Sultan, the attorney/advisor; Nancy Bryan, the
16 economist; Fred Forstall, the industry analyst; and
17 Justin Jee, the auditor.

18 I understand the parties are aware of the
19 time allocations. I would remind speakers not to
20 refer in your remarks to business proprietary
21 information and to speak directly into the
22 microphones. We also ask that you state your name and
23 affiliation for the record before beginning your
24 presentation.

25 Are there any questions?

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1 (No response.)

2 MR. CARPENTER: If not, welcome, Mr. Kaplan.
3 Please proceed with your opening statement.

4 MR. KAPLAN: Thank you. Good morning, Mr.
5 Chairman, and members of the Commission staff. My
6 name is Gilbert B. Kaplan, and I represent the
7 Petitioner and the domestic industry, NewPage
8 Corporation. I'm a partner at King & Spalding and, as
9 I said, I appear today on behalf of Petitioner and the
10 U.S. coated free sheet paper industry.

11 NewPage is based in Dayton, Ohio. It has
12 production facilities in Kentucky, Maine, Michigan,
13 and just a few hours west of us in Luke, Maryland, on
14 the banks of the Potomac River. I am glad that Mr.
15 Forstall and Mr. Honnold were able to visit the Luke
16 mill last Friday.

17 For those of us who spend most of our days
18 behind a desk or computer here in Washington, it's
19 important to get out and realize the important
20 contribution of manufacturing to the United States'
21 economy. As they saw, Newpage's Luke mill is a vital
22 part of the local community. It is ideally situated
23 as far as access to raw materials, energy and water.

24 The mill has benefitted from consistent
25 investment over time both to maximize efficiency and

1 reduce cost. These investments just in recent years
2 have totaled approximately \$375 million, and yet
3 despite all these efforts the impact of low-priced,
4 imported coated free sheet paper from China, Indonesia
5 and Korea will force the closure at the end of 2006 of
6 a substantial portion of the mill's capacity.

7 Also, and even more unfortunately, the
8 shutdown of the No. 7 paper machine will entail the
9 layoff of a substantial portion of the mill's
10 workforce. Our witnesses will talk about Luke
11 shortly.

12 Keep in mind that the situation facing Luke
13 is repeated at coated free sheet mills across the
14 country. Early in 2007, NewPage will be taking
15 extended downtime, accompanied by workforce furloughs,
16 at its Rumford, Maine, mill.

17 We know from public sources that another
18 large U.S. producer, Sappi Fine Paper, closed two
19 paper machines during the period covered. Pasadena
20 Paper in Texas closed completely in 2005, a whole
21 company wiped out. Press sources cite to hundreds of
22 associated layoffs at these companies.

23 Industry data available to us from both RISI
24 and AF&PA make it quite clear that the domestic coated
25 free sheet industry has been unable to take advantage

1 of rising demand with the subject imports taking all
2 and more of the growth of the U.S. market during the
3 period in question.

4 During just the first three quarters of
5 2006, imports from China, Indonesia and Korea surged
6 more than 50 percent -- 50 percent -- compared with
7 the same period in 2005. As has been publicly
8 reported, domestic producers hard hit by rising costs
9 -- we all know what has happened to energy costs --
10 have been trying to raise prices during 2006, but
11 these efforts have failed to achieve any substantial
12 relief in the face of consistent underselling by the
13 subject imports.

14 During today's presentation and in our brief
15 we will address all the legal and technical questions
16 which may be involved in this case, including like
17 product, cumulation, related parties and
18 negligibility.

19 On the question of negligibility of imports
20 from Indonesia, right now let me point out that these
21 imports exceeded four percent in the last month and
22 have been moving up dramatically. We had no choice
23 but to file when we did. Had we waited, the overall
24 impact of imports from China, Indonesia and Korea
25 would have overwhelmed this already beleaguered

1 industry.

2 On the related party question, we are aware
3 from public sources that some U.S. producers qualify
4 as related parties. It's difficult to imagine that
5 any U.S. producer has been spared from the effects of
6 the unfair imports in the market. However, we will be
7 reserving final judgment as to questions regarding
8 exclusion of any related parties until we have
9 reviewed all the questionnaire data.

10 We hope and expect that your decision will
11 follow on a decision by the Department of Commerce to
12 initiate a countervailing duty investigation regarding
13 imports from China. We have not heard what they're
14 doing. Perhaps you have.

15 You cannot read the news about trade or the
16 U.S. economy without appreciating that the U.S.-China
17 trade balance is terribly askew. The trade deficit
18 with China this year will be the highest with any
19 single country in the history of our country, the
20 United States. This industry is the perfect example
21 of what has happened as a result of Chinese dumping
22 and Chinese subsidies and the consequent growth of
23 imports into the United States.

24 We hope that the Department will decide to
25 investigate subsidies to Chinese coated free sheet

1 producers. We look forward to this case being one
2 step toward addressing the harm that Chinese
3 Government intervention has caused so many U.S.
4 manufacturing industries and their workers.

5 Thank you very much for your time and
6 attention this morning.

7 MR. CARPENTER: Thank you, Mr. Kaplan.

8 Mr. Cameron? We know who you are.

9 MR. CAMERON: I was afraid of that answer.
10 Mr. Carpenter, members of the staff, thank you for the
11 opportunity to appear today. My name is Don Cameron.
12 I am appearing on behalf of Korean Respondents, as
13 well as on behalf of all Respondents for the purposes
14 of this opening.

15 According to the domestic industry, it's
16 being materially injured by imports of coated free
17 sheet paper from Korea, China and Indonesia. In other
18 words, we might as well just wrap this sucker up right
19 here because we have imports from Asia and they must
20 be injuring the U.S. industry. I mean, it's kind of a
21 done deal, isn't it?

22 But is that really so? NewPage claims to
23 represent the entire industry, and yet no other
24 domestic producer has joined in the petition. That's
25 very curious.

1 While we don't doubt that there are other
2 producers who would gladly like to see import
3 competition restricted, it does appear from the public
4 statements of the chairmen of Stora Enso and Sappi
5 that they don't look at dumping as the cause of the
6 problems in this market. Rather, they are focused on
7 restructuring and the fact that the North American
8 market for coated free sheet is good in 2006.

9 So is this case about the domestic industry,
10 or is this case about NewPage and the desire of an
11 investment group to try and cash in on an IPO?

12 So what else is happening in this market?
13 Domestic shipments are up. They've been up throughout
14 the period, and it appears from the public data that
15 this industry is operating at virtually full capacity.
16 Domestic profitability has increased significantly
17 within the last year, especially compared to prior
18 years. Subject imports are up, as are nonsubject
19 imports. Domestic prices are up.

20 But wait a second. Isn't that
21 counterintuitive? I mean, we've all been here before.
22 We do these cases on a regular basis. If imports are
23 up, shouldn't domestic prices be going down? The
24 answer is yes, but only if the imports were having the
25 impact claimed by NewPage, and they aren't.

1 Imports are a feature of this market because
2 U.S. producers lack the capacity to supply the market.
3 Moreover, NewPage has neglected to tell this
4 Commission about the distinction between web rolls,
5 which are produced by U.S. producers, and sheets,
6 which are produced domestically and also imported from
7 Asia.

8 Printers using web offset printers cannot
9 use sheets. This is significant because we estimate
10 that approximately 70 percent of the U.S. market
11 appears to be web rolls, and subject imports supply
12 virtually none of this product. Rather, imports from
13 Korea, China and Indonesia are concentrated almost
14 exclusively on the sheet segment of the market.

15 Again, the attenuated nature of the
16 competition between subject imports and domestic
17 producers again raises question about NewPage's
18 motives and whether imports indeed have had the impact
19 claimed by NewPage. This attenuated competition helps
20 explain the lack of any correlation between increased
21 imports on the one hand and the improved condition of
22 the U.S. industry on the other.

23 Simply stated, the market is currently
24 strong, and the restructured domestic industry is
25 succeeding. There's nothing wrong with that. Subject

1 imports have entered in 2006 at higher levels, but
2 domestic producers have increased prices, and U.S.
3 producers have become profitable. In fact, the
4 profitability data is striking. This is not the
5 pattern of an industry injured by imports.

6 One last thought. When NewPage recently
7 announced that it was shutting down a 1904 CFS coated
8 free sheet facility line in Maryland, it attributed
9 the shutdown to subject imports. Now, I ask you. Do
10 you really believe that subject imports were all that
11 stood between a 100-year-old facility and success, or
12 does it make more sense that this plant was shut down
13 to give NewPage "a lower cost and more efficient
14 coated paper platform," which is what MeadWestvaco
15 said about the Luke, Maryland, facility in 2002 when
16 it had scheduled it for a permanent shutdown.

17 This isn't a close call, but we call this to
18 your attention because NewPage's claim regarding this
19 facility is no more credible than the rest of their
20 story, and I would like to add with respect to we've
21 heard this morning already about China, and we've got
22 a new case on China and subsidies on China.

23 That's very nice, but the purpose of this
24 hearing isn't to be a stalking horse for a domestic
25 industry inquiry into whether or not the Commerce

1 Department should or should not do an investigation of
2 subsidies on China.

3 The issue here before this Commission is
4 whether or not there is injury caused by imports of
5 subject merchandise, and the fact is that there is
6 very little indication that there is. That's the
7 issue before this Commission.

8 One last thought. You guys have data in
9 this case. This is not like a number of cases where
10 you don't quite get enough data and we have to go to
11 the final because we're getting a perfected database.

12 We agree that things aren't perfect, but you
13 have enough data to make a decision in this case, and
14 we think that the data is clear. This industry, if
15 we're going to call NewPage an industry, has not made
16 their case that subject imports have created a problem
17 for the industry at large, only one of whom is sitting
18 here at this table.

19 Thank you.

20 MR. CARPENTER: Thank you, Mr. Cameron.

21 Mr. Kaplan, would you please bring your
22 panel forward at this time?

23 MR. KAPLAN: Thank you, Mr. Chairman, again,
24 and members of the Commission staff. I think we'll
25 begin by introducing the members of our panel.

1 I'll start with Mr. Tom Caldwell, president
2 of the union in Luke, Maryland; Harry Stafford, who is
3 the shop steward in Maryland; Ken Button, who is with
4 DCS; my partner, Steve Jones; Jim Tyrone, vice
5 president at NewPage; Doug Cooper, general counsel and
6 vice president at NewPage; Rebecca Woodings, an
7 economist from our group at King & Spalding; and Holly
8 Hart will be here we understand in a minute. Her
9 train has made progress.

10 With that I'd like to turn it over to Mr.
11 Tyrone, who will begin our presentation this morning.

12 MR. TYRONE: Good morning. As Gil
13 indicated, my name is Jim Tyrone. I am senior vice
14 president of Sales and Marketing for NewPage
15 Corporation. I've been in that position since the
16 company was founded in 2005, and prior to that I was
17 senior vice president for Sales and Marketing with the
18 MeadWestvaco Papers Group.

19 I was vice president of Sales and Marketing
20 for Mead's Paper Division before the merger with
21 Westvaco in 2002 and president of Mead's Fine Paper
22 Division prior to that. I have served in various
23 sales and marketing and general management positions
24 in the paper industry since 1990 with my primary focus
25 and experience in coated papers.

1 I am pleased to have the opportunity to
2 speak with you today. This is a critical case for
3 NewPage, its employees and the communities in which we
4 operate.

5 Subsidized and dumped imports from China,
6 Indonesia and Korea have severely injured the domestic
7 industry and are threatening the industry with further
8 injury. Although the entire coated free sheet
9 industry has been injured, my presentation today will
10 focus on the injuries suffered by NewPage.

11 NewPage was founded in May of 2005, as I
12 indicated earlier, when the Printing and Writing
13 Papers Group of MeadWestvaco was spun off to create a
14 new company focused only on coated papers. The
15 transaction included five fully integrated pulp and
16 paper mills and 6,300 employees.

17 One of those mills in Chillicothe, Ohio, was
18 sold in early 2006. Thus, today we have four mills --
19 one located in Luke, Maryland; Wickliffe, Kentucky;
20 Escanaba, Michigan; and Rumford, Maine -- and roughly
21 4,300 employees.

22 Our total production capacity at the mills
23 is approximately 2.2 million tons, which makes us the
24 largest producer of coated paper in the United States.
25 We are exclusively a U.S. producer. We have no

1 production facilities in any other countries, and we
2 do not import and resell paper from other countries.

3 NewPage was founded with a great deal of
4 optimism about the future. In addition to being the
5 largest coated paper manufacturer in the United
6 States, we have efficient, state-of-the-art mills,
7 skilled and dedicated employees, strong relationships
8 with our customers, strategically located mills and
9 distribution facilities and growing markets for our
10 products.

11 Although there had been significant problems
12 with low-priced imports before the spinoff, we were
13 hopeful that the situation was improving. Dumped and
14 subsidized imports from China, Indonesia and Korea
15 have increased by over 50 percent so far this year at
16 prices that are underselling NewPage and other
17 domestic producers by a large margin and distorting
18 the market.

19 As the market situation continued to
20 deteriorate over the summer and into the fall, we
21 decided we needed to take action by filing these
22 petitions to prevent our business from being destroyed
23 by unfair import competition.

24 Before I talk about the market for coated
25 free sheet and the injury suffered by the domestic

1 industry because of the imports, I'd like to briefly
2 discuss the product.

3 Coated free sheet is a distinct category of
4 paper. It is manufactured from wood pulp that is
5 broken down chemically instead of mechanically. This
6 results in a cleaner, stronger and more durable
7 product. By adding a coating a kaolin and other
8 materials, the paper obtains enhanced printing
9 performance characteristics and appearance.

10 The graphic reproduction on coated paper is
11 significantly superior to uncoated paper. The
12 critical features that provide the highest quality
13 printing include smooth surface quality, shade,
14 brightness and opacity. As a result, coated free
15 sheet is the cleanest, strongest, most durable and
16 best paper for printing applications there is.

17 Coated free sheet is the paper of choice for
18 publishers of text with print applications that
19 require the cleanest, brightest, most accurate
20 reproduction. Thus, many corporate annual reports,
21 magazine covers, promotional pieces and brochures with
22 heavy photographic content use coated free sheet to
23 provide to clearest reproduction and the brightest
24 colors.

25 In addition, it is the paper of choice for

1 books and other materials that need to be durable and
2 long-lasting without yellowing such as yearbooks and
3 coffee table art books.

4 I've brought a few samples to help
5 illustrate some of the differences between coated free
6 sheet and coated groundwood, as well as to show you
7 some of the practical applications of coated free
8 sheet.

9 The first sheet that I hold up here is a
10 coated free sheet. You can see that it is quite
11 bright and white. I contrast that with a coated
12 groundwood, which is not nearly as bright. Also, the
13 coated free sheet tends to be a heavier basis weight.
14 The coated groundwood tends to be a lighter basis
15 weight.

16 This is not the brightest and heaviest free
17 sheet, nor is it the least bright and lowest weight
18 groundwood, but I think it portrays the difference
19 between the two.

20 And then, three specific examples to show
21 you of practical application. Here's a magazine that
22 we're all very familiar with that relies heavily on
23 quite vibrant reproductions of what's going on in the
24 world and for which people will hold onto for years
25 and years, so durability is quite important in that case.

1 Here is a catalog of a high dollar value
2 item that relies on paper to help connote the quality
3 of the product by use of the heavier basis weight and
4 the bright white sheet.

5 Here is a book, one of the table art books
6 that we talked about that you might find on a coffee
7 table in someone's home, that uses the bright white
8 paper and the smooth surface to portray the artwork
9 accurately and also for it to last without yellowing.

10 Other types of paper, such as coated
11 groundwood paper which I just mentioned which NewPage
12 also produces, do not possess the same physical and
13 performance characteristics. Coated groundwood paper
14 contains more than 10 percent by weight of groundwood
15 content. Groundwood pulp is produced mechanically by
16 physically grinding the wood to produce pulp instead
17 of separating the fibers chemically. As a result,
18 groundwood paper contains more impurities and is not
19 as bright as free sheet.

20 While there is some overlap in basis weight
21 offering, groundwood fiber is not offered in the
22 higher basis weights that are associated with higher
23 quality. It also possesses a rougher printing
24 surface. It is less durable and yellows over time, so
25 is not suitable for documents and publications that

1 need to be archived.

2 A paper mill's ability to produce either
3 coated groundwood paper or coated free sheet paper is
4 very much tied to its pulp making assets. In
5 NewPage's case, all of our integrated mills are
6 designed to produce coated free sheet.

7 In fact, two of our mills -- Luke, Maryland,
8 and Wickliffe, Kentucky -- produce only coated free
9 sheet. They cannot produce coated groundwood paper
10 because they do not have groundwood pulping assets,
11 which would be very expensive to install. At the same
12 time, there is no ready commercial source of
13 groundwood pulp, so purchasing groundwood pulp to
14 manufacture groundwood paper is also not an option.
15 The choice for those facilities is to make coated free
16 sheet paper or perish.

17 Our other two mills in Escanaba, Michigan,
18 and Rumford, Maine, produce both groundwood and free
19 sheet coated paper. Each has both free sheet pulping
20 assets and groundwood pulping assets. However, they
21 do not have the flexibility to switch to coated
22 groundwood paper production only.

23 The production processes for the two
24 products -- coated free sheet and coated groundwood --
25 are very different. Imports from China, Indonesia and

1 Korea have focused on the coated free sheet market.
2 There are very few, if any, imports of groundwood
3 paper from these countries because there is limited
4 groundwood pulp supply.

5 Korea was first, benefitting from massive
6 government subsidies, to become the leading foreign
7 supplier of coated free sheet to the U.S. market. The
8 U.S. industry has been concerned about the competitive
9 impact of subsidized Korean imports for some time, and
10 those imports have continued to increase.

11 In fact, starting in the early 2000s several
12 coated free sheet paper manufacturers, including
13 NewPage's predecessor, MeadWestvaco, sponsored efforts
14 by the American Forest and Paper Association, the
15 trade association for America's forest products
16 companies, to lobby the U.S. trade representative to
17 negotiate with the Korean Government to stop unfair
18 subsidies for coated free sheet made in their country.
19 Unfortunately, these efforts did not yield the desired
20 result.

21 More recently, significant capacity has been
22 installed in China, also benefitting from massive
23 subsidies, and the imports from China have increased
24 dramatically, especially in 2005 and 2006.

25 Finally, Indonesia joined in, also

1 benefitting from significant subsidies. Imports from
2 Indonesia have exploded in 2006, and there is no
3 slowdown in sight.

4 The coated free sheet imported from these
5 countries is virtually identical to what NewPage and
6 other U.S. manufacturers produce. Producers in the
7 subject countries use the same types of machines and
8 same processes to produce coated free sheet. They
9 export coated free sheet primarily in sheet form, but
10 also in roll form, coated on one side and coated on
11 two sides, and in all the standard weights,
12 brightnesses and finishes.

13 We compete against these imports all over
14 the United States with all types of customers. The
15 imports are pervasive in the market, and no segment of
16 the market is insulated from import competition.

17 Because of the similarities between the
18 products we make and the imports from China, Indonesia
19 and Korea, price is the most important factor in the
20 market. The subject country producers have been able
21 to gain significant market share quickly because they
22 are selling coated free sheet at unbelievably low
23 prices. The subject imports are routinely
24 underselling NewPage and other U.S. producers by large
25 margins.

1 Demand for coated free sheet has been
2 healthy. The market is growing consistent with
3 population growth and GDP growth. Unfortunately,
4 NewPage and other U.S. producers are not benefitting
5 from the market growth. It is the imports from China,
6 Indonesia and Korea that have captured this market and
7 increased their share of the growing U.S. market.

8 Subject imports have increased
9 significantly. From 2003 to 2005, subject imports
10 from China, Indonesia and Korea have increased by 20
11 percent. They increased an additional 50 percent
12 during the first nine months of this year. The market
13 share of the subject import volume has increased by 58
14 percent from only 9.0 percent in 2003 to 14.2 percent
15 during the first nine months of 2006.

16 The average unit value of imports is well
17 below the prices at which NewPage can profitably sell
18 coated free sheet. In addition to the benefits
19 provided by subsidies, producers in China, Indonesia
20 and Korea are selling below their cost of production
21 to unfairly win market share.

22 Although we also compete against imports
23 from Canada and Europe, it is clearly the imports from
24 the subject countries that have caused the problem in
25 the marketplace. Imports from China, Indonesia and

1 Korea have undersold imports from Canada and Europe
2 and have replaced those imports in the market as well
3 as domestic production. Thus, imports from China,
4 Indonesia and Korea have become a much larger
5 percentage of total imports.

6 Several mills in Canada have ceased
7 production in recent years, unable to compete with the
8 coated free sheet from China, Indonesia and Korea in
9 the U.S. market. Thus, it is very unlikely that
10 imports from Canada and Europe would replace the
11 imports from China, Indonesia and Korea if these
12 petitions were successful. Instead, the domestic
13 industry would regain its lost market share and
14 profitability.

15 Paper machines are large, complex machines
16 that must be operated continuously. It is very
17 inefficient and costly to turn them on and off.
18 Therefore, we organize our manufacturing processes so
19 that our paper machines and our coaters run
20 continuously throughout the year.

21 Production and yield decline if the machines
22 are stopped for any reason. The need for continuous
23 production makes U.S. producers highly vulnerable to
24 underselling. It is very costly and disruptive for us
25 to stop production when prices fall and then resume

1 when prices increase.

2 We believe it is for that same reason that
3 the producers in Korea, China and Indonesia sell into
4 this country at such low prices. They do not want to
5 take machines up and down, so they continue to run,
6 selling their excess production into this country at a
7 loss in order to maintain their productivity.

8 Because we are focused on making an
9 acceptable financial return and we do not have
10 subsidies from the U.S. Government to support us, we
11 cannot keep plants running if merchandise being
12 produced cannot be sold at a profit.

13 On December 2 we announced plans to
14 permanently shut down our No. 7 paper machine at our
15 mill in Luke, Maryland. This is a machine in which we
16 have continuously invested millions of dollars and
17 which has been regularly upgraded.

18 We are being forced to shut down capacity
19 here because of low-priced imports from China,
20 Indonesia and Korea. According to data from RISI, the
21 capacity increases in China alone were almost two
22 million tons over the past three years. This shutdown
23 will result in the loss of approximately 130 jobs in
24 Luke. It is our companies and our workforce that are
25 paying the cost for this unfair trade.

1 In addition, we also announced that we must
2 shut down one of our machines at our mill in Rumford,
3 Maine, for the first three months of 2007 because of
4 low-priced import competition. Unfortunately, at
5 least 50 more U.S. workers will temporarily lose their
6 jobs because of this unfair trade.

7 Market conditions determine the price for
8 coated free sheet. Because of subject import
9 competition, on many occasions we have been forced to
10 sell our products at prices well below production cost
11 in order to keep our plants running. We cannot do
12 this indefinitely.

13 Not only are we under intense price
14 pressure, but our costs have also increased
15 significantly. We have announced price increases and
16 tried to increase our prices, but we have been unable
17 to increase prices sufficiently to cover our increased
18 cost.

19 The announced price increases simply have
20 not stuck because the subject imports are available at
21 much lower prices. Any small improvement in market
22 prices in 2006 has been long overdue and is nowhere
23 near sufficient to return us to financial health.

24 As prices have fallen or stagnated, our
25 costs have continued to increase. As the Commission

1 is no doubt aware, petrochemical base costs have
2 skyrocketed during the past few years. NewPage
3 estimates that its cost increased by \$3 million for
4 every \$1 increase in the price of a barrel of crude
5 oil.

6 Of course, that works in reverse as well,
7 but the price of crude oil has more than doubled from
8 about \$30 a barrel in 2003 to about \$60 a barrel in
9 September 2006.

10 We have taken a number of steps to save
11 costs from reducing the size of the administrative
12 staff to various process improvements that have
13 increased our efficiency and productivity. Despite
14 the increased productivity, subject imports have
15 prevented us from increasing prices sufficiently to
16 cover our increase in costs.

17 The Commission is no doubt aware that there
18 is a very distinct seasonality in this business.
19 Volume and pricing are almost always best in the third
20 quarter because customers increase their purchases in
21 anticipation of demand for increased production
22 promotion and advertising, holiday books and catalogs
23 associated with the holidays and gift giving.

24 As in 2005, we did a little bit better in
25 the third quarter of this year than in the first and

1 second quarters because of slightly higher prices this
2 year, but it would be incorrect and misleading to
3 argue that the domestic industry is healthy because
4 market prices have increased slightly this year.

5 To the extent market prices have shown
6 marginal improvement this year, the increase has not
7 been nearly sufficient to return the industry to
8 profitability. Underselling by subject imports has
9 prevented us from increasing prices as much as
10 necessary for us to achieve acceptable financial
11 returns. Market prices remain below where they need
12 to be on a sustained basis to enable domestic
13 producers to earn a fair return on their sales and
14 investments.

15 NewPage has lost millions of dollars in
16 sales to low-priced imports from China, Indonesia and
17 Korea. The only reason we lost these sales was the
18 lower price offered by importers. Similarly, we have
19 been forced to reduce our prices to retain business
20 with certain accounts and have lost millions of
21 dollars of revenue as a result even where we have been
22 able to retain the business.

23 My understanding is that what has happened
24 at NewPage is representative of what has occurred
25 throughout the coated free sheet industry. Despite

1 modestly increasing demand, production capacity has
2 declined throughout the industry. A number of coated
3 free sheet paper machines have been taken out of
4 service since 2003, including the one we are shutting
5 down in our Luke mill in January.

6 These shutdowns have resulted in the loss of
7 approximately 500,000 tons of capacity throughout the
8 industry, which represents about 10 percent of the
9 coated free sheet shipments made by U.S. manufacturers
10 in 2005. It has also resulted in almost 1,000
11 employees having been laid off.

12 One small company, Pasadena Paper, ceased
13 production entirely in 2005 because of market
14 conditions. Workers at several U.S. coated free
15 sheet, including workers at our Luke, Maryland,
16 facility, have been certified for trade adjustment
17 assistance benefits since 2003.

18 Financially the industry is clearly
19 suffering. As already mentioned, prices have not been
20 able to keep pace with increasing cost because imports
21 are preventing necessary price increases. We know
22 what our own financial situation is, and it is dire.

23 Publicly available information about other
24 U.S. producers, however, shows that their financial
25 conditions are the same or worse than ours.

1 Unfortunately, what is going on in the subject
2 countries leads us to believe that the worst is yet to
3 come.

4 Production capacity for coated free sheet
5 continues to increase. Huge subsidies have been
6 provided and are being provided to build or sustain
7 paper mills in China, Indonesia and Korea and to
8 facilitate their exports to the United States.

9 There are antidumping orders and
10 investigations on coated free sheet in several other
11 countries, which makes it even more likely that coated
12 free sheet will be exported to the United States. We
13 see nothing to indicate that the surge in imports from
14 these countries will not continue indefinitely.

15 In conclusion, we need your help. NewPage
16 is enormously proud of its paper mills, its dedicated
17 employees and its business. We can compete
18 successfully against anyone on a level playing field,
19 but when the market becomes so distorted by illegal
20 subsidies and dumping that we can no longer compete we
21 were forced to file these petitions and seek to
22 restore fair competition.

23 On behalf of NewPage and its over 4,300
24 employees, I respectfully ask the Commission to make
25 an affirmative determination in the preliminary

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1 investigation and allow the Department of Commerce to
2 proceed with its antidumping and countervailing duty
3 investigations.

4 Thank you.

5 MR. KAPLAN: Thank you, Mr. Tyrone.

6 I would now like to introduce Holly Hart,
7 who arrived dramatically a few minutes ago and will
8 speak for the Steelworkers Union. Ms. Hart?

9 MS. HART: Thank you, and I apologize for my
10 late arrival. I'm a VRE commuter, and sometimes
11 that's as unreliable as trying to drive up 95.

12 Thanks for the opportunity to appear before
13 you today. My name is Holly Hart. I'm the
14 legislative director of the United Steel, Paper and
15 Forestry, Rubber, Manufacturing, Energy, Allied
16 Industrial, and Service Workers Union, better known as
17 the United Steelworkers or USW.

18 The USW is the single largest industrial
19 union in the United States, and we're the dominant
20 union representing 275,000 workers in the paper and
21 forestry industries. This is following our April 2005
22 merger with the Paper, Allied Industrial, Chemical,
23 and Energy Workers International Union or PACE as it
24 was commonly known.

25 Our figures show that 95 percent of the

1 coated free sheet paper making capacity in the United
2 States is unionized, and we represent over 90 percent
3 of the coated free sheet capacity in mills. I mean in
4 mills where coated free sheet is made, we represent 90
5 percent of the workers.

6 The USW represents workers in pulp and paper
7 mills at the following facilities: Appleton Coated in
8 Combined Locks, Wisconsin; Bowater in Catawba, South
9 Carolina; Glatfelder in Spring Grove, Pennsylvania;
10 International Paper in Courtland, Alabama; NewPage
11 Corporation in Wickliffe, Kentucky, Rumford, Maine,
12 Luke, Maryland, and Escanaba, Michigan;

13 Sappi Fine Paper in Skowhegan, Maine,
14 Muskegon, Michigan, and Cloquet, Minnesota; SMART
15 Papers in Hamilton, Ohio; Stora Enso in Kimberly,
16 Wisconsin, and Wisconsin Rapids, Wisconsin; and Wausau
17 Paper in Jay, Maine, among others.

18 The USW strongly supports these cases on
19 coated free sheet paper. Imports of coated free sheet
20 paper from China, Indonesia and Korea have increased
21 significantly over the past three years and have been
22 coming into the United States at prices that have hurt
23 the profitability of U.S. producers.

24 Our research shows that Chinese, Indonesian
25 and Korean producers are able to undersell U.S.

1 producers and depress prices at least in part because
2 of the huge subsidies that they receive from their
3 governments.

4 Price underselling by Chinese, Indonesian
5 and Korean producers has contributed to the closure of
6 several production lines and significant layoffs in
7 the United States since 2003 that have affected our
8 members.

9 These include an 85,000 ton paper mill owned
10 by Sappi Fine Paper in Westbrook, Maine, in November
11 of 2003; a 150,000 ton paper machine and a 110,000 ton
12 pulp mill owned by Sappi Fine Paper in Muskegon,
13 Michigan, in July of 2005; and, most recently, a 100
14 (sic) ton NewPage production line in Luke, Maryland,
15 which was just announced at the beginning of November.

16 NewPage also announced that it would be
17 shutting down a machine in its Rumford facility in
18 early 2007. Pasadena Paper in Houston, Texas, closed
19 its Houston mill and went out of business entirely in
20 October of 2005.

21 In addition to these job losses caused by
22 the machine and mill closures, there have been
23 numerous other layoffs in the sector. One such
24 example was at SMART Papers LLC mill in Hamilton,
25 Ohio, where the employer sold a product line to

1 MeadWestvaco Corporation in March of 2004. Even
2 though SMART Papers retained the paper machine, the
3 sale resulted in the loss of 60 jobs at the mill.

4 All told, since 2003 this has resulted in a
5 reduction of coated free sheet capacity in this
6 country of 455,000 tons, and it has cost the industry
7 nearly 1,000 jobs. In fact, since 2002 we estimate
8 that at least 2,800 workers in coated free sheet mills
9 have been laid off due to mill or machine closures.

10 Just let me talk in a little more detail
11 about the impact on union members in just one
12 location, and that's Muskegon, Michigan, where Sappi
13 laid off the majority of the workforce at the mill
14 there. Nearly 400 people were thrown on the local job
15 market all at once. Many workers and their families
16 had to move away from their friends, from their
17 families, and most who did find work, whether it was
18 in Muskegon or elsewhere, had to accept lower paying
19 positions and in many cases with substantially less
20 pay and no benefits.

21 Even these closures don't tell the whole
22 story with respect to the impact of the low-priced
23 Chinese, Korean and Indonesian imports on workers in
24 this industry. The poor profitability of our American
25 coated free sheet producers has meant the companies

1 have only offered small wage increases that are
2 insufficient to keep up with the cost of inflation or
3 cost of living, and the companies have also made
4 demands for pension reductions and increases in the
5 shares that the workers must pay for their healthcare
6 benefits. Other benefits have also been affected.

7 The decline in jobs and benefits for
8 American coated free sheet workers is directly tied to
9 the declining profitability of the companies for which
10 they work. The two largest coated free sheet
11 producers in America, NewPage and Sappi, have suffered
12 consistent losses as a result of depressed CFS
13 pricing.

14 You've heard from NewPage the impact of the
15 dumping and subsidized imports from subject countries
16 on their earnings and profitability, but others have
17 been affected as well. Sappi Fine Paper of North
18 America, which produces coated free sheet almost
19 exclusively in its North American mills, has not been
20 profitable for three years.

21 In fiscal year 2004, Sappi North American
22 operations suffered an operating loss of \$92 million,
23 representing seven percent of sales. In 2005, Sappi
24 losses widened to \$269 million, representing over 18
25 percent of sales and reflecting the shutdown of the

1 CFS pulp and paper mill in Muskegon.

2 Despite its two mill closures and other
3 efforts to reduce costs, Sappi is still unprofitable
4 in its recently concluded fiscal year of 2006 when it
5 recorded an operating loss of \$16 million,
6 representing 1.1 percent of sales.

7 We believe that there have been similar
8 losses at Stora Enso, International Paper and Appleton
9 Coated, as well as other coated free sheet producers
10 in America.

11 In fact, another American coated free sheet
12 producer, SMART Paper, which had closed down its paper
13 machine at its Hamilton, Ohio, facility in 2004, filed
14 for Chapter 11 bankruptcy protection in March of this
15 year. SMART is one of the largest employers in
16 Hamilton, Ohio, and employs 450 people.

17 I also want to emphasize that once a worker
18 is laid off from a coated free sheet mill it's hard to
19 find new employment. Generally speaking, jobs in the
20 paper industry aren't being created at this point and
21 so there are very few openings in the industry.

22 Quite often the town or the county in which
23 the facility is located is a one-locality industry.
24 This means that even if very few new jobs in the
25 industry are available the laid off workers either

1 have to commute very long distances or move to another
2 location to take a job. This disrupts generations of
3 families in small, semi-rural towns throughout
4 America.

5 Furthermore, production workers in the paper
6 industry who have changed with the times and upgraded
7 their skill levels through their careers have no real
8 documentation of their extensive skills. As a result,
9 when and if they do find a new job they are often
10 forced to start at the bottom.

11 Finally, a majority of workers in the mill
12 sector of the industry are over 50 years of age, and
13 the difficulties of workers in my age bracket of
14 obtaining reemployment are well known.

15 Coated free sheet producers in China, Korea
16 and Indonesia have contributed significantly to the
17 global glut in the coated free sheet capacity. Major,
18 new state-of-the-art facilities that make coated free
19 sheet have opened in China in the past few years, and
20 many more are under construction or on the drawing
21 board.

22 Several large and new coated free sheet
23 machines have been brought on line in Korea in the
24 past 15 years. There are five CFS paper machines in
25 three mills in Indonesia that date from the 1990s. We

1 believe the capacity in all three countries is well in
2 excess of their domestic demand.

3 I have stumbled over my numbers and
4 statistics a little bit, but the real story here is
5 the people. That's who I represent; the men and women
6 that I represent that are here because they're only
7 trying to provide for their families and make a decent
8 living by working hard and playing by the rules.
9 Meanwhile, our trading partner are not playing by the
10 rules, and this has real consequences for real people.

11 Thanks for allowing me to present their case
12 before you today.

13 MR. KAPLAN: Thank you very much, Ms. Hart.

14 We are now going to hear from Tom Caldwell,
15 who is the president of the United Steelworkers local
16 in Luke, Maryland. Mr. Caldwell?

17 MR. CALDWELL: Good morning again. My name
18 is Tom Caldwell, and I am the president of Local 676
19 USW. Local 676 represents the workers at the Luke
20 mills, the Luke NewPage mill in Luke, Maryland.

21 The USW is commonly known as United
22 Steelworkers, as indicated by Ms. Hart, and also
23 represents hundreds of thousands of paper and forestry
24 product workers. I'm glad she's the one that gave you
25 the full name of our union because I don't think I

1 could have got all that out.

2 My position as Luke mill is a sheeter
3 operator. I operate a high speed Jagenberg sheeter
4 that converts sheeter rolls into sheet form coated
5 presheet. That puts me on the front line as far as
6 I'm concerned about which these imports are most
7 affecting in the sheet form.

8 I've been with the mill for 37 years,
9 starting in 1969. With me today is Harry Stafford,
10 who is chief shop steward for our local. His position
11 is hourly safety director, and he's been in the mill
12 19 years as well.

13 The Luke paper mill produces only coated
14 free sheeted paper and currently employs 1,080
15 employees. Our local has been notified by management
16 that 130 positions will be eliminated December 31 with
17 a permanent shutdown of the No. 7 paper machine.
18 That's more than 100 families that will lose a
19 substantial portion of their household income next
20 year, possibly their health insurance and possibly
21 their home.

22 The Luke mill is the largest private
23 employer in Allegany County, Maryland. In fact, it
24 also draws workers from both West Virginia and
25 Pennsylvania. It's going to be very difficult for our

1 members who are laid off to find jobs in the area.

2 Just as an example, an internet site like
3 CareerBuilders.com lists less than 10 jobs in the
4 extended area. That includes the Cumberland,
5 Maryland, area. Most of these 10 are medical services
6 or food service; not one in manufacturing.

7 At Luke our members know how to change and
8 adapt. We've seen four ownership changes just in
9 recent history. We've seen our ownership change from
10 Westvaco Corporation to MeadWestvaco in 2002 and then
11 from MeadWestvaco to NewPage in 2005.

12 The mill has been around since 1888, but our
13 facilities have been constantly modernized over time.
14 Recent investments at our Luke mill has been over \$350
15 million. Our local has always worked to improve
16 productivity and reduce cost.

17 During these past few very difficult years
18 for our industry it's been a priority at Luke for both
19 labor and management to reduce cost. The machine
20 shutdown and layoffs announced by NewPage in 2007 are
21 due to continued low prices for our product as a
22 result of rising imports from China, Indonesia and
23 Korea.

24 That's why I'm here today to appeal to you
25 to address these issues. As in any company, layoffs

1 always hit the youngest people first, people with
2 families. I've been through this before as president
3 of our local, and it's extremely difficult to face
4 again.

5 I will mention that a second NewPage mill in
6 Rumford, Maine, will also be taking a hit next year.
7 A coated free sheet paper machine at that mill will be
8 shut down for what is intended to be a temporary
9 period, but this is also because of market conditions.
10 Fifty workers at that mill will face furloughs for at
11 least three months.

12 In conclusion, our U.S. coated free sheet
13 mills are highly efficient. Our workforce is second
14 to none. We are faced, however, with foreign
15 competition which receives large government subsidies
16 and who dump into our market.

17 On behalf of my local, along with the United
18 Steelworkers members of our NewPage coated free sheet
19 mills, I'm asking the United States International
20 Trade Commission to make an affirmative determination
21 in these investigations and to allow duties to level
22 the playing field with China, Korea and Indonesia for
23 the future of the industry and its workers.

24 I appreciate your time for allowing me to be
25 here this morning.

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1 MR. KAPLAN: Thank you very much, Mr.
2 Caldwell.

3 We will now turn to Steve Jones, who will
4 address a number of the legal issues in the case.

5 MR. JONES: Good morning, Mr. Carpenter,
6 members of the staff. My role today is to address the
7 issues of domestic like product, cumulation of
8 imports, negligibility and threat of material injury.

9 With respect to the definition of the
10 domestic like product and the industry, the Commission
11 has prior experience with coated free sheet paper. In
12 the Coated Groundwood Paper investigation in 1991, the
13 Commission found that coated groundwood paper and
14 coated free sheet paper are different domestic like
15 products because of their differing physical
16 characteristics and applications, limited
17 interchangeability, different production facilities
18 and processes, different customer perceptions and
19 different prices.

20 Based on the factors the Commission normally
21 considers, it should so find again in this
22 investigation, as well as finding that coated free
23 sheet is a different like product from uncoated free
24 sheet.

25 Coated free sheet has distinct physical

1 characteristics and uses. In contrast to coated
2 groundwood paper, it is produced from pulp that
3 contains no more than 10 percent groundwood content.
4 In contrast to uncoated free sheet paper, it is coated
5 to provide a finish that allows it to be used for
6 printing high quality images and graphics.

7 As Mr. Tyrone discussed, coated free sheet
8 serves a distinct market for use in annual reports,
9 art and picture table books, prestige catalogs and
10 high end magazines and other applications requiring
11 high quality photographic reproduction.

12 Uncoated free sheet is not widely used in
13 the commercial printing industry, but instead for
14 business products such as copy and printer paper and
15 business forms and envelopes. Coated groundwood paper
16 is used in less durable printing applications with
17 short-term uses such as weekly lower cost magazines,
18 sales fliers and newspaper inserts.

19 The samples we have brought today show the
20 differences in physical characteristics and end uses
21 between coated free sheet paper and coated groundwood
22 paper. Because coated free sheet and these other
23 types of paper have different physical characteristics
24 and applications, they generally are not
25 interchangeable and are not perceived by producers and

1 customers to be interchangeable.

2 A buyer needing coated free sheet for a
3 specific use requiring better quality printing would
4 not turn to uncoated free sheet or coated groundwood.
5 For the same reason, customers and producers perceive
6 them to be different products. In addition, given
7 that coated free sheet is and is perceived by
8 customers to be a premium product, it sells at a
9 higher price.

10 There also is not an extensive overlap
11 between coated free sheet and other types of paper in
12 terms of manufacturing facilities and production
13 processes. Many U.S. mills that produce groundwood
14 paper do not have the equipment to produce coated free
15 sheet.

16 Where a mill has the ability to produce both
17 types of paper, it either uses the equipment dedicated
18 to each type or faces down time to switch from one
19 type to the other. In addition, coated free sheet
20 differs from uncoated free sheet because of the
21 equipment required for the coating process.

22 The Commission should include all types of
23 coated free sheet paper in the domestic like product,
24 including both single-side coated and double-side
25 coated, both sheets and rolls and all weights,

1 brightness levels and finishes.

2 As in coated groundwood paper, the
3 Commission should conclude that there are no clear
4 dividing lines among these product variations within
5 the coated free sheet category and that all share
6 common characteristics and uses that set them apart
7 from both uncoated free sheet and coated groundwood
8 paper.

9 Turning to another issue, the facts of this
10 case easily satisfy the criteria for cumulation. All
11 the petitions were filed on the same day, and the
12 imports from China, Indonesia and Korea all compete
13 with each other and with the domestic like product.

14 There is no question that coated free sheet
15 from all sources is highly fungible. Both the
16 domestic like product and the imports come in all
17 forms required by the U.S. market, including rolls and
18 sheets, single- and double-side coated and various
19 weights, grades and finishes.

20 Moreover, regardless of the source, the
21 product is competitive in terms of quality, and there
22 are no special customer requirements that set coated
23 free sheet apart from one source or other sources.

24 Domestic coated free sheet and the subject
25 imports are also sold in the same geographic markets.

1 U.S. producers are located across the country, and the
2 subject imports have entered many Customs ports of
3 entry and supply various parts of the country in
4 competition with U.S. producers who ship their product
5 long distances to customers on both coasts and
6 everywhere in between.

7 There are also common channels of
8 distribution because both the domestic product and the
9 subject imports are sold to distributors and end users
10 for the same types of application.

11 Finally, official import data show that
12 imports from all three countries were simultaneously
13 present in the U.S. market during the period of
14 investigation. Clearly, the reasonable overlap in
15 competition that the Commission looks for among the
16 domestic product and the subject imports is present in
17 this case and requires cumulation.

18 It is also clear that imports from China,
19 Indonesia and Korea are not negligible. The statute
20 treats imports as negligible if they count for less
21 than three percent of all imports during the most
22 recent 12 month period for which data are available
23 prior to the filing of the petition. For imports from
24 developing countries in a countervailing duty
25 investigation, the negligibility threshold is four

1 percent.

2 The statute also provides that for purposes
3 of a threat determination the Commission may not treat
4 imports as negligible if there is a potential that
5 they will imminently account for more than the
6 relevant negligibility threshold.

7 As noted in the statement of administrative
8 action accompanying the Uruguay Round Agreements Act,
9 in a preliminary investigation the Commission must
10 apply the reasonable indication standard to the
11 determination of whether imports are negligible. In
12 other words, there must be clear and convincing
13 evidence that the subject imports are negligible.

14 Thus, there is a very low standard for
15 negligibility in a preliminary investigation,
16 especially in the threat context where there only
17 needs to be a reasonable indication of a potential
18 that subject imports will imminently account for more
19 than the threshold percentage.

20 Official U.S. import statistics show that
21 China accounted for 14.47 percent by volume of total
22 U.S. imports of coated free sheet during the most
23 recent period for which data are available. October
24 2005 to September 2006 is the most recent period.
25 Imports from Korea accounted for 26.41 percent of

1 total imports during that period. Thus, imports from
2 China and Korea clearly are not negligible.

3 Indonesia accounted for 3.28 percent of
4 total U.S. imports during the same period. Thus, for
5 purposes of the Commission's antidumping investigation
6 imports from Indonesia also satisfy the three percent
7 threshold.

8 The only possible negligibility issue is
9 with respect to imports from Indonesia in the
10 Commission's countervailing duty investigation.
11 Indonesia is a developing country, so the four percent
12 negligibility threshold applies.

13 Because imports from Indonesia did not
14 satisfy this requirement during the most recent 12
15 month period, the Commission must consider for
16 purposes of its threat determination whether there is
17 a reasonable indication that there is a potential that
18 imports from Indonesia will imminently account for
19 more than four percent of total imports.

20 Available information at this stage of the
21 investigation shows that subject imports from
22 Indonesia have been increasing at a rate that
23 demonstrates this standard is met. Imports from
24 Indonesia during 2006 have been significantly higher
25 on a month-to-month basis than during 2005 and have

1 exceeded four percent total imports in several months.

2 At their current rate of growth, imports
3 from Indonesia will exceed four percent of total
4 imports for an entire 12 month period early in 2007.
5 Under any definition of imminent this is sufficient.
6 There also is no evidence suggesting that this trend
7 is likely to reverse itself in the imminent future.

8 One reason for the increase in imports from
9 Indonesia is that they have been displaced from the
10 Chinese market. As the Chinese industry has grown,
11 imports into China from Indonesia plummeted by 53
12 percent during 2005 and 2006, forcing Indonesian
13 exporters to seek other international markets,
14 particularly the United States.

15 While Indonesian exports to China fell by 53
16 percent, during the same period exports to the United
17 States increased by 141 percent. It is also clear
18 that Indonesian mills are operating at low rates of
19 capacity utilization in 2006, giving them every
20 incentive to direct more of their coated free sheet
21 production to the United States.

22 Finally, Asia Pulp & Paper or APP owns
23 production facilities in both China and Indonesia.
24 Imports from APP in Indonesia would likely increase
25 even more significantly if duties were imposed on

1 imports from China but not Indonesia because APP would
2 then be likely to shift production to Indonesia.

3 Thus, there is clearly a reasonable
4 indication of a potential that imports from Indonesia
5 will imminently account for more than four percent of
6 total imports. Accordingly, the Commission should
7 determine that imports from Indonesia are not
8 negligible for purposes of the countervailing duty
9 investigation.

10 As Mr. Tyrone discussed, the domestic
11 industry is suffering material injury. If the
12 Commission finds it necessary to consider other
13 additional material injuries threatened, there is also
14 a very strong case for an affirmative determination
15 based on threat of material injury.

16 First, the Commission should exercise its
17 discretion under the statute to cumulate imports from
18 China, Indonesia, and Korea for purposes of threat.
19 As I discussed earlier, the criteria for cumulation
20 for purposes of present material injury are clearly
21 satisfied. In addition, the trends in imports from
22 the three countries are interrelated due to
23 competition among the three sources, both in the
24 United States and internationally.

25 For example, the increase in imports from

1 Indonesia is a result, at least in part, of Indonesian
2 exporters' lost markets in China, and the dominant
3 producer in Indonesia, APP, is also the largest
4 producer of coated free sheet in China.

5 At the risk of stating the obvious, we have
6 alleged the existence of countervailable subsidies in
7 all three countries. We believe that the Commerce
8 Department's investigation will show that several of
9 the subsidies are export subsidies within the meaning
10 of Article 3.1 of the WTO Subsidies Agreement and/or
11 that the subsidies will either cause, or threaten to
12 cause, serious prejudice to the interests of the
13 United States within the meaning of Article 6 of the
14 WTO Subsidies Agreement.

15 Imports of the subject merchandise are
16 virtually certain to increase if these various
17 subsidies continue to be used by producers in the
18 subject countries.

19 In addition, as detailed in our petition,
20 and as will be discussed in more detail in our post-
21 conference brief, producers in China, Indonesia, and
22 Korea have significantly increased their capacity in
23 recent years and have significant unused capacity that
24 can be directed toward the U.S. market. This idle
25 capacity provides suppliers in all three countries the

1 incentive to increase exports, and imports from all
2 three countries have increased rapidly over the period
3 of investigation in absolute terms and relative to
4 both U.S. production and U.S. consumption.

5 The existence of antidumping orders in China
6 on coated free sheet from Korea and in Australia on
7 coated free sheet from Korea and Indonesia make
8 additional exports to the United States even more
9 likely.

10 Given the adverse price impact of the
11 subject imports during the period of investigation,
12 there is every reason to expect that imports will
13 continue to undersell the domestic product in the
14 imminent future and continue to increase demand for
15 further dumped and subsidized imports.

16 Finally, substantial additional injury has
17 been caused by subject imports, and this injury will
18 be manifested in the future because the inability of
19 domestic producers to raise capital and invest in new
20 production assets now, during the period of
21 investigation, has harmed their ability to compete in
22 the future.

23 That concludes my presentation. Thank you.

24 MR. KAPLAN: Thank you, Mr. Jones. How much
25 time do we have left?

1 MS. MAZUR: Twenty-three minutes.

2 MR. KAPLAN: Twenty-three minutes? Could we
3 save that for rebuttal, please?

4 MR. CARPENTER: Yes, you can, if you would
5 like. Well, a correction to that. In preliminary
6 conferences, we do not save time for rebuttal. You
7 get a straight 10 minutes, so you would have to use
8 your time now or concede it.

9 MR. KAPLAN: Well, I think maybe one or two
10 points.

11 MR. CARPENTER: A correction to that. You
12 actually only have 12 minutes remaining.

13 MR. KAPLAN: Can we save the 12 minutes for
14 rebuttal since it's last?

15 MR. CARPENTER: No. We like to stick to our
16 practice of just 10 minutes per side for closing
17 statements.

18 MR. KAPLAN: All right. I would just like
19 to address one or two things more before we conclude
20 our presentation, and maybe Mr. Tyrone or anyone else
21 has something to raise. But I think just one point I
22 would make: There was some discussion of whether
23 NewPage was interested in doing an IPO or anything
24 like that. Well, certainly, many of the companies
25 that you will hear from in a few minutes are public

1 companies. There is nothing proper, illegal, or
2 inappropriate about wanting to be a public company, so
3 that statement, I found to be very strange.

4 I would also say, if you're talking about
5 whether there is a representation of the industry
6 here, in addition to the representatives from NewPage,
7 Ms. Hart, and the union, you're representing 275,000
8 workers in the paper industry, including Appleton,
9 Bowater, Glatfelder, International Paper, Sappi,
10 SMART, Stora Enso, and Wausau Paper. So I find that
11 statement to be quite outrageous.

12 I'll just conclude what I have to say,
13 talking about rolls and sheets. Rolls are coming in.
14 They are being imported, if you look at the data. If
15 you look at Mr. Caldwell's job, he converts rolls into
16 sheet. There is a direct interrelation. Also, what
17 we've seen in the sheet sector is going to apply in
18 the roll sector very soon in terms of increasing, low-
19 priced rolls being imported into the United States.

20 With that, maybe someone else wants to add
21 something.

22 MR. TYRONE: Yes. On that last point about
23 rolls versus sheets, the addition that I would make to
24 that is that, as was indicated when Mr. Caldwell
25 talked about his position, every sheet was once a

1 roll, and while there is direct competition from the
2 imports from Korea, China, and Indonesia as they come
3 in in sheeted form with the extremely low prices,
4 direct impact on the sheets.

5 There is also an impact on rolls, and the
6 way that that works is, as a coated free sheet paper
7 manufacturer competes with the unfair pricing on
8 sheets and determines that they can no longer make a
9 profit on those sheets, that paper machine which
10 supplied the paper that turned into a sheet is going
11 to continue to run, and what it's going to make is
12 it's going to make the roll product.

13 So the unfair competition from the sheet, in
14 effect, pushes the coated free sheet manufacturer in
15 the U.S. to make a higher level of rolls, therefore,
16 creating more competition within the roll product as
17 well.

18 So it's not as though because it's a sheet,
19 it only affects the sheet market. It affects the
20 sheet market very directly, but it also affects the
21 roll market significantly, though indirectly.

22 MR. BUTTON: Mr. Chairman, I'm Ken Button.
23 Mr. Cameron listed a series of factors in the economic
24 realm during his opening statement. Let me perhaps
25 comment on those.

1 He noted the predominance of the
2 restructuring in this industry as being a source of
3 disruption. Well, the restructuring, I believe, is
4 the result of the impact of the imports. He noted
5 that there was increases in shipments. Well, indeed,
6 this is a cyclical industry. We are in an up side of
7 the cycle. You would anticipate that there ought to
8 be some increases in the shipments.

9 He noted full capacity or relatively high
10 levels of capacity. Well, that partially results from
11 the closure of capacity, and, indeed, the conditions
12 of competition in this industry are such that you must
13 run your machines at high levels of capacity to be
14 economically viable. You take the hit on profit.
15 Profit has increased, but it is from very low levels
16 in the past, and the profitability, at this point, is
17 hardly sufficient to cover cost of capital and deal
18 with the future.

19 The prices are, indeed, low, and increases
20 are long overdue. You do find, in fact, a correlation
21 here. In terms of the rising imports, what else has
22 risen? Well, two things, importantly. The market
23 share. The overall import market share has risen,
24 over the POI, from 9 to 14 percent. But look
25 carefully at the split.

1 He noted the difference between sheets and
2 rolls. Among sheets, public data indicate that the
3 subject import market share rose from 24 percent to 34
4 percentage points during this period. We do not see
5 attenuated competition here. What you see is the
6 past, which is the progress of import penetration in
7 sheets being the prologue for the future.

8 As Mr. Tyrone mentioned, you can easily take
9 a mill making sheets and produce an exportable roll
10 product. Once the import penetration is sufficiently
11 secured in the sheets area, the domestic industry
12 fears that the subject imports will do the same with
13 respect to the rolls.

14 The Luke shutdown; again, as noted, it was a
15 1904 plant, but, as Mr. Caldwell and Mr. Tyrone have
16 indicated, there has been massive capital investment
17 and modernization in that plant continuously over its
18 history and into recent periods. Thank you.

19 MR. CALDWELL: I would just like to say I'm
20 new to all of this, but I heard in the opening
21 statement that referred to part of our problems as
22 being older equipment, and I do want everybody to know
23 that NewPage has modernized, and we have state-of-the-
24 art sheeting equipment not only at the Luke mill but
25 at the Chillicothe sheeting facility, the latest, up-

1 to-date sheeting equipment possible, and there has
2 been millions of dollars put in our Number 8 and 9
3 paper machine to keep it state of the art.

4 So even though we're an older mill, that
5 doesn't mean we sat back and tried to get by on the
6 old equipment. Thank you.

7 MR. KAPLAN: With that, I think we'll
8 conclude, unless someone here had any additions. I
9 think that will be all. Thank you very much.

10 MR. CARPENTER: Thank you very much, panel,
11 for your presentation. We'll now turn to the staff
12 questions. We'll begin with Debra Baker from the
13 Office of Investigations.

14 MS. BAKER: My name is Debra Baker, Office
15 of Investigations.

16 Mr. Kaplan, in your most recent comments,
17 you made reference to support by the workers of Wausau
18 Paper and Bowater. According to Wausau Paper's Web
19 site, they do produce some specialty packaging
20 materials. Are those materials subject to the scope
21 of these investigations?

22 MR. KAPLAN: I think I'm going to, if it's
23 all right, get back to you on some of that, both in
24 terms of confidential session and checking over some
25 other information, if that's okay.

1 MS. BAKER: Further, to the extent to which
2 they are subject or not subject, is any lack of
3 clarity there possibly relevant in terms of whether or
4 not we have a clear definition between what's a
5 subject product and what isn't a subject product,
6 especially when we get into the area of some of the
7 specialty packaging and paperboard materials.

8 MR. KAPLAN: We will address those questions
9 in our post-conference submission.

10 MS. BAKER: Okay. Thank you.

11 There has been testimony that the dividing
12 line between ground sheet paper and clear, free sheet
13 paper is the 10 percent dividing line between the
14 amount of pure material and unpure material which is
15 included in it. Where does that 10 percent come from,
16 that 10 percent figure?

17 MR. TYRONE: The 10 percent is an accepted
18 industry standard for what defines a coated groundwood
19 and what defines a coated free sheet. It is a
20 limitation on groundwood content in a free sheet
21 paper.

22 MS. BAKER: Does it refer to any quality
23 standards that have been set forth by any type of
24 organization, or is it simply a general understanding
25 among the industry for purposes of just being able to

1 talk about the two products clearly?

2 MR. TYRONE: It is a well-defined
3 definition. I'm not sure whether it's defined as a
4 quality standard. It is a technical association, pulp
5 and paper industry standard, though.

6 MS. BAKER: Okay. Thank you.

7 Mr. Forstall was able to visit your
8 facilities, and, unfortunately, I was not able to go.
9 He has prepared extensive trip notes, which will be
10 placed on the record shortly. Could you just briefly
11 help me understand the different stages of capacity?
12 For example, there has been quite a bit of testimony
13 about the paper machines and how the shutting down of
14 paper machines impacts the operations of the plant and
15 the laying off of the workers. So it does seem clear
16 that that is a clear stage in the manufacturing
17 process.

18 Could you identify the different stages,
19 though, in addition to the paper-making machines,
20 which I would assume have to do with the processing of
21 the pulp because you also identified the other
22 production stages and how substantive that machinery
23 and equipment is?

24 MR. TYRONE: Sure. There are three or four
25 basic stages, if you will. There is a pulping

1 operation, which is a significant investment as well.
2 There are massive vessels in which, in the case of
3 free sheet, chemical treating and heating, and so
4 forth takes place to separate the fibers and reduce
5 impurities.

6 MS. BAKER: Is that what is meant by the
7 paper-making machinery?

8 MR. TYRONE: No. Trees come to the mill.
9 Felled trees come to the mill, and there will be
10 variations on this, but basically felled trees come to
11 the mill, and they are cut into chips. Those chips
12 are placed into a pulp mill, a pulping facility. So
13 the process is there the chips are turned from chips
14 into pulp. I'm basically describing a coated free
15 sheet facility. From there, the right amounts of the
16 various species go to a paper machine, and it's
17 converted from pulp to a paper machine.

18 There are two basic different approaches on
19 a paper machine, and NewPage employs both. One is for
20 the pulp to be turned into paper, dried on a paper
21 machine, and it becomes uncoated paper. It comes off
22 the paper machine on a reel as uncoated paper and then
23 goes to a coater. Then it goes to a supercalender.
24 The purpose of the supercalender is to make the sheet
25 glossier.

1 Then it goes to some sort of converting
2 operation, either cut into rolls or cut into rolls and
3 later turned into sheets. But some of our paper
4 machines have the coaters on the paper machine. So by
5 the time it actually comes off the paper machine, it's
6 not only paper; it is coated paper. We have both
7 different approaches. Is that helpful?

8 MS. BAKER: That's helpful. That's helpful,
9 yes. And there was testimony, was there not, that
10 there is very little pulp sold separately as pulp on
11 the market.

12 MR. TYRONE: There is very little groundwood
13 pulp. There is no commercially available quantity of
14 groundwood pulp.

15 Craft pulp, which is the pulp that's used in
16 making coated free sheet; there is plenty of that
17 available in the marketplace.

18 MS. BAKER: Who would be producing that and
19 selling that has craft pulp?

20 MR. TYRONE: There are a number of producers
21 in this country and others that sell craft pulp. In
22 fact, we sell small quantities of craft pulp
23 ourselves.

24 MS. BAKER: And who would you sell it to?

25 MR. TYRONE: Some paper makers do not own

1 pulping assets, or they don't own pulping assets that
2 are sufficiently large for the demand for pulp for the
3 paper that they make, so they purchase pulp for the
4 manufacture of paper.

5 MS. BAKER: Approximately what percentage of
6 the value added to the product would be prior to the
7 pulping process and would be subsequent to the pulping
8 process, if you had to divide it into the two
9 segments, before and after?

10 MR. TYRONE: And you have pushed me beyond
11 my knowledge, being able to speak right here. We can
12 get you that information, but I don't have that.

13 MS. BAKER: Yes. That would be helpful if
14 that was in the brief. Let's see.

15 MR. JONES: Ms. Baker, just to clarify what
16 your request is, could you repeat what you would like
17 for us to include in our brief?

18 MS. BAKER: Approximately how much of the
19 value added, from the time that you start with your
20 import product, which would be the lumber, the chips,
21 how much of it is value added up to the point that you
22 end up with pulp, and how much additional value added
23 is after the pulping process until you end up with a
24 finished product, which is sold as paper?

25 MR. JONES: Would that be the percentage of

1 the total cost involved in the different stages of
2 production?

3 MS. BAKER: I think that would make sense to
4 break it into two percentages, yes.

5 MR. JONES: Thank you.

6 MS. BAKER: Okay. Thank you.

7 I keep hearing the word "roll," which I
8 understand, obviously, a roll is differentiated from a
9 sheet, and also I hear the term "web." What is the
10 exact correlation between the term "web" and the use
11 of the term "roll"? Are they absolutely synonymous,
12 or is one a subset of the other? Can a roll be both
13 webbed and not webbed?

14 MR. TYRONE: They are absolutely synonymous.
15 Within the industry, sometimes it's very common to
16 refer to either coated groundwood or coated free sheet
17 rolled product as a webbed product, and sometimes the
18 products are sold for further sheeting, and that's
19 often referred to as a sheet or roll. But from a
20 physical standpoint, they are the same.

21 MS. BAKER: Where does the term "web" come
22 from? What exactly is the web? It's just a term
23 which has come out and been used over time.

24 MR. TYRONE: It's been there a long, long
25 time.

1 MS. BAKER: Okay. Further, you've been very
2 kind to help with some of the definitions of the
3 product from your point of view, from the point of
4 view of U.S. production of paper. Could you describe
5 a little bit about the types of machinery that are in
6 place by the people to whom you sell, by the printers,
7 and how that type of machinery might impact the type
8 of product that they decide to buy or are required to
9 buy?

10 MR. TYRONE: I'm not sure I understand the
11 question.

12 MS. BAKER: Well, for example, I assume a
13 lot of the product is sold to printers, who then take
14 the product and use it for various printing and
15 graphic purposes. What types of equipment did they
16 have in their plants, and does that type of equipment
17 differ in such a way that they might be forced to buy,
18 for example, rolls as opposed to sheets or one type of
19 roll as opposed to another type of roll or rolls with
20 certain basis weights as opposed to other basis
21 weights? Can't all end users pretty much use all
22 types of rolls interchangeably?

23 MR. TYRONE: To begin with, there are sheet-
24 fed presses, and there are web presses.

25 MS. BAKER: Right.

1 MR. TYRONE: That distinction defines, at
2 the beginning, whether someone is going to be using a
3 sheeted product or whether they are going to be using
4 a rolled product.

5 MS. BAKER: Mr. Tyrone, why would a printer
6 decide to install a sheet press as opposed to a roll
7 press? What are the advantages and disadvantages to
8 them?

9 MR. TYRONE: Historically, sheet-fed presses
10 have been used for smaller print runs and higher-
11 quality print runs. There have been changes in
12 manufacturing of press equipment over the years, and
13 I'm, frankly, not sufficiently familiar to tell you
14 how great that distinction remains. But the sheet-fed
15 presses were used for smaller runs, shorter runs, and
16 for higher-quality runs.

17 MS. BAKER: Are there major cost differences
18 in a printer bringing in a roll press as opposed to a
19 sheet press? Is one less expensive compared to the
20 other?

21 MR. TYRONE: I don't know. I can't answer
22 that question.

23 MS. BAKER: Are there any cost advantages to
24 them in terms of having one versus the other?

25 MR. TYRONE: Typically, if the runs are long

1 enough, a web press is more economical than a sheet
2 press.

3 MS. BAKER: Okay. What are the major groups
4 of the end users to which you sell? This was filed as
5 a paper case, but it does include, as we've discussed
6 briefly, some types of specialty packaging products.
7 Does the equipment maintained by some of your end
8 users differ from those maintained by the offset
9 printers?

10 MR. TYRONE: Offset printing would represent
11 the vast majority of the application of the products
12 that we produce.

13 MS. BAKER: Okay. Thank you.

14 MR. TYRONE: I do want to clarify one thing
15 that I said earlier. When I was trying to clarify --
16 I might not have succeeded -- when I was trying to
17 clarify web versus roll, I may have said that sheeted
18 rolls were the same as web. From a physical
19 appearance, that would be the case, but sheeted rolls
20 actually require a higher level of quality because if
21 we were to sell them, we then assure the people who
22 might buy them and then sheet them that they will go
23 through their sheeting operation as well as go through
24 the sheet-fed press.

25 So I was speaking about the physical

1 appearance of the product if one were viewing it from
2 across a room.

3 MS. BAKER: What, then, would a web roll be
4 used for?

5 MR. TYRONE: It just goes through a web
6 press. A sheet of roll that we would sell, we would
7 sell to someone who would then take it and convert it
8 into sheets, and then a printer would buy those sheets
9 and run it through a sheet-fed press.

10 A web product runs through a web press, and
11 once it is printed, it is then typically sheeted.

12 The two physical processes are different.
13 The printing processes are sufficiently different that
14 there is a different quality level for the paper that
15 goes into those two products.

16 MS. BAKER: Would the same person who prints
17 a web roll then sheet it themselves, typically?

18 MR. TYRONE: Typically.

19 MS. BAKER: Okay. Let's see. Are there any
20 environmental considerations to be taken into account
21 in this industry?

22 MR. TYRONE: Such as -- what do you mean?

23 MS. BAKER: Excess water usage, toxins put
24 back into the water supply.

25 MR. TYRONE: We are incredibly

1 environmentally conscious. We do use a good bit of
2 water in our process. We have regulations promulgated
3 by the EPA that we have to follow and do.

4 MS. BAKER: Okay. Thank you. Let's see.
5 Yes. Could you describe some of the marketing
6 agreements and marketing patterns which are typical in
7 this industry? What are the types of relationships
8 that you have with your customers? Are there any
9 exclusive marketing agreements or exclusive
10 relationships, for example, that you might have with
11 customers in a certain geographical area?

12 MR. TYRONE: I would be happy to answer that
13 but not on the public record, if that's all right.

14 MS. BAKER: Absolutely, sir. Let's see. I
15 think that's all the questions I have for now. Thank
16 you.

17 MR. CARPENTER: We'll turn now to Peter
18 Sultan from the Office of the General Counsel.

19 MR. SULTAN: Mr. Tyrone in your
20 presentation, you spoke of imports from other
21 countries, from Canada and from Europe, and you said
22 that you thought it was unlikely that these nonsubject
23 imports would replace the imports from the subject
24 countries if duties were imposed. Could you just
25 elaborate on that a little bit? Why do you think

1 that?

2 MR. TYRONE: Well, for one reason, when a
3 mill is shut down -- we were referring to mills that
4 had closed -- it's actually very challenging to bring
5 them back up, so we would not see those mills going
6 back up.

7 MR. SULTAN: Thank you very much.

8 MR. CARPENTER: Nancy Bryan from the Office
9 of Economics.

10 MS. BRYAN: Thank you. Good morning. I
11 guess my first question would be for Mr. Tyrone. If
12 you could, just briefly, go over the three different
13 finishes. I guess it's gloss, matte, and satin. Are
14 they all text grades?

15 MR. TYRONE: The difference is the level of
16 gloss on the sheet. Gloss would be the highest gloss
17 level, and dull would be the next, and matte would be
18 the final. They are used in different applications by
19 designers who want to achieve a certain look that
20 either are willing to tolerate a certain level of
21 glare, if you will, or not willing to tolerate a
22 certain level of glare. All three are coated
23 products, though, and satisfy the requirement of good
24 ink holdout that provides good reproduction.

25 MS. BRYAN: Okay. Are there price

1 differences between the three?

2 MR. TYRONE: There can be.

3 MS. BRYAN: Okay. Is one considered the
4 premium, or is it just different end uses determine
5 that?

6 MR. TYRONE: I'm not sure I could put a
7 specific on it, to that.

8 MS. BRYAN: Okay. I guess I'm trying to
9 drive at the three pricing products that we covered;
10 do those, then, include all three finishes because
11 there isn't a specific finish listed there? We just
12 said text weight on a 70-to-100-pound basis weight.

13 MR. TYRONE: Yes. That would have included
14 all of the finishes --

15 MS. BRYAN: Okay.

16 MR. TYRONE: -- in our response to the
17 questionnaire, yes.

18 MS. BRYAN: But you don't think the price
19 differences between those three would really destroy
20 the data that we have.

21 MR. TYRONE: I do not believe so, no.

22 MS. BRYAN: Okay. The channels of
23 distribution that go from your company to the end
24 users; can you describe typically how many levels of
25 channels of distribution there may be between you and

1 your final customers?

2 MR. TYRONE: Who are you considering the end
3 user? The channel of distribution to what level?

4 MS. BRYAN: The printer that's going to
5 actually print on the paper.

6 MR. TYRONE: When we sell our product, we
7 would sell it one of three different ways, then. One,
8 we would sell to paper merchants who would resell the
9 product, sometimes taking physical responsibility for
10 the product, sometimes not. To very large printers,
11 we might sell directly to the printers, and, in some
12 cases, large magazine publishers buy paper directly,
13 even though they don't print it. So they would buy it
14 from us, and we would ship it to a printer on their
15 behalf.

16 MS. BRYAN: Okay. Is it your understanding,
17 when you make the sales to a merchant distributor, is
18 there just one distributor layer in there, or could
19 there be more?

20 MR. TYRONE: It would just be the one --

21 MS. BRYAN: Just one. Okay.

22 MR. TYRONE: -- to then sell to a printer,
23 typically.

24 MS. BRYAN: It seems like everyone is saying
25 that demand is increasing. How has the Internet and

1 e-mail, either negatively or positively, affected
2 demand?

3 MR. TYRONE: Our assessment would be that
4 the Internet has probably reduced the rate at which
5 the increases are occurring in coated free sheet.
6 Coated free sheet used to grow at a level that was
7 closer to GDP or GDP-plus-X, and it is not growing at
8 that level anymore.

9 MS. BRYAN: And of your end uses, I guess
10 there's magazines, catalogs, and annual reports. Is
11 there one segment of your market that's increasing
12 much more than the others, or are they all increasing?

13 MR. TYRONE: I think this would be typical
14 for the industry. It's clearly the case for us, that,
15 to begin with, commercial printing makes up a very
16 large portion of our end use and even more so, if I
17 think of it, just for coated free sheet. Within
18 commercial printing, which would include annual
19 reports, but within commercial printing, probably the
20 fastest-growing subsegment for us and, I think, for
21 the industry is direct mail.

22 MS. BRYAN: Okay. I guess it's my
23 understanding that once a publication has been
24 launched -- I think it was mentioned in the petition
25 as well -- that once a publication decides to use

1 coated free sheet, it's pretty reluctant or slow to
2 switch to a substitute paper, that once they kind of
3 make that decision, they want to go with it.

4 So how would you describe substitutes for
5 this product? Do you think there are any close
6 substitutes, or not really?

7 MR. TYRONE: As we indicated in the
8 petition, publications that start off on coated free
9 sheet, we've found, have been reluctant to move off of
10 coated free sheet. That doesn't say it doesn't
11 happen, but it doesn't happen very often, and when it
12 happens, it tends to happen slowly. It varies a
13 little bit by the segment of the industry.

14 The greatest competition that we have, of
15 course, is from the imports from China, Korea, and
16 Indonesia, which is why we're here.

17 MS. BRYAN: Okay. Is there any brand
18 loyalty in this industry?

19 MR. TYRONE: You've set a pretty low hurdle
20 by saying, "Is there any?" So, yes, there are clearly
21 people who decide that they want to be on a particular
22 grade of paper. It would be my experience, as much as
23 anything else, they are saying that I want to buy from
24 a certain producer for a variety of different reasons.
25 However, I would say that there is less and less of

1 that as the years go on, and the price is far and away
2 the topic that gets the most attention in any
3 conversation about, do you want to buy paper from me?

4 MS. BRYAN: What about custom sizing? Do
5 you ever produce custom sizes, and are the import
6 sources able to do this as well?

7 MR. TYRONE: We do custom sizing. Our
8 experience is that it's an economic choice. A printer
9 who has a specific design for a printed form can save
10 money by getting the paper cut to the exact size so
11 they are not paying for paper that is more than they
12 need and, therefore, would be recycled or thrown away
13 or whatever. At the same time, stock sizes can be
14 reduced in price such that the printer makes the same
15 kind of economic benefit when the prices are being set
16 at significantly low levels.

17 Coming to us for a custom size sometimes,
18 even though they can save money by not making paper,
19 we have an up charge for the fact that we're having to
20 go in and cut it specifically for them, and they often
21 find that the imported paper is still the better
22 alternative for them from a price standpoint.

23 MS. BRYAN: Okay. In your sales of the
24 text-grade CFS, do you also bundle in sometimes the
25 cover-grade paper, and how might including the cover-

1 grade paper in the transaction affect the overall
2 price?

3 MR. TYRONE: I'm not familiar with a
4 situation where we would have done anything that I
5 would have called bundling of grades. It would be
6 fairly typical, if we had an ongoing relationship with
7 a printer, for us to have a price for text grades and
8 a price for cover grades, and typically they would
9 vary a little bit. There are a lot of applications
10 that don't need a cover as well as a text, just need a
11 text. There are some applications that only need a
12 cover, don't need a text to go with it. So I'm not
13 sure that there would be any benefit from doing that.

14 MS. BRYAN: Okay. And my last question:
15 Are there any transportation differences, costs or
16 speed, between transporting roll versus sheet forms?

17 MR. TYRONE: Inherently, no. We typically
18 ship sheets in, ideally, full truck loads. Sometimes
19 the roll quantities are just large enough that it's
20 more economical to put them on rail. As a result, it
21 might take a bit longer to travel by rail than to
22 travel by truck. We also sell the roll product on
23 some of the same trucks. Some of the same trucks
24 would have roll product and sheet product mixed on
25 there.

1 MS. BRYAN: Okay. Thank you. That's all I
2 have for now.

3 MR. CARPENTER: Fred Forstall, Office of
4 Industries.

5 MR. FORSTALL: Thank you, Mr. Carpenter.

6 Mr. Tyrone, if you could, in your post-
7 conference brief, getting back to Ms. Baker's question
8 in regard to sheet versus roll or web-fed paper, if
9 you could elaborate on the quality difference that you
10 mentioned just a little while ago in your post-
11 conference brief.

12 I don't want you to give away your trade
13 secrets, but if you could elaborate on what those
14 quality differences are between paper intended for
15 sheet-fed presses -- I think you said, paper to be
16 sheeted and then fed through a sheet-fed press by our
17 customers versus what would be going through a web-fed
18 press.

19 MR. TYRONE: I would be happy to do that.

20 MR. FORSTALL: Thank you. Also, could you
21 comment on the difference between coated free sheet,
22 which we understand, of course, is made actually
23 typically with craft pulp, the differences between
24 coated free sheet and what would be considered craft
25 paper or a coated craft paper product?

1 MR. TYRONE: I am really not the right
2 person to ask that question because NewPage makes no
3 craft paper.

4 MR. FORSTALL: If you could develop any
5 information on that aspect.

6 MR. TYRONE: I would be happy to provide you
7 that.

8 MR. FORSTALL: I'm just looking in terms of
9 the physical aspects of a coated craft sheet versus a
10 coated free sheet, what would be considered a coated
11 free sheet.

12 MR. TYRONE: We would be happy to get that
13 for you.

14 MR. FORSTALL: Thank you.

15 MR. TYRONE: I wouldn't be in a position to
16 just tell you that right now.

17 MR. FORSTALL: Thank you.

18 Mr. Kaplan, I think you mentioned Pasadena
19 Paper in your opening comments. If you could, at some
20 point, comment on your understanding of why Pasadena
21 Paper shut down and how that related to the storm
22 situation in Texas at that time.

23 MR. KAPLAN: I would be happy to address
24 that after looking over some information. I would say
25 that although the storm was a factor, they had

1 anticipated opening up after the storm, but market
2 conditions prevented that from occurring.

3 MR. FORSTALL: Thank you.

4 Mr. Tyrone, in your opinion, why is it that
5 the imports have been focused on the sheet market
6 rather than on the sheet and roll markets both?

7 MR. TYRONE: Let me start by saying, I don't
8 know, but it is the higher-value product, and that
9 would be a fine place to start.

10 MR. FORSTALL: Okay. Thank you.

11 It's my perception of the groundwood paper
12 business that, over the years, the groundwood
13 producers have done a variety of things in the pulping
14 process, developing thermomechanical pumps, trying to
15 improve their process and improve their product.

16 To the extent that there have been
17 improvements in the groundwood pulping process and
18 some improvements in that product that they have
19 developed, has that led to any shift in the playing
20 field with regard to coated free sheet paper? Has the
21 whole issue of substitutability of coated groundwood
22 versus coated free sheet shifted at all in the last
23 few years?

24 MR. TYRONE: Well, there has undoubtedly
25 been some decisions by paper purchasers to purchase

1 some groundwood rather than purchasing some free
2 sheet, but it's very rare for us to have a situation
3 where someone, because we're a manufacturer of both
4 groundwood and free sheet, to have us price both of
5 them for an application. It typically is I've decided
6 I'm going to be using a coated free sheet for this
7 publication, and we use a coated free sheet for them.

8 MR. FORSTALL: Okay. Thank you. Just a
9 couple of more questions.

10 In your opinion, Mr. Tyrone, at the mills,
11 the NewPage mills that actually produce both
12 groundwood pulp and craft pulp or coated free sheet,
13 practically speaking, would you ever put any
14 groundwood in one of your free sheet -- whether it was
15 less than 10 percent or not, would you ever put any
16 groundwood pulp in one of your free sheet products?
17 Does that actually occur?

18 MR. TYRONE: It certainly occurs at
19 quantities well under the 10 percent. We have
20 machines, for example, that produce, on a machine,
21 produce both groundwood and free sheet, and as we
22 transition from groundwood to free sheet, there is a
23 decision of when do you start calling it free sheet
24 from when you were calling it groundwood. So it's
25 possible that there could be some level of groundwood

1 pulp in that free sheet through that transition.

2 MR. FORSTALL: So that's just a function of
3 grade change; it's not a function of standard
4 operating procedure where you would actually say,
5 "Well, gosh, it's to our benefit to add a certain
6 amount of groundwood pulp into our free sheet grade."

7 MR. TYRONE: There may be some grades where
8 we do routinely put in some groundwood as well, small
9 levels of groundwood. One of the characteristics of a
10 paper mill is that it's very important not only to run
11 your paper machines full out; it's very important to
12 run your pulp mills full out. So, with higher levels
13 of groundwood pulp being produced, it may very well be
14 that we would put some groundwood into some of the
15 free sheet grades as well.

16 MR. FORSTALL: Okay. Thank you. Okay. One
17 final, follow-up question to one of Ms. Bryan's
18 questions. Were a customer interested in a text grade
19 and an associated cover grade, roughly what proportion
20 would they use for a typical print job, and roughly in
21 what proportion would they use text grades versus
22 cover for a particular print job?

23 MR. TYRONE: I'm not sure there is a good
24 answer to that question because I'm not sure that
25 there is a typical print job, and, off the top of my

1 head, I don't recall exactly what our split within
2 coated free sheet of cover-to-text is. I would be
3 more than happy to get you that information.

4 MR. FORSTALL: Thank you. That would be
5 great.

6 That's all the questions I have, Mr.
7 Carpenter.

8 MR. CARPENTER: Mr. Jee, the Commission's
9 auditor.

10 MR. JEE: Justin Jee. I have no questions.

11 MR. CARPENTER: Diane Mazur, the supervising
12 investigator.

13 MS. MAZUR: Thank you all very much for
14 attending today, coming to Washington to give us these
15 direct presentations. They are very helpful, and we
16 appreciate them.

17 Let me go back to the question of nonsubject
18 imports, if I might. Mr. Tyrone, you indicated that
19 you're not concerned about them because -- I wasn't
20 quite sure. Tell us about what the other nonsubject
21 sources of imports are. As I look at the statistics,
22 Canada and Finland certainly jump out at me. How
23 competitive are they in the U.S. market, and what is
24 their role in the U.S. market?

25 MR. TYRONE: Canada is less of a presence

1 now than they used to be, as was indicated in my
2 statement. There have been some mills in Canada that
3 have shut down over the course of the last few years.
4 You have the data. In terms of where it comes from,
5 what I would tell you is that, from a practical,
6 market standpoint, it's almost as though Canada and
7 Finland don't exist in terms of what we hear in the
8 marketplace of what's driving the pricing that we need
9 to meet.

10 MS. MAZUR: Please.

11 MR. BUTTON: Ken Button. One thing that the
12 Commission might take note of has to do with the
13 import statistics. If you split the import statistics
14 between imports of rolls versus sheets, you'll find
15 that the imports of the nonsubject imports in the
16 sheet realm are very much higher, almost uniformly,
17 than those of the subject imports. So the role of the
18 nonsubject imports in that area of competition, as Mr.
19 Tyrone said, is not one of intense competition.

20 MS. MAZUR: So you're saying the nonsubjects
21 are not really present or to a more limited degree in
22 the web roll types of customers and applications,
23 which is why you're not seeing them?

24 MR. BUTTON: You'll find nonsubject imports
25 in substantial quantities in both the sheet and roll

1 portions of the market, and I would note that some of
2 the statistics include sheet rolls. But you'll find
3 that, in general, the pricing of the nonsubject
4 imports, when you adjust for sheet versus roll, is, as
5 Mr. Tyrone said, certainly less competitive.

6 MS. MAZUR: Would that also be true for
7 imports from Germany, Japan, Italy; the same set of
8 circumstances?

9 MR. BUTTON: Looking at the stats before me
10 now, broadly, I would say yes, but we would be happy
11 to comment further in the brief.

12 MS. MAZUR: If you would, please. That
13 would be very helpful. Again, all of these questions,
14 Mr. Kaplan and Mr. Jones, are related to the Bratsk
15 Aluminum decision that the Commission has before it in
16 many cases. And if you would address it very
17 specifically in your post-conference briefs, the
18 question of coated free sheet paper being a commodity
19 product and then the impact or the presence of
20 nonsubject imports in the U.S. marketplace, if you
21 would, please.

22 I would also like to get back to, Mr.
23 Tyrone, to the difference between web rolls and
24 sheeter rolls. What are the physical differences, if
25 any, between a web role and a sheeter roll?

1 MR. TYRONE: The differences have more to do
2 with moisture content and the mechanical -- what we
3 would call the mechanical condition of the roll, so
4 whether a web product can tolerate a different level
5 of imperfection for ridges and those kinds of
6 imperfections than a sheet product can. That would be
7 an example. We're prepared to elaborate on that more
8 fully in the follow-up brief.

9 MS. MAZUR: If you would, please, because,
10 as was indicated earlier this morning, I believe
11 Respondents on the other side will be talking about
12 the attenuated competition between the web roll
13 product and the sheet product and the extent to which
14 you can flesh out what, in fact, the differences are
15 between the two products and how interchangeable or
16 not that they are. We would appreciate that very
17 much, and putting that in your post-conference brief
18 would be fine.

19 One last question. Mr. Jones, you talked
20 about the export statistics data. I wasn't sure
21 whether it was Korea or Indonesia. Do you have export
22 statistics? Have they been provided in the petition
23 that I'm not aware of, and, if not, can we get the
24 export data that you were talking about, and that
25 would be for all three subject countries?

1 MR. JONES: The data that I was referring to
2 are in the petition. At least, I think this is what
3 you're asking about in the context of negligible
4 imports.

5 MS. MAZUR: No, not negligible imports. I'm
6 talking about Korean export data, not our import data.

7 MR. JONES: I don't believe we have Korean
8 export data in the petition. Correct me if I'm wrong,
9 but we would be happy to provide you with data for all
10 three countries for the period of investigation.

11 MS. MAZUR: We would want export data from
12 those countries. Do you have that information? Does
13 RISI prepare it, for example? You did give us net
14 export figures for the three subject countries. So
15 what are the import and export statistics that produce
16 that net export figure? Does RISI have that? Do you
17 have access to that?

18 MR. JONES: We certainly have access to
19 export data. I'm not sure what RISI data are
20 available, but we will go back to our sources and look
21 and see what we have and provide you what we have.

22 MS. MAZUR: If you would, please. Thank
23 you.

24 I think those are all of the questions I
25 have, and, again, thank you very much.

1 MR. CARPENTER: I have a few follow-up
2 questions. Mr. Cameron, in his opening statement,
3 again, made an argument of attenuated competition, and
4 if I heard him correctly, I believe he said that 70
5 percent of the U.S. market is web rolled. Would you
6 agree with that statistic? Do you think that's
7 roughly correct?

8 MR. TYRONE: We think that's roughly
9 correct.

10 MR. CARPENTER: And would you also agree
11 that the subject imports are almost exclusively sheet?

12 MR. TYRONE: Well, I believe the import data
13 show that Korea is the third-largest importer. Rolls
14 from Korea are the third-largest import into the U.S.
15 of coated free sheet rolls.

16 MR. CARPENTER: The third-largest source of
17 imports, including nonsubject imports.

18 MR. TYRONE: Right.

19 MR. CARPENTER: Okay.

20 MR. TYRONE: It's also, I think, worth
21 pointing out that we believe that Korea can easily
22 make the web rolls as well as sheets.

23 MR. CARPENTER: Okay. He also said, if I
24 heard him correctly, that the U.S. industry does not
25 have the capacity to supply the U.S. market. Would

1 you agree with that assertion?

2 MR. TYRONE: I'm not sure about the U.S.
3 industry in total in that regard. I know we could
4 shift a good bit of our production from coated
5 groundwood to coated free sheet. We could shift a
6 good portion of our production from coated free sheet
7 web to sheets.

8 MR. CARPENTER: Okay. But given your
9 traditional product mix between coated free sheet and
10 coated groundwood, do you feel, based on your typical
11 production levels for coated free sheet, that you
12 would be able to supply the U.S. market entirely?

13 MR. TYRONE: NewPage would not be in a
14 position to supply the entire market, no.

15 MR. CARPENTER: Okay. If counsel has any
16 additional insights on that after seeing the
17 confidential questionnaire data, perhaps you could
18 respond to that in your post-conference brief. And
19 also, since there seems to be -- I'll get into this in
20 a minute, but, as I understand it, there are somewhat
21 distinct markets for the web rolled and the sheets, so
22 if you could differentiate your answer for both web-
23 rolled product and for sheet product, I would
24 appreciate that.

25 To follow up on that, do most of your

1 customers, or to the extent that you're knowledgeable
2 about purchasers in the industry in general, do most
3 of them have both sheet-fed presses and roll-fed
4 presses or just one or the other?

5 MR. TYRONE: Most would have one or the
6 other. There are some that have both, but more
7 typically you would find one that had one or the
8 other.

9 MR. CARPENTER: Okay. Thank you. I believe
10 Mr. Forstall asked a question about the technical
11 differences in terms of the quality of the sheet paper
12 versus the roll-fed paper, but I'm a little more
13 curious about a basic question: Why are there
14 differences? Does the sheet paper tend to go into
15 different end products than the roll paper?

16 MR. TYRONE: Quite often, the sheet-fed
17 product is going into a higher-quality, printed
18 application. That's becoming less the case over time
19 as web press capabilities have improved. The primary
20 differences in the quality have to do with the paper-
21 handling aspects as opposed to the printing
22 characteristics, the print-quality characteristics.

23 MR. CARPENTER: Do any customers in the
24 industry have the capability of taking a roll product
25 and then converting it to a sheet product?

1 MR. TYRONE: We suspect that some people do
2 that. As I indicated before, we don't guarantee our
3 regular web product for sheeted applications, so if
4 they do that, they do that at their own economic risk.

5 MR. CARPENTER: I see. Thank you.

6 You mentioned a term, in response to one of
7 Ms. Bryan's questions, I think, about growth in
8 demand. You mentioned a term "commercial printing."
9 Could you elaborate on that and tell me what are the
10 types of printing there are besides commercial
11 printing?

12 MR. TYRONE: "Commercial printing" is
13 actually a bit of a catch-all phrase used within the
14 industry. When you see the industry applications
15 broken down, you'll quite often see magazines,
16 catalogs, books, and then a category called
17 "commercial printing," and commercial printing can run
18 the gamut from annual reports, direct mail, the menu
19 at the local restaurant, but there are a group of
20 printers called commercial printers that typically
21 work on smaller jobs, sometimes high-quality jobs,
22 sometimes very economic jobs.

23 MR. CARPENTER: Do you have any kind of
24 rough, ball-park idea as to what percent of the total
25 U.S. market for coated free sheet paper would be for

1 the commercial printing segment?

2 MR. TYRONE: There are folks who estimate
3 that. I don't have that off the top of my head.

4 MR. CARPENTER: Okay. If you can come up
5 with any estimates in your post-conference brief, we
6 would appreciate that.

7 Just one final request for the attorneys:
8 In the brief, if you would like to elaborate on the
9 question of attenuated competition that has been
10 brought up, we would like to hear your views on that
11 subject.

12 MR. KAPLAN: Yes. We would be happy to do
13 that.

14 MR. CARPENTER: Okay. Thank you. Are there
15 any other staff questions?

16 (No response.)

17 MR. CARPENTER: Okay. We want to thank the
18 panel very much for coming here today to share your
19 testimony with us and to respond to our questions.

20 At this point, we'll take about a 10-minute
21 break and resume the conference with the Respondents.
22 Thank you.

23 (Whereupon, a short recess was taken.)

24 MR. CARPENTER: Could we resume the
25 conference at this time, please?

1 MS. MENDOZA: Yes. Good morning, almost
2 afternoon, Mr. Carpenter and members of the staff.

3 MR. CARPENTER: Good morning.

4 MS. MENDOZA: My name is Julie Mendoza, and
5 I'm with Don Cameron of Kaye Scholer, and we're
6 appearing on behalf of the Korean Respondents.

7 I would just like to take a few minutes to
8 introduce them. Mr. Shin and Mr. Cho are from Moorim
9 USA, which is a subsidiary of the Korean producer and
10 exporter of the subject merchandise; and Mr. Rick
11 Anderson, who is with PaperlinX, the parent company of
12 Spicers Paper. He is a major distributor in the U.S.
13 of both domestic and imported CFS.

14 I would just like to make a couple of
15 comments on themes before we move to their direct
16 testimony. As Don said this morning, I think what
17 strikes you about this petition is it's only supported
18 by one domestic producer, obviously, NewPage. We know
19 that there are a number of very significant producers
20 out there who have not petitioned for import relief,
21 so the question is, why is that?

22 I think if you look at the public
23 information that's out there, the public statements of
24 other members of the domestic industry, what's very
25 clear is that they, in those statements, which, of

1 course, are subject to all kinds of rules and
2 regulations about transparency and accuracy, make no
3 statements about the effects of imports. In fact, all
4 of their discussions with their investors concern the
5 need to be globally competitive, to close down
6 outmoded facilities, and to be able to be competitive.

7 The other thing you notice is that 2006 was
8 a very good year for this industry. They are all
9 talking about sales being up, capacity utilization is
10 high, profits are up, and they are positive. I think
11 you have to keep in mind how significant this is for
12 an industry of this type. This is a mature industry.
13 It's an industry that oftentimes sees industry
14 indicators which are relatively flat and stable, but
15 not this year.

16 This year, things have been performing very
17 strongly. In fact, if you look at this industry in
18 the context of the paper industry overall, it's really
19 the top performer. We're going to provide you with a
20 lot of data that we have that is available publicly
21 from various sources that have been discussed, like
22 RISI this morning, and what you're going to see with
23 that data is that there is a great deal of information
24 on the domestic industry that's out there and
25 available.

1 So there aren't many secrets in this
2 industry, and one of the things I was going to say,
3 before I heard the testimony and the answers to
4 questions this morning, was that there is a very big
5 condition of competition out there, which the domestic
6 producer, i.e., NewPage, didn't tell you about, and
7 that is this whole distinction between the web market
8 and the sheet market.

9 After I heard the answers to questions this
10 morning, I got the very strong feeling that not only
11 was it not being discussed in the petition, but it was
12 being actively avoided in response to questions, and I
13 think that there is a very simple reason for that.

14 It's quite clear that there is a very clear
15 demarcation between the web roll segment of the market
16 and the sheet segment of the market, and, of course,
17 you have to be very careful when you talk about rolls
18 because rolls can be we rolls, or they can be sheet
19 rolls, but sheet rolls and sheet are essentially the
20 same thing.

21 Now, the U.S. industry has a virtual lock on
22 the web roll market. They have almost no competition
23 from imports, and the competition that they do have is
24 from Europe. So you have the U.S. industry
25 controlling what NewPage testified this morning to,

1 which is 70 percent of the market. So they have got a
2 virtual lock on 70 percent of the market where they
3 are completely insulated from subject import
4 competition.

5 For reasons that we're going to talk about
6 this morning -- Mr. Anderson is going to testify to --
7 it's very unlikely that that situation is going to
8 change in the very near future. There are just too
9 many costs and substantial operating obstacles for
10 subject imports to be able to get into that segment of
11 the market.

12 So we have a pretty complete picture for
13 this industry. We have an industry in which U.S.
14 producers have a virtual lock on 70 percent of the
15 market. U.S. producers can't supply the whole market
16 -- they need imports of sheet in this market --and the
17 U.S. industry is performing more strongly in 2006 than
18 they have in any period during this review or prior to
19 that.

20 So the question is, would NewPage like to
21 have less competition? Certainly, they would. Are
22 they materially injured by subject imports? The
23 answer is clearly no. With that, I'll turn it over to
24 Mr. Anderson.

25 MR. ANDERSON: Thank you, Julie, and good

1 morning, Mr. Carpenter and Commission staff. Thank
2 you for the opportunity to share our views on this
3 case.

4 My name is Rick Anderson, as you have
5 already been told. I am the vice president,
6 purchasing, for PaperlinX North America. PaperlinX
7 has four operating companies in North America and is a
8 leading distributor of fine paper, including coated
9 free sheet.

10 PaperlinX has a global footprint which spans
11 30 countries, and we employ 10,000 people globally.
12 We are the world's largest distributor of fine paper.

13 Our U.S. merchandising operations have a
14 long and proud history, with 60 locations throughout
15 12 states of the United States, with particular
16 strength in the West and Midwest locations. We employ
17 820 staff in the United States.

18 I've been working for the organization for
19 23 years, most of my work in Korea, having commenced
20 in the organization in Australia in 1983. I've
21 enjoyed a variety of roles within the organization
22 within Australia, New Zealand, and for the past six
23 years, here in the United States.

24 PaperlinX purchases a variety of grades of
25 paper, including a substantial amount of coated free

1 sheet from leading global mill producers in the United
2 States, Europe, and Asia. Our Asian suppliers are
3 located in Korea, Indonesia, Japan, and, more
4 recently, we have sourced a small volume of product
5 from China.

6 PaperlinX invests heavily in the development
7 of proprietary brands that deliver a unique and
8 differentiated product to the market. The value
9 proposition for most of our imported grades includes a
10 range of value-added services. Additionally, we are
11 able to offer a consistent product across multiple
12 global markets that many of our corporate customers
13 specified, based on their requirements.

14 Many of the domestic mills, including
15 NewPage, are unable to supply coated free sheet to our
16 organization in all geographical markets in which we
17 operate or for some of the applications that our end
18 customers demand. I will expand upon this further in
19 my testimony.

20 We tend to focus on a single supplier in a
21 region, just as do most of our competitors. This is
22 the best way for us to mitigate any risk associated
23 with our imported sourcing strategy and better manage
24 our single largest asset, which is inventory.

25 Our domestic coated free sheet mills are of

1 paramount importance to the organization, and we
2 carefully balance our volumes on a 50/50 basis between
3 domestic product and imported product.

4 We have been importing product, coated free
5 sheet product from Korea, for over 14 years, so this
6 is certainly not a new issue for the Commission to
7 consider. Korean producers have been in this market
8 since the late eighties, and we have found them,
9 during that period, to be a very reliable and
10 responsible player in the U.S. marketplace.

11 Korean producers are more competitive on the
12 West Coast due to the fact that U.S. producers are
13 reluctant to ship product west of the Rockies. We
14 have found that Korean companies keep a very careful
15 watch on this market, and they are very responsive to
16 price trends and quick to insist on price increases
17 when the market can support it. I cannot recall an
18 instance when our Asian suppliers did not follow the
19 lead of the domestic suppliers in terms of price
20 increases.

21 The U.S. market is the third-largest, behind
22 Europe and Asia. Over recent years, the paper
23 industry has become truly global, with four of the
24 existing domestic producers being owned by global
25 paper corporations outside of the United States.

1 Economies of scale have driven this change, and we
2 continue to witness further market consolidation
3 within the production side of the industry.

4 Currently, NewPage and Verso are the only
5 two major U.S. producers of coated free sheet that are
6 not owned by foreign interests. Interestingly, both
7 of these mill groups are currently owned by equity
8 financial institutions, who are not noted for their
9 long-term investment horizon, regardless of the
10 industry which they enter.

11 Both Sappi and Stora produce coated free
12 sheet in Europe as well as other countries, and that
13 production is sold here in the United States in
14 addition to their domestic production. European and
15 Asian imports have been an important component of the
16 U.S. coated free sheet consumption for many years and,
17 in fact, support the shortfall in the supply-demand
18 equation.

19 In terms of the U.S. market demand, it is
20 important to understand that there are two distinct
21 segments of the coated free sheet market, namely,
22 sheets and web rolls. Think of this in terms of the
23 type of equipment that paper is printed on being
24 either a sheet-fed or offset web press.

25 Web offset printing uses a continuous roll

1 of paper that is fed into the press and typically is
2 used for larger runs. This equipment is extremely
3 high speed, and consumes a tremendous volume of paper,
4 with press speeds running at between 900 and 3,000
5 feet per minute.

6 The other distinct market, as we've spoken
7 about a lot this morning, is the coated free sheet
8 market, which is used for commercial printing
9 applications. Typically, the segment places much
10 higher demands on the paper. The papers used for the
11 sheet-fed printing process are usually purchased by
12 the distributor in sheet form and, to a lesser extent,
13 sheeter rolls. These so-called "sheeter rolls" cannot
14 be used in the web offset market, as the moisture
15 content of these grades is much lower and unable to
16 withstand the heat that is applied during the heat-set
17 web printing process.

18 PaperlinX are extremely familiar with the
19 conversion of sheeter rolls. In fact, a large
20 component of our imports from Korea are rolls which
21 are converted to sheets. This is one of the value-
22 added features that we offer to the marketplace, and I
23 would suspect that a large portion of the import data
24 from Korea relative to rolls is purchased by
25 PaperlinX.

1 It is important to understand that coated
2 free sheet web rolls and coated free sheet sheets are
3 not interchangeable. There is clearly a different
4 market for each product, and there is also a
5 substantial price difference between the domestic web
6 rolls and the domestic sheets, which can be as high as
7 20 percent.

8 These distinctions between web rolls and
9 sheets are important because I do not believe that
10 Asian suppliers sell any web rolls into the U.S.
11 market. That segment of the market is almost
12 exclusively controlled by U.S. producers, with some
13 competition from the Europeans and, to a far lesser
14 extent, from Canada. The amount of coated free sheet
15 in web form imported from Asia is, therefore, minimal.
16 I would estimate that the web roll segment of the U.S.
17 coated free sheet market is about 70 percent, which
18 you've heard earlier this morning, and the Asians are
19 not in that segment at all.

20 I don't see, therefore, what possible injury
21 the Asian producers could be causing NewPage and do
22 not see any other U.S. producers in this petition.

23 If the question were, are the Asian
24 suppliers likely to participate in the coated free
25 sheet web roll market in the foreseeable future, my

1 response would be that until they recognize the
2 extreme value that is currently provided by the
3 domestic mills, including deep inventories, mill-
4 supported pricing structures, logistical solutions
5 that provide just-in-time delivery service, they would
6 have an extremely difficult time entering this market
7 successfully.

8 In addition to this, the market price for
9 domestic coated free sheet web is well below that of
10 coated free sheet sheets and presents a real challenge
11 to the Asian mills, particularly given the ever-
12 increasing cost of ocean freight insurance, local
13 storage, and local delivery.

14 In fact, in discussions with both Chinese
15 and Japanese mills who have recently announced
16 capacity increases in the coated free sheet segment,
17 they have confirmed that this is to meet the rising
18 Asian demand due to the world's highest-per-capita
19 growth in consumption of fine paper, as well as the
20 anticipated spike due to the 2008 Beijing Olympics.

21 Prices and demand in the U.S. are up in 2006
22 by something on the order of three to five percent.
23 We are predicting further increases in the coated free
24 sheet segment throughout 2007, based on our view of
25 the supply-demand equation. Europe is in the middle

1 of a five percent price increase, and we expect this
2 to be achieved. Once global markets accept this
3 increase, we expect U.S. producers to follow.

4 Many U.S. producers are reporting improved
5 results year over year. These improvements in the
6 market are due to a number of factors, not the least
7 of which has been a reduction in capacity, a reduction
8 of 950,000 tons being removed from the market in the
9 last two years. Most of this equipment, however, was
10 outdated and energy inefficient, which is a real
11 problem in today's economy.

12 It is a stretch to suggest that this is a
13 direct result of imports, but, rather, imports have
14 filled the void that has been created by inefficient
15 and profit-negative domestic capacity that has been
16 curtailed.

17 There have also been similar closures in
18 Europe and Canada. Given that this old capacity has
19 been taken out of production and demand grew this year
20 with a strengthening U.S. economy, we are looking at
21 some favorable market dynamics going forward.

22 Let me be clear on this point. This is a
23 mature industry. We have been looking at some pretty
24 positive patterns overall for coated free sheet paper.

25 Finally, imports face a number of

1 disadvantages in this market. Domestically produced
2 sheets typically include marketing support,
3 promotional materials, such as swatch books, direct
4 mail pieces, mill-sponsored sample support, technical
5 and logistical support, as well as an extensive sales
6 and distribution network.

7 In the case of imported sheets, these
8 additional costs and services are borne completely by
9 the merchant distributor. Accordingly, a comparison
10 of true costs to the merchant distributor must include
11 the aforementioned items plus the substantial costs of
12 capital associated with carrying deep inventories due
13 to the longer lead times of these products, which can
14 be up to three months.

15 PaperlinX would like to thank the Commission
16 for this opportunity to share our views on this
17 matter, and I would be happy to answer any questions.
18 Thank you.

19 MR. CHO: Good morning. My name is Taehyon
20 ("Ted") Cho. I am the sales and marketing manager for
21 Moorim USA. Moorim USA is located in Denver,
22 Colorado, and Moorim USA is the U.S. subsidiary or
23 Moorim Paper Company, which is the largest producer of
24 coated free sheet paper in Korea.

25 I have been with Moorim USA for six years.

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1 The Korean paper industry is not a new
2 participant in the U.S. market. Moorim, for instance,
3 has participated in the United States market since
4 1987. We serve an important and complementary role to
5 U.S. producers in this market since U.S. producers do
6 not have the sufficient capacity to serve this market.

7 Moorim and other Korean producers supply
8 only one segment of the U.S. market for CFS, the sheet
9 market. Korean imports of CFS, coated free sheet, are
10 imported primarily in the sheet form, but they are
11 also imported in rolls called "sheeta rolls," which
12 are converted into sheets by the customer prior to
13 sale to the end user.

14 As Mr. Anderson testified, this distinction
15 is important because U.S. producers are concentrated
16 in web rolls that are used in web offset printing.
17 Web rolls and sheets are not interchangeable because
18 the printer that has web printing equipment cannot use
19 sheets or sheeta rolls, and the printer who uses
20 sheet-fed equipment cannot use web rolls.

21 Moorim and other Korean producers have a
22 very small production of web roll, and Korean
23 producers have never exported web rolls to the U.S.
24 We do not compete in this segment of the market at
25 all, and it's the largest segment of the U.S. market.

1 In fact, to the best of my knowledge, very
2 few Asian producers export web rolls to the United
3 States. To the extent that imports compete in the web
4 roll segment of the market, those are mostly European.

5 As noted, another feature of the U.S. market
6 is that U.S. producers do not have the capacity to
7 supply the demand, and they focus primarily on the web
8 roll segment of the CFS market, but, clearly, U.S.
9 producers do not have the capacity to supply all of
10 the market demand for CFS. We hear this from our
11 customers all of the time.

12 In fact, it appears, from various published
13 sources, that the U.S. industry is operating at
14 virtually full capacity.

15 As a long-time participant in the United
16 States, Moorim has tried to be very conscious of price
17 trends and consumption trends in the market. Our goal
18 is to maintain market stability and to avoid market
19 dislocations.

20 We have a number of long-term customers in
21 the U.S. that depend upon us for supply, and while I
22 understand that NewPage claims that its recent
23 shutdown of its Luke, Maryland, paper machine was due
24 to imports from Asia, it is difficult to understand
25 how the shutdown of a machine built in 1904 can be

1 attributed to imports rather than to the normal
2 restructuring that the company was supposed to do.

3 In the sheet market, we participate on far
4 different terms than U.S. producers. The lead time
5 between order and delivery for Korean producers is two
6 and a half to three months. In contrast, U.S.
7 producers can turn orders around in three to four
8 days. As a result of this and other factors, such as
9 marketing costs, that our customers must bear when
10 they import from us, there is naturally a price
11 premium for domestic production of comparable
12 products.

13 In terms of the demand of the Korean market,
14 we expect demand to be strong in 2007, as there is a
15 national election scheduled for the president of
16 Korea. Normally, the election tends to boost
17 consumption of CFS because it creates new demand for
18 massive advertisements. In Korea, this relationship
19 has been very strong in the past, and, in fact, the
20 presidential elections are one of the major factors in
21 Korea for CFS consumption increases.

22 Therefore, we expect that Korean consumption
23 for CFS will be improved by about eight to 10 percent
24 over last year, even if there are no changes in other
25 factors of consumption.

1 In terms of prices in Korea, we expect CFS
2 price will go up in 2007 due to increased demand and
3 the fact that we expect demand in the rest of Asia to
4 remain strong. We think that the political situation
5 in Korea is very positive, and foreign investment is
6 growing, so this creates a favorable situation for
7 prices.

8 I am equally optimistic about the U.S.
9 market. The U.S. market has been strong in 2006, and
10 we believe it will remain strong in 2007. Prices are
11 up, and so is demand. We really don't understand the
12 basis for this complaint. Thank you. I'm willing to
13 answer any questions you have.

14 MR. MORGAN: Good afternoon, Mr. Carpenter.
15 I'm Frank Morgan with White & Case. Good afternoon,
16 members of the Commission staff. I'm joined by my
17 colleagues, David Bond and Scott Lincicome. We are
18 going to continue our presentation, starting with
19 Allan Dragone, the CEO of Unisource Worldwide, Inc.,
20 one of the leading distributors and paper merchants in
21 the United States. He will be followed by Terry
22 Hunley, who is an external adviser to Global Paper
23 Solutions.

24 MR. DRAGONE: Good afternoon. As Frank
25 mentioned, I'm Allan Dragone, the CEO of Unisource

1 Worldwide. Unisource Worldwide is a large
2 distribution company for paper packaging and
3 janitorial supplies.

4 Prior to joining Unisource Worldwide in
5 2003, I had over 20 years of experience in the paper
6 industry. I served a number of roles in Champion
7 International, where I was from 1978 to 1998,
8 including responsibility for the sales of a number of
9 the mills that you heard mentioned today -- Pasadena,
10 SMART Papers, Courtland -- and I was the project
11 manager for the last significant investment in the
12 coated free sheet business in North America, which was
13 the Quinnesec mill in 1990 in the upper peninsula of
14 Michigan.

15 So I had a deep background in the coated
16 free sheet market before I came into the distribution
17 business.

18 Unisource is unique, in that we are the last
19 large, independent, distribution company. In 2005,
20 our sales were just slightly over \$6 billion, of which
21 paper represents about 50 percent of our total sales.
22 When I say "independent," we're not affiliated with
23 any mill. We are owned by a private equity firm, so I
24 can't throw any stones at the private equity industry
25 lest my board here about it.

1 We represent almost every U.S. mill, and we
2 sell product from Asia, from Japan, Korea, China,
3 Italy, Germany, and represent what we think are the
4 best opportunities for our customers, our U.S.
5 customer base, to get both value and service in the
6 coated free sheet market.

7 We have over 750 trucks, 80 locations across
8 North America, and we have 7,000 employees in the U.S.
9 We are only a U.S. company, U.S. and Canada.

10 To say that we were slightly surprised by
11 the announcement of NewPage in this petition would be
12 a gross understatement. I find myself in the unique
13 position of being both one of NewPage's largest
14 customers and also probably the largest seller of
15 imported products in the United States. In fact, our
16 sales with NewPage are up 40 percent this year, and
17 our sheet sales are up just under 30 percent. So
18 we're having a very good year as a company, and our
19 position with NewPage is obviously better than we
20 would have expected, but the industry is having a very
21 good year overall.

22 It's interesting to note that just two years
23 ago, Unisource was put on allocation by a number of
24 our coated free sheet suppliers. Actually,
25 "allocation" was not the term that was used at that

1 time. It was a "reservation system," but, in fact, if
2 you wanted to enter more orders than your reservation,
3 you were told that you had to take that elsewhere.

4 It is of great concern to me for my company
5 to be put in a position where we could potentially
6 find ourselves in an allocated market again. It cost
7 us a lot of business in 2004 and 2005 because we were
8 very dependent upon the domestic mills for roll
9 product and, in fact, were not able to get that
10 product.

11 As you've heard from a number of
12 counterparts on this panel today, there is a huge
13 difference between the sheet-fed market and the coated
14 web market. We are probably one of the largest
15 sellers into both markets. We have a significant
16 presence in the coated web market with our graphic
17 communications side of our business, which is only
18 rolls and is not sheets, and the rest of our merchant
19 business is heavily oriented towards the sheet-fed
20 side of the marketplace.

21 The industry consolidation that you've heard
22 about today, on the coated side, is something that's
23 already taken place on the uncoated side. Over the
24 last 10 years, we've gone from 14 suppliers in the
25 uncoated side of the business, and I know that's not

1 the primary concern of the panel, but I thought I
2 would use it from a reference standpoint. We've gone
3 from 14 suppliers of uncoated product to really four
4 players in the marketplace today. They have taken
5 over a million tons of capacity offline, and, not
6 surprisingly, the prices are up, and the health of the
7 uncoated side of the business is better than it has
8 been for years.

9 You see the same thing transpiring right now
10 in our coated business. There are a number of
11 consolidations, a number of rationalizations, as the
12 industry has taken antiquated production offline in
13 order to increase the operating rates for their more
14 cost-effective equipment and increase their overall
15 profitability. With that, you've seen a number of
16 price increases, which is obviously very good from my
17 side of the business.

18 Being in the distribution business, nothing
19 could make me happier than to see higher paper prices.
20 We get a percentage or a commission basically on the
21 price of product, so the higher the price of product,
22 the better we're served in the business. So it
23 doesn't discourage me to see the current wave of price
24 increases in the coated business. In fact, on the web
25 side, we've had a price increase on coated free sheet

1 as recently as the third quarter of this year, so it's
2 a very good situation, from our standpoint, watching
3 the health of the domestic industry.

4 What does have me greatly concerned is a
5 couple of points. One is, without a lot of the
6 imports, and obviously we buy from the best mills on a
7 global basis, and right now the most cost-efficient
8 mills are in Germany, they are in Austria, they are in
9 China, they are in Japan or coming on in Japan, and we
10 believe that in order to offer the best value for our
11 customers, we have to have access to the most cost-
12 effective producers in the United States.

13 Unfortunately, in the United States, there
14 hasn't been a lot of reinvestment into the industry on
15 the sheet-fed side, and on the web side, as Rick
16 mentioned earlier, there really isn't a lot of
17 competition for the domestic industry. In fact, since
18 we sell probably more sheet and web than anyone, I can
19 testify to the fact that there is no web that I'm
20 aware of coming into the country from Asia right now
21 that we're aware of other than sheeter rolls that Rick
22 was talking about.

23 One of the biggest concerns for us is that,
24 NewPage being a great example, two years ago, we went
25 to NewPage and asked if we could have representation

1 across the country for our products, for their
2 products, to be able to sell their products, and, at
3 the time, we were told by NewPage that they weren't
4 interested in extending the line to us outside of our
5 current trading areas. In addition to that, they
6 weren't interested in providing us with a private
7 brand opportunity.

8 So we look at this as a very, very damaging
9 proposition, to limit our ability to access products
10 for our customers. It's not as if we did not give our
11 domestic suppliers the first opportunity, and, in
12 fact, in many cases, we still are willing to talk to
13 our domestic suppliers, but for various reasons, we
14 have not been allowed to sell more of their product
15 into other markets. In spite of that, our sales are
16 up 40 percent with NewPage.

17 So it's of great concern to us, as a
18 company, that we be limited in what we can provide our
19 customers. Thank you very much for your time today.
20 I appreciate it.

21 MR. HUNLEY: Good afternoon. My name is
22 Terry Hunley. I am an external adviser to GPS. I've
23 been involved in the paper industry for almost nine
24 years now. First, I was a partner with Accenture's
25 management consulting group that focused on the paper

1 and forest product industry. After that, I became the
2 chief operating officer for Asia Pulp and Paper, and,
3 at this point, I am now an external adviser for GPS
4 and trying to help them build a very solid and stable
5 position in the United States market.

6 GPS is one of the leading importers of
7 coated free sheet from China into the United States.
8 GPS imports from two primary manufacturers. One is
9 Gold East Paper Mill, and the other is Gold Hua Sheng,
10 and we sell primarily through merchant distribution.
11 We do not hold any inventory, and all of our orders
12 are made to order or produced to order.

13 There has been a number of characterizations
14 about the interchangeability of product today, and I
15 thoroughly disagree with a lot of the things that I've
16 heard. There are huge differences between the
17 products coming in from China, Europe, and the United
18 States that are being sold here in this market.

19 First, there are a number of physical
20 characteristics that differentiate the products. The
21 product range that is offered by the various suppliers
22 varies markedly. The lead times for delivery and the
23 whole area of technical and customer support varies
24 greatly between the various producers.

25 GPS encounters these difficulties every day

1 in the market and has suffered a lot of setbacks in
2 our efforts as a result. When you look at the
3 differences in total, this begins to explain why many
4 distributors in the USA, when you question them about
5 the coated free sheets that they want to carry, the
6 typical answer is, We want to carry a domestic, we
7 want to carry a European, and we want to carry an
8 Asian sheet.

9 The quality and physical characteristics do
10 have a significant difference. Paper is produced by
11 recipe, like baking a cake. My mom bakes a cake which
12 is different than my aunt. You wouldn't want to eat
13 my aunt's cake. My mom's cake is great. Okay? But
14 these differences vary primarily based upon the
15 chemicals that are being used, the paper machines that
16 it's being produced on, and the fiber source for the
17 paper.

18 U.S. paper, in general, typically has a
19 higher fiber content than that coming in from Asia and
20 from Europe. Europe tends to have the lowest. That
21 tends to drive some physical characteristics in the
22 paper, such as stiffness, tear strength, and other
23 mechanical properties. The use of the additional
24 fiber in the U.S. sheet tends to make that product
25 stiffer, which, in some cases, allows it to run faster

1 across printing presses. The faster that runs across
2 those printing presses, the better return those
3 printers get on their investment or their purchase of
4 that product.

5 There are also some advantages in terms of
6 applications where different basis weights can be
7 substituted for each other. If you have an
8 application where a very high tear strength or a very
9 high stiffness is required, you actually might be able
10 to use a lower basis weight U.S. sheet relative to a
11 sheet from Asia, and thereby the printers, or the end
12 users, save a lot of money as a result.

13 When we're in the marketplace promoting the
14 coated free sheets, we constantly come face to face
15 with these quality and physical characteristics. In
16 many cases, our products have to go through some
17 fairly extensive trialing in order to be accepted by
18 customers, printers, and end users.

19 There has been a lot of discussion today
20 about heat-set web and sheet-fed products. Coated
21 free sheet has multiple product segments. The largest
22 of these segments is web. The terminology that I use
23 is "heat-set web." I think Rick alluded to the fact
24 that "web," by definition, because it runs so fast
25 across the presses, is subject to a lot of heat in

1 order to make sure that the inks set before the
2 product comes off the press. As a result, that web
3 product has a different formulation in that sheet
4 which makes it a very distinct and separate product
5 from your typical sheet-fed press papers.

6 The bottom line for us is that we're not
7 competitive in the web products. We have imported an
8 insignificant amount of product into the United
9 States, but the bottom line is we can't sell it
10 because we cannot make any money on it; we're not
11 competitive.

12 A second segment in the coated free sheet
13 market is the C1S, or the coated one side. A lot of
14 this is used for labels, and a lot of this is
15 industrial use, so it comes in in very large rolls,
16 and as a result, because of the transportation
17 inefficiencies for us selling rolls into the United
18 States, again, this is a segment that, in terms of C1S
19 rolls, we tend not to be very competitive.

20 The last segment is for the sheet-fed,
21 coated two side. The basis weight range on this
22 typically runs from a low of about 60 pounds to a high
23 of about 100 pounds. In that 60-pound segment, we
24 find that we are not as competitive as we are in that
25 70-to-100 pound.

1 Again, if you look at the way the market is
2 moving, the end users try to push down on the basis
3 weights in order -- I think I heard somebody say
4 earlier today -- in order to save cost in terms of if
5 you're shipping a catalog, the weight of that catalog
6 makes a big difference, and, therefore, they try to go
7 to those lower basis weights. In those lower basis
8 weights, we are just not as competitive.

9 We struggle competitively with the domestic
10 producers in a number of categories. So the bottom
11 line is that we are not competitive in these large
12 market segments in the United States, and even the
13 rolls that we do bring in, which are typically sheeter
14 rolls -- these are rolls that, as you've heard a half
15 a dozen times already today, are rolls that somebody
16 else is cutting up for these sheet-fed presses.

17 A lot of this -- I think somebody alluded to
18 earlier -- a lot of this actually has to do with
19 custom sizes.

20 NewPage and other U.S. producers use our
21 inability to compete in the majority part of this
22 market to their great advantage by refusing to sell
23 their webs or their C1Ss to customers that are buying
24 sheet-feds from us, and this has, obviously, a huge
25 impact on our ability to get and maintain our customer

1 base.

2 The practice actually limits our market
3 reach of the imports from China, Indonesia, and Korea,
4 and the simple fact that we are not able to provide
5 our customers a full line of products, since we are
6 not competitive in these larger markets, severely
7 limits our ability to attract the distributors that we
8 need to actually gain share in the U.S. market.

9 MR. MORGAN: We hope to be able to elaborate
10 on this in our response to the staff questions, but,
11 for time purposes, we're going to turn it over now to
12 Mr. Klett.

13 MR. KLETT: Good afternoon, Mr. Carpenter,
14 members of the Commission staff. My name is Daniel
15 Klett. I'm an economist with Capital Trade, Inc.,
16 testifying on behalf of Respondents in this
17 investigation.

18 I will be addressing four issues: first,
19 industry health; second, key conditions of competition
20 relating to segmentation of the U.S. market; third,
21 whether the requisite causal link exists; and, fourth,
22 certain issues relevant to threat.

23 Fortunately, this is an industry with a
24 wealth of publicly available information, so I can
25 present some of that in PowerPoint slides this

1 afternoon.

2 Almost across the board, the U.S. industry
3 trends are positive. As shown in Slide 1, U.S.
4 producers' U.S. shipments increased from 2003 to 2005
5 and increased again in interim 2006.

6 Slide 2 shows that for what NewPage
7 characterizes as its benchmark CFS price, there have
8 been continuous increases over the POI, and I think
9 this is a web offset press category.

10 Slide 3 shows that, since 2004, U.S.
11 producers have been operating at over 90 percent
12 capacity utilization and are at over 92 percent of
13 capacity in the first nine months of this year.

14 Mr. Van Opp, chairman of Sappi, stated
15 earlier this month that to maintain flexibility to
16 meet customer needs, a 95-percent operating rate is
17 practical full capacity. So a 92-percent operating
18 rate should be considered very healthy.

19 I would also like to note that I think Mr.
20 Buttons said, well, capacity utilization is up because
21 capacity is down. That's just not true. Although
22 there have been some decreases in individual mill
23 capacities, net U.S. industry capacity is relatively
24 stable and even up a little bit.

25 Slide 4 is our estimate from SEC filings of

1 NewPage, Sappi, Stora Enso, and Glatfelder of
2 operating profit trends over the POI. As you can see,
3 while the industry has experienced losses in some
4 years, the profit margins in the first nine months of
5 this year are likely to be the highest over the entire
6 POI.

7 We recognize that these profit data include
8 nonsubject product from these companies and do not
9 include data from other U.S. producers and our actual
10 analysis of financial trends will be in our post-
11 conference brief based on the questionnaire data.

12 In general, too, in terms of industry
13 trends, the improvement in 2006 is not a seasonal
14 phenomenon. There have been increases not just in
15 profitability, but in the other indicia I indicated
16 earlier over the whole POI and from January-September
17 '05 to January-September '06, so the 2006 improvements
18 are not simply a seasonal phenomenon.

19 Slide 5 presents quotes from public filings
20 or presentations by U.S. producers that also support a
21 finding that current and future market conditions are
22 positive. By the way, these are fairly recent,
23 October '06 and November '06 from Stora Enso and Sappi
24 talking about current conditions and their perceptions
25 about future market conditions, all very positive.

1 There's one additional point I'd like to
2 make about profitability. NewPage has an unusual
3 hedging operation related to a basket index of pulp
4 and natural gas prices and the euro dollar exchange
5 rate. Corporate-wide, NewPage reported losses of \$25
6 million in 2005 and \$47 million through the first nine
7 months of this year associated with this hedging
8 mechanism.

9 NewPage reports that these losses are
10 reported in its overall financial statements as other
11 income or expense. I think the Commission staff
12 should clarify this with NewPage, and if a portion of
13 these expenses were allocated to CFS they should be
14 reported separately since these are such large losses.

15 An apparent negative indicia highlighted by
16 Petitioners is its recent announcement to close its
17 Luke, Maryland, mill and to temporarily reduce output
18 at its Rumford, Maine, plant in '07. NewPage
19 attributes these decisions to supply/demand imbalance
20 in the market caused by an increase in subject import
21 competition. However, I believe these announced
22 shutdowns should be put in the appropriate context
23 both with regard to NewPage and the industry overall.

24 Please look at Slide 6, which are statements
25 made by NewPage with regard to its overall business

1 strategy and the Luke plant closure. The Luke plant
2 was built in 1904 and is categorized by NewPage itself
3 as a smaller, older, high cost machine. In March
4 2002, then owner MeadWestvaco announced the permanent
5 closure of four coated paper mills, including the mill
6 at Luke. Meadwestvaco gave as one reason for these
7 shutdowns the intent to provide NewPage with "a lower
8 cost and more efficient coated paper platform" and
9 that production would be transferred to more efficient
10 plants.

11 In June 2005 and again in September 2006,
12 NewPage reported in prospectuses filed with the SEC
13 that it had low-cost maintenance facilities on a
14 worldwide basis and in a positive light attributed its
15 manufacturing facility to reducing employment and
16 shutting down paper machines and mills.

17 While NewPage blames the recent closings to
18 subject import competition, it is clear that like
19 other CFS producers and worldwide it is pursuing a
20 rational business policy of closing older, higher cost
21 mills and consolidating production and focusing
22 investments in newer CFS mills.

23 Closing of its Luke No. 7 mill is a
24 continuation of its corporate strategy to be a low-
25 cost producer on a global basis. Moreover, the timing

1 of when this closure was announced and the given
2 rationale behind the closure do not correspond. CFS
3 prices have been increasing during 2006, not
4 decreasing, and other market participants and analysts
5 consider supply/demand to be in balance given CFS
6 plant closures in Europe, Canada and elsewhere in the
7 United States as shown on Slide 7.

8 In fact, NewPage itself, as shown in this
9 slide, the last quote, reported just two months ago
10 that U.S. demand exceeded supply in 2005 and that this
11 relationship would continue "for the foreseeable
12 future." I don't think the market dynamics with
13 respect to overall supply and demand have changed that
14 much in the last two months in terms of its rationale
15 for the Luke plant closure.

16 Moreover, shutdowns of less efficient paper
17 mill capacity has been occurring on a worldwide basis,
18 including closures in Canada that total 366,000 short
19 tons over the last three years and U.S. closures of
20 capacity by Sappi, SMART Papers, Appleton and Pasadena
21 in 2004 and 2005 that have totaled over 428,000 short
22 tons.

23 These closures were not attributed to
24 subject import competition. You can look at the
25 contemporaneous press releases from Sappi, for

1 example, and they say they shifted CFS production from
2 their older, which were 1920s vintage, plants and less
3 efficient mills to newer ones.

4 The Pasadena mill, based on its own
5 representation, was shut down prior to Hurricane Rita
6 and never restarted due to high energy costs. I think
7 we all know what happened with natural gas and oil
8 prices posthurricanes, postKatrina and Rita.

9 Most important, total U.S. CFS capacity
10 actually increased during the POI notwithstanding
11 these closures, which reflect continued investment in
12 more efficient mills even as older capacity is closed.
13 This pattern reflects a healthy, not injured, U.S.
14 industry, and RISI forecasts there will be significant
15 additional U.S. CFS capacity expansions over the next
16 five years.

17 Please put NewPage's closure of its 100,000
18 ton plant at Luke in this broader context and closely
19 scrutinize its postpetition claim that reductions in
20 Luke and Rumford were necessary to bring the market
21 back into a supply/demand balance when other market
22 participants and analysts that follow this market, as
23 well as NewPage itself, say that supply/demand balance
24 in light of the significant capacity reductions over
25 the last two years was relatively healthy for the

1 industry in the market.

2 The witnesses that came before me spent a
3 lot of time describing the nature of the market,
4 including the different types of CFS produced and
5 differences in customer base and types of printing
6 machinery. One of the key distinctions in the market
7 is the difference between CFS rolls or web set rolls
8 and sheets or sheeter rolls.

9 You've heard that rolls produced for web
10 offset printing differ in important physical respects
11 from sheets or sheeter rolls and that web offset
12 printers must use CFS web rolls produced for this
13 purpose.

14 Slide 8 shows based on 2005 data how U.S.
15 production and subject imports compare with respect to
16 roll and sheet sales in the U.S. market. A couple
17 things. You've heard certain percentages, but in
18 terms of the overall market being 70 percent web for
19 the U.S. industry a higher percentage is web, close to
20 80 percent.

21 When you look at the imports, what is coming
22 in under the HTS category as rolls we believe to be
23 primarily sheeter rolls. The HTS does not distinguish
24 based on its description between whether a roll is a
25 web roll or a sheeter roll, but based on testimony

1 you've heard this morning a very high percentage of
2 that blue piece of the pie for the imports would
3 actually be sheeter rolls so that in effect a very
4 large percentage of the U.S. producers --

5 And RISI, by the way, which is what the
6 first pie is based on, I think they use the industry
7 terminology that when they say rolls they're talking
8 about web rolls.

9 On causation, the basic patterns that would
10 support a causal link between the U.S. industry and
11 performance and subject import competition are
12 virtually absent in this investigation.

13 Slide 9 shows U.S. volume and market share
14 trends over the POI from public source data. As you
15 can see, imports are an important element to the U.S.
16 market. Nonsubject imports have exceeded subject
17 imports throughout the POI, and through 2005 both
18 subject imports and total imports maintained a
19 relatively constant share of the U.S. market.

20 U.S. producers lost market share only in the
21 first nine months of 2006. However, as I described
22 earlier, in 2006 the industry experienced increases in
23 the absolute level of their shipments, capacity
24 utilization, prices and profitability. There is
25 simply no indication that the increase in subject

1 import volume and market share in 2006 had any
2 discernable, much less material, adverse effects on
3 the U.S. industry.

4 Why not? There are at least two plausible
5 explanations. First, the factors you've heard about
6 that limit the effective competition between the
7 subject imports and CFS sales by the U.S. industry as
8 a whole.

9 Second, the significant reduction in CFS
10 capacity on a worldwide basis has resulted in a
11 tighter supply/demand balance both worldwide and in
12 the United States. This is why the industry operated
13 at high capacity utilization rates in 2006,
14 effectively close to full capacity, and shipments,
15 prices and profitability all increased as well
16 notwithstanding the increase in subject import market
17 share.

18 Furthermore, there was no support for a
19 finding that the U.S. producers' prices have been
20 depressed by reason of the subject imports. Frankly,
21 the Commission need not even consider whether any
22 causal link exists with respect to pricing. Nominal
23 prices are increasing so there's no price depression.
24 Profits are up based on public information so there's
25 no price suppression. We will of course address this

1 issue in our brief based on proprietary price and cost
2 data submitted in questionnaires.

3 With regard to threat, in general the same
4 facts that support a negative finding with respect to
5 present injury also support a negative threat finding.
6 That is, there's no causal link between that period
7 when subject import volume and market share increased
8 and any discernable adverse effects to the U.S.
9 industry.

10 The same factors that limit competition
11 between the U.S. industry and subject imports in the
12 past will continue into the future. You've heard that
13 there are technical reasons and commercial reasons why
14 imports face a severe competition threat with respect
15 to getting into the web roll market, for example.

16 In addition, analysts that follow the
17 industry have made volume, price, capacity and
18 capacity utilization forecasts specific to CFS for the
19 U.S. market and all are positive. This reflects in
20 general the fact that there have been significant CFS
21 capacity reductions on a worldwide basis over the last
22 three years so that the future supply/demand balance
23 is expected to be favorable to existing producers.

24 As I testified earlier, this view is even
25 shared by NewPage based on statements it made two

1 months ago.

2 Thank you.

3 MR. BOND: Good afternoon. My name is David
4 Bond. I'm an attorney with White & Case. I'm
5 appearing this morning on behalf of the Indonesian
6 Respondents. I just wanted to make a few very brief
7 comments to you with respect to the negligibility
8 standards that will be applied to Indonesia in the
9 countervailing duty case.

10 The Petitioners have conceded, as I
11 understand it, that the imminently exceeding standard
12 -- I'm sorry. They've conceded that the four percent
13 threshold based on actual data can't be met, so their
14 entire case really at this point rests on their claim
15 that imports from Indonesia will imminently exceed the
16 four percent threshold at some point in the near
17 future.

18 Our position, our view, is that the legal
19 standard that the Petitioners are seeking to apply is
20 inappropriate. We think that you can reach that
21 result in one of two ways. We believe that based on a
22 plain reading of the statute that the only test that's
23 permissible is actually meeting the four percent
24 standard. We don't read the statute as providing an
25 imminently exceeding possibility.

1 We believe that paragraph (b) of Section
2 771.24 is a freestanding provision that sets forth the
3 entire standard to be considered with respect to
4 developing countries in countervailing duty cases. A
5 quick review of that paragraph reveals that there's no
6 mention whatsoever of the negligibility standard being
7 met based on the imminently exceeding criterion the
8 Petitioners are applying.

9 If you were to look to interpret paragraph
10 24 of Section 771 based on the legislative history, if
11 you were to do that because you weren't so confident
12 that the statute is clear on its face, we believe that
13 you'll reach the exact same conclusion.

14 The SAA reveals quite clearly that the
15 intent of Congress in drafting paragraph 24 was to
16 implement the requirements of the OCM agreement,
17 paragraph 2710. Again, under paragraph 2710 the only
18 standard that's mentioned for meeting the
19 negligibility standard are actual imports during the
20 negligibility period of greater than four percent.
21 There's no mention of an imminently exceeds standard.
22 There is no possibility along those lines.

23 So again, whether we look to the plain
24 meaning of the statute based on what we think is a
25 possible reading or if we attempt to discern what

1 Congress intended based on the legislative history, we
2 get to the same result, which is that the imminently
3 exceeds standard does not exist for developing
4 countries in the CVD case.

5 If we were to apply that standard -- wrongly
6 in our opinion, but if you were to apply that standard
7 -- we believe that Petitioners also fail. We believe
8 that the data that they've provided does not provide a
9 reasonable indication that imports will imminently
10 exceed the four percent threshold in the near future.

11 The fact that imports may have exceeded that
12 threshold in a particular month is not sufficient
13 evidence, and we think their attempt to construct a
14 trend based on eight months of data is also faulty.
15 The eight month analysis doesn't take into account
16 issues of seasonality.

17 Petitioners have made no attempt whatsoever
18 to discuss with you the range of error associated with
19 their projections, and we'll demonstrate to you in our
20 brief that based on Petitioners' own calculations it's
21 at least as likely that the imports will be less than
22 four percent as they will be above four percent using
23 that eight month data.

24 We'll also provide to you an extrapolation
25 based on 12 months of data for the full negligibility

1 period, which will show that the most likely outcome
2 in the imminent future is that imports will remain
3 below four percent.

4 Thank you.

5 MR. CAMERON: Just to close this where we
6 started today, NewPage said this morning, "No segment
7 of this market is insulated from import competition,"
8 but they also concede, after you pressed them, that
9 web rolls and sheets are not interchangeable because
10 sheets and sheeter rolls can't be used in the web
11 process.

12 They also concede that roughly 70 percent of
13 the market is web rolls and that the fact, as you've
14 heard here today, is that subject producers don't
15 import web rolls. So I ask you. Does their statement
16 that, "No segment of this market is insulated from
17 import competition," ring true? I would suggest to
18 you that the answer to that is no, it doesn't.

19 These guys have controlled this petition.
20 They have controlled this process, and until today
21 there was absolutely no discussion whatsoever of the
22 segmentation of this market between web rolls and
23 everything else.

24 This is really kind of the problem here, and
25 this is also one thing that explains why it is that

1 the domestic industry is performing so well this year
2 despite the fact that imports have increased and, of
3 course, since the domestic industry appears to be at
4 full capacity it isn't as if they could have increased
5 their sales by another X million tons because they
6 don't have it. They are basically at full capacity.

7 Yes, imports increased and so have domestic
8 prices. That is exactly where we get to the issue of
9 attenuated competition, and the fact is there is no
10 causation in this case. They have not shown their
11 case.

12 Thank you, and I think we are giving you
13 back approximately three minutes.

14 MR. CARPENTER: We appreciate that. Thank
15 you, panel, for your presentation.

16 I would just note to Mr. Klett we will
17 include your slides in the record by attaching them to
18 the transcript.

19 Now we'll move on to the staff questions
20 beginning with Debra Baker.

21 MS. BAKER: Debra Baker, Office of
22 Investigations. My first question is for Mr. Cho and
23 for the other counsel who can speak for the producers
24 in the subject countries.

25 We are aware that there's very little, if

1 any, in the way of web rolls being imported into the
2 United States. Does your firm, though, and the other
3 subject manufacturers produce web rolls for sale in
4 the home markets or for export to other countries?

5 MS. MENDOZA: I think we would probably be
6 prepared to answer that in a posthearing brief, a
7 confidential posthearing brief --

8 MS. BAKER: Okay.

9 MS. MENDOZA: -- with respect to all of the
10 companies that we represent.

11 MS. BAKER: All right. Could we obtain
12 information available for each subject manufacturer
13 perhaps on a percentage breakout for whatever time
14 period the data is available?

15 MS. MENDOZA: Certainly.

16 MS. BAKER: Yes. If available by year or
17 certainly for the period which is subject to
18 investigation.

19 MR. CAMERON: Could I add one thing? I
20 think that Rick also has some things that he could say
21 about this issue because it goes not only to the issue
22 of the capability of manufacturing web rolls, because
23 you manufacture the rolls on the same piece of
24 equipment. The question is what are you
25 manufacturing.

1 The issue really is in terms of bringing it
2 into the market and selling it, and I think this is
3 something that you can discuss. She's talking about
4 the likelihood of okay, so why tomorrow aren't they
5 going to go in and stop importing sheets and start
6 importing webs? Why don't you go and talk to her
7 about that?

8 MR. ANDERSON: I did comment briefly during
9 my presentation, but, just to expand on that a little
10 further, there are substantial costs that the Asian
11 mills face in terms of attempting to create a web
12 program that the web printers, as opposed to the
13 distributors, will support.

14 The key components of gaining that support
15 are having product readily available to supply the
16 industry on a just-in-time basis, and that requires a
17 substantial amount of inventory being put on the floor
18 so that it can be readily delivered to a variety of
19 printers across the country.

20 The domestic mills have a range of well-
21 established regional distribution centers which carry
22 both sheet and web product, so they are able to offset
23 a lot of the cost associated with those facilities by
24 having a range of product in them. If the Asian mills
25 were to do that outside of their traditional channel,

1 which is the merchant distributor, that would be a
2 substantial cost for them to establish that.

3 The distributors are reluctant to put
4 additional inventory of web rolls into our system
5 because typically the margins on those products are
6 substantially lower than what we can achieve on coated
7 free sheets, which is why we can afford in fact to
8 have these inventories of sheet because we make a
9 reasonable return.

10 As it pertains to coated free sheet web, the
11 margins are single digit and would not sustain the
12 carrying of inventory for the extended lead times that
13 are associated with imported product.

14 MR. CAMERON: If I could add just one more
15 point? The Korean producers have been in the market
16 since at least 1987, give or take. It could be a
17 little bit earlier, but at least this company has been
18 there since 1987. They haven't imported web rolls in
19 this entire period of time.

20 Web rolls actually is not a new phenomenon.
21 This has been in existence. It's a major product --
22 the major product -- for the domestic producers, so
23 one would have thought that if this was their grand
24 strategy that unless they're going to wait until 100
25 years, since we've been hearing that figure thrown

1 around today, I think that it is unlikely that that is
2 the case.

3 We will be glad to answer your question in
4 terms of the data, but I think that this is the basic
5 response.

6 MS. MENDOZA: I would just add that I think
7 it also has to do with, and we can explain more in our
8 brief, the fact of the consumption. You know, you
9 heard today that web roll production tends to be for
10 massive production.

11 Given the scale of the economy, a lot of
12 other countries as we understand it don't necessarily
13 have a great deal of web production for that same
14 reason because they don't have the same scale of
15 requirements.

16 We'll definitely give you the details. It's
17 a small part, I believe.

18 MS. BAKER: Okay. Thank you.

19 Another question I wanted to ask or to talk
20 about was the difficulty we experienced in sending out
21 the importer questionnaires and in determining who was
22 the best party to answer them.

23 Before I go into that in more detail, I'd
24 like to jump back to the inventory level. One of the
25 items of information we gather in the importer

1 questionnaires are inventories. Where or at what
2 levels up the distribution chain are the foreign
3 produced product maintained as an inventory? Who
4 typically maintains inventories and at what levels in
5 the distribution process?

6 MR. ANDERSON: I can certainly answer that
7 on behalf of PaperlinX and the Asian mills that we
8 deal with. Mr. Dragone may wish to pass on a comment
9 relative to his key suppliers.

10 Relative to Moorim in Korea, Asia Pulp &
11 Paper in Indonesia and a very small amount of product
12 that we bring in from China, the ownership of the
13 inventory takes place at the time of shipment, so the
14 time that the vessel leaves the export port the
15 merchant distributor takes ownership of that product.

16 So we're maintaining inventory not only
17 within our facilities physically, but also for product
18 that is on the water, which is a three to four week
19 shipment timeframe. The investment for the
20 distributor, who typically carries two to three
21 months' worth of inventory on his floor, is
22 substantial.

23 MR. DRAGONE: The only thing I can add to
24 that is it is the same case whether it's a Japanese
25 mill of manufacture, Korean, Chinese, German, Italian.

1 That is the same situation across all the products
2 that we bring into the States.

3 As a company, we spend a tremendous amount
4 of money inventorying that product here. It's not
5 inventoried for us by these manufacturers. It is our
6 investment in the product to bring it and put it in
7 our 80 locations.

8 MS. BAKER: Okay. Thank you.

9 To jump back to my earlier question, we do
10 send our importer questionnaires to what we intend to
11 be the first commercial entity in the United States
12 that takes title to it who is the consignee,
13 regardless of whether or not they may or may not be
14 related to a foreign manufacturer.

15 We experienced probably more difficulty in
16 this case than perhaps others in identifying who those
17 parties were. In some instances some of the parties
18 receiving questionnaires felt that their suppliers
19 should have been filling out the questionnaires. In
20 other cases they felt their purchasers should have
21 been filling out the questionnaires.

22 Could you review for us the general
23 distribution process of the product not just for your
24 firms, but your understanding of how your competitors
25 also might be distributing the product with respect to

1 the different levels?

2 Before you do that, for example, I kept
3 hearing the term paper merchant mentioned and that
4 sometimes the term paper merchant might or might not
5 be the distributor. I ended up a little confused at
6 times.

7 MR. DRAGONE: Probably the biggest point of
8 confusion is that a paper merchant is normally someone
9 that has warehouses and keeps that product on their
10 floor, maintains an inventory level.

11 The other term that you'll hear often is
12 paper broker, which is someone that usually is
13 arranging for a direct sale from maybe a manufacturer
14 to an end user or from a manufacturer to potentially a
15 paper merchant.

16 They could be filling that roll in between,
17 but they are not in fact inventorying the product.
18 They don't take possession of the product. A paper
19 merchant has the capability to take possession of the
20 product and puts it on their floor.

21 MS. BAKER: And then we also have of course
22 mill agents, who presumably represent a specific mill?

23 MR. DRAGONE: Correct.

24 MS. BAKER: Okay. Now, given that we've
25 defined some of the terms could you perhaps review for

1 us what are some of the typical distribution patterns
2 where the largest flows are actually going?

3 MR. DRAGONE: I'll give it a shot. The
4 majority of product is brought in by a mill and is
5 sold to a paper merchant. The mill might have an
6 agent in the United States representing them, or it
7 may be a representative of the mill itself if it's a
8 big enough operation.

9 The scenario that's most common these days
10 is a mill usually has its own representation in the
11 United States and arranges through that representative
12 to contract or to work with a distribution company,
13 whether it's a Unisource or a PaperlinX or one of the
14 various other competitors out there, to have an
15 agreement for representing their line of product in a
16 given geographical area normally.

17 MS. BAKER: Okay. Any other comments?

18 MR. ANDERSON: I think Mr. Dragone has
19 summed it up perfectly.

20 MS. BAKER: Okay.

21 MR. ANDERSON: Just to be specific on that
22 point, in the case of Moorim, Moorim operates a local
23 sales office or an agent here in the United States,
24 and we place our purchase orders with Moorim USA, who
25 in turn places the order with the mill. We make our

1 payments to Moorim USA.

2 Moorim USA is a fully owned subsidiary of
3 Shinmoorim Paper Company, and that's fairly typical of
4 how the Asian suppliers service the market.

5 MR. CAMERON: And you're taking possession
6 at the foreign port?

7 MR. ANDERSON: Correct.

8 MS. BAKER: Okay. Let's see. Another
9 question is there was some testimony to the allocation
10 or reservation system that was put into place during
11 the period of investigation.

12 Mr. Dragone, could we be specific as to
13 exactly which products that allocation or reservation
14 system refer to?

15 MR. DRAGONE: That's a good question. In
16 our case, dependent upon the mill. In some cases it
17 was just for web, and in some cases it was just for
18 web of a given basis weight range.

19 One of the biggest distinctions in our
20 business is basis weight. In fact, the Asian
21 suppliers don't have the capability of making
22 lightweight coated web or lightweight product for the
23 most part. The U.S. market and the European market
24 can make lighter basis weights.

25 What you find is that in times of supply/

1 demand situations where it's a very tight or
2 reservation type of market certain basis weights are
3 harder to come by because the mill does not make as
4 much profit per hour on their machines running those
5 basis weights and so their production, as Mr. Tyrone
6 indicated, can move from web to sheet, and it can move
7 from various basis weights to other basis weights on
8 some machines. Not all the time, but that's many
9 times the case.

10 We were put on a reservation for sheets with
11 some suppliers. We were put on reservations for web
12 with all of our suppliers and for specific basis
13 weights with some suppliers.

14 MS. BAKER: Okay. Did I understand you
15 correctly, sir? The foreign manufacturers don't have
16 the capability of making the lighter basis weights?

17 MR. DRAGONE: Correct. A paper machine has
18 its own capabilities, and it's like an automobile
19 plant. You can't make everything on that production
20 line.

21 Some mills, and specifically some of the
22 larger machines that are out there today, have a very
23 limited basis weight range they can make. From an
24 efficiency standpoint it just doesn't make sense to be
25 changing basis weights on a machine often so they run

1 in a fairly narrow band.

2 Some of the older equipment, on the other
3 hand, has the capability of moving more so on basis
4 weight.

5 MS. BAKER: Okay. Wouldn't it always be
6 desirable, though, to have the lightest basis weight
7 possible, assuming that there was a high enough fiber
8 content that would give you an adequate stiffness?

9 MR. DRAGONE: Well, here's the tradeoff when
10 you're running a paper mill. If you are running
11 lighter basis weights, you're getting fewer tons per
12 day off the end of the machine.

13 Now, the good news is you're using less
14 fiber, and fiber is very expensive, but the bad news
15 if you have to be able to produce a lot of the product
16 unless the pricing takes into account the basis weight
17 differential.

18 MS. BAKER: Okay. And does it?

19 MR. DRAGONE: In other words, the yield
20 differential.

21 MS. BAKER: And does it?

22 MR. DRAGONE: Well, great question.
23 Sometimes it does. Often it doesn't. Often running
24 heavier basis weights is much more profitable.

25 MS. BAKER: Okay.

1 MR. DRAGONE: For instance, the Quinnesec
2 mill, which I had responsibility for at one time.
3 Lighter basis weights in allocated markets, we would
4 just drop lighter basis weights.

5 We wouldn't make them available to our
6 customers because we could produce so much more
7 product that even with the higher pricing of the
8 lighter basis weights we could make much more money
9 for the company if we were only running heavier basis
10 weights.

11 MS. BAKER: Okay. To review, the U.S.
12 product has to have a higher fiber content. Am I
13 correct?

14 MR. DRAGONE: Yes. I think I understand.
15 It's got a very different -- I would not want to
16 portray myself as a paper chemist, but it is very
17 different.

18 Fiber is very unique to different parts of
19 the world, and the fiber in North America tends to be
20 very strong, at least in the southern states, very
21 strong, very bulky. In the northern states it tends
22 to be a very fine fiber that makes for a better
23 surface characteristic, so fiber is very unique to the
24 geographic area of the world.

25 MS. BAKER: Okay. Is that statement true

1 for both the sheets and the sheeter rolls, as well as
2 the web rolls?

3 MR. DRAGONE: Yes.

4 MS. BAKER: Okay. And then the European
5 sheets were somewhat in between?

6 MR. DRAGONE: European sheets for the most
7 part have the best surface characteristics. Their
8 fiber is very fine, and it lays very finely. It's
9 easy to put a coating surface on it.

10 You could not make a good coated sheet fed
11 product out of the south, for instance, because the
12 pine fiber, while it's very strong, is very rough, and
13 it's very hard to coat that surface and make it as
14 smooth as you need it to be.

15 A lot of the fiber that's used in Asia today
16 is coming from recycled product out of the United
17 States, or it's coming from eucalyptus plantations.

18 MS. BAKER: That's interesting. What role
19 does recycling play?

20 MR. DRAGONE: Well, recycling plays a big
21 role in that a lot of the fiber that is used in Asia
22 comes from the U.S. The fiber, what's known as ONP/
23 ONC -- this means old news print and old corrugated --
24 that gets utilized often in paper making in Asia, not
25 to mention the rest of the world, but particularly

1 Asia.

2 MS. BAKER: And also here in the United
3 States?

4 MR. DRAGONE: Yes.

5 MS. BAKER: How does Canada fit into this?
6 There are a number of nonsubject imports from Canada.
7 Are its characteristics more typical or more like
8 those of the other U.S. plants?

9 MR. DRAGONE: You know, the Canadian coated
10 products were very similar to the U.S. products.
11 Unfortunately, there's not much Canadian coated
12 production, as Mr. Tyrone indicated. There's just not
13 a lot of mills left in Canada producing coated free
14 sheet.

15 There are quite a few state-of-the-art
16 coated groundwood mills, but no coated free sheet.
17 Really it's a very insignificant amount of capacity
18 now.

19 MS. BAKER: Okay. Are there any end use
20 markets now that really require or strongly prefer one
21 of these combinations of chemical/fiber content market
22 inputs?

23 MR. DRAGONE: I'll turn this over to Rick as
24 well. Rick, why don't you handle that one? I talk
25 too much.

1 MR. ANDERSON: Debra, I think the real
2 demand in terms of a differentiated mix is in the
3 environmental area. There is a growing demand for
4 products that are containing a higher degree of FSC
5 certified pulp content or recycled pulp content.
6 That's more the issue than whether it's northern or
7 southern fibers.

8 MS. BAKER: Okay. Thank you. That's all
9 the questions I have right now. Thank you very much.

10 MR. CARPENTER: Peter Sultan?

11 MR. SULTAN: I have a question for Ms.
12 Mendoza or Mr. Cameron.

13 You've spoken a fair amount about the
14 differences between paper in sheet form and in web
15 rolled form. How does this carry over to your
16 position on the like product?

17 MS. MENDOZA: Well, we're actually not
18 arguing that it's a separate like product simply
19 because we believe that the way that the Commission's
20 data has been collected that you really don't have
21 information separating the two out.

22 However, we do think that there's a pretty
23 clear market segmentation between those two and that,
24 you know, we would consider this to be a condition of
25 competition as opposed to a like product issue.

1 MR. SULTAN: Thank you very much.

2 My next question is for Mr. Anderson. You
3 said in your testimony that Korean producers are more
4 competitive on the west coast due to the fact that
5 U.S. producers are reluctant to ship product east of
6 the Rockies.

7 I have to admit offhand I don't know where
8 U.S. mills are located, whether they're all east of
9 the Rockies or not, but could you just elaborate on
10 that a little bit? I mean, it strikes me as a little
11 strange that U.S. producers wouldn't ship westward.

12 MR. ANDERSON: Certainly. Most of the
13 domestic producers are east of the Rockies, just to
14 clarify that point, and in terms of coated free sheet
15 they are all east of the Rockies.

16 Their reluctance to ship product west of the
17 Rockies, although it's a very good market, the Los
18 Angeles area in particular. There is a substantial
19 freight cost associated with shipping product from the
20 eastern part of the United States into the west coast,
21 so much so that product shipped from Asia can compete
22 with domestic products given the lower cost of ocean
23 freight from Asia to the west coast.

24 MR. SULTAN: Thank you very much.

25 MR. CAMERON: I think it's also important

1 for you to point out it goes the other way too because
2 the Asian suppliers are not as competitive on the east
3 coast, which is where I think the locus of the
4 domestic industry is and where the bulk of their sales
5 are for the same reason, correct?

6 MR. ANDERSON: Absolutely.

7 MR. SULTAN: Thank you. That's all I have.

8 MR. CARPENTER: Nancy Bryan?

9 MS. BRYAN: Thank you. My first question is
10 for Mr. Dragone.

11 I think you mentioned the private branding
12 and how the domestic industry, I guess NewPage in
13 particular, was reluctant to help you with that
14 endeavor. What were their reasons given?

15 If you want to give this in a postconference
16 brief that's fine as well.

17 MR. DRAGONE: No. I think I'd rather
18 respond to it now.

19 Probably the biggest problem for Unisource
20 when I first arrived here was that from a national
21 brand standpoint we're a national company. We have
22 locations across the country, and yet from a domestic
23 supplier standpoint we had no supplier that would
24 support Unisource across the country.

25 In other words, if we had an LA location we

1 couldn't get the same product we could get in our
2 Boston location. We met with all of our domestic
3 suppliers and sat down and said to them we're at a
4 competitive disadvantage in the marketplace because we
5 can't go to a Xerox and say that we want to
6 participate in their national program and we're going
7 to supply then NewPage's product across the country.

8 Because we have a major competitor in xpedx
9 that had all of these lines available to them, it was
10 putting us at a distinct disadvantage in the
11 marketplace. Xpedx, a major competitor of mine and
12 also of Rick's, is owned by International Paper, and
13 they had the NewPage line. They had the Stora line.
14 They had the Sappi line. They had all of these lines.

15 We approached all of our domestic mills, and
16 we have all of them in certain locations, but, for
17 instance, in NewPage even though our sales are up 40
18 percent we have NewPage in only 20 percent of our
19 Unisource locations.

20 So we went to all of our domestic mills and
21 said we need the opportunity to be able to represent
22 you in all of the locations that we are in in order to
23 be competitive with xpedx in their national account
24 program. If we can't have that, what we would like to
25 have is a private brand program which would be

1 specifically for Unisource where we could sell that
2 product again on a national basis.

3 Unfortunately, NewPage declined to -- at
4 that point they were not NewPage. They were
5 MeadWestvaco, but it was a conversation with Mr.
6 Tyrone.

7 They declined to provide us either the
8 additional representation or the private brand
9 program, which is really what was the catalyst for us
10 in going out and acquiring additional sources of
11 supply outside the United States and has made a huge
12 difference in our overall profitability and ability to
13 have in the national account platform the ability to
14 say that we have whether it's a Unisource product or
15 whether it's a product from Europe in the case of our
16 porcelain product from UPM or a product from APP or a
17 product from Korea, so it made a huge difference in
18 our profitability.

19 MS. BRYAN: And when was that that you
20 sought to make a private brand?

21 MR. DRAGONE: That was three years ago.

22 MS. BRYAN: Three years ago.

23 MR. DRAGONE: Three years ago September.

24 MS. BRYAN: Okay. And you say that that was
25 one of the catalysts or the main catalyst that made

1 you --

2 MR. DRAGONE: That was our main catalyst.

3 MS. BRYAN: That was your main catalyst.

4 Okay. So the subject import sources were able to
5 provide you with this private branding?

6 MR. DRAGONE: We were very lucky from one
7 standpoint in that because we had such a strong need
8 we had to have something that we could present on a
9 national basis.

10 We went to a number of mills, and we made
11 partnerships not only in Asia, but also in Europe with
12 UPM-Kymmene that has a world class facility in Germany
13 that's also part of our private brand platform now.

14 We were successful. It took a little bit of
15 time. It took a lot of effort. Again, that's just
16 for sheet fed other than UPM-Kymmene that has some web
17 capabilities coming out of Europe and in the United
18 States. They have some assets in the United States,
19 but for Asia we were just looking for sheet fed
20 capabilities.

21 MS. BRYAN: Okay. My next question I guess
22 is for both you and Mr. Anderson, the issue of the
23 brand loyalty.

24 Again, if you could just comment on how your
25 purchasers and customers view the different lines and

1 if they ever specifically request one brand over
2 another?

3 MR. DRAGONE: You can go first.

4 MR. ANDERSON: Thank you. PaperlinX have a
5 strategy and, in fact, it's one of our core operating
6 principles, to develop what we call proprietary brands
7 or private brands and that has proven to be a
8 successful strategy across all of our marketing
9 operations in Europe, Australia, New Zealand, Asia,
10 and also here in the United States. In the case of
11 Moorim, we introduced their brand as Pacesetter and
12 it's been that brand in the marketplace for 14 years.

13 Yes, we do have many Pacesetter customers
14 who will only use Pacesetter for their coated free
15 sheet printing requirements; not to say that there
16 aren't printers that would also use Mr. Dragone's
17 product called Unisource Gloss.

18 There is some loyalty that can be developed
19 and we believe it's an important strategy in which we
20 can differentiate our offering. The domestic mills
21 tend to focus on their own brands and try to develop
22 their own brands and are reluctant, as we've already
23 heard, to go outside of that arrangement.

24 MS. BRYAN: Okay. I guess that leads me to
25 my next question about is there any exclusivity in any

1 of your arrangements, either with your suppliers or
2 with your customers?

3 MR. DRAGONE: From a supplier standpoint, we
4 don't have exclusivity, if by that you mean we are the
5 sole supplier to the marketplace. We have a level of
6 exclusivity which is important. We have competitors
7 in various markets that also have access to the same
8 products from APP and from Top Coat or from OG, but we
9 don't have specific exclusivity in markets.

10 Actually, in the domestic area, we have as
11 close to an exclusivity arrangement as we have in
12 Unisource would be our NewPage relationship in the
13 midwest, interestingly enough.

14 MS. BRYAN: Okay.

15 MR. ANDERSON: And I can certainly attest to
16 that, having attempted to get access to a NewPage
17 coated web in the midwest.

18 Just to clarify that point a little further,
19 our strategy is to have one supplier from each of the
20 major producing countries, to position a particular
21 product into a market segment. And to be a little
22 more specific on that, we will have a supplier out of
23 Indonesia or China, we'll have a supplier out of Korea
24 and we'll have a supplier out of the North American
25 mills, whomever supports us in any given market, and

1 we will have a supplier out of Europe.

2 MS. BRYAN: Is that mainly for logistical
3 reasons?

4 MR. ANDERSON: No, it's more to meet the
5 demands of the market and, as Mr. Hunley spoke to
6 early, many printers prefer to use different products
7 for different reasons, or a printer may use different
8 product for a different end use.

9 MS. BRYAN: Okay. Could you also either
10 here or post-conference kind of estimate -- I guess
11 you said that most of the demand is east of the
12 Rockies, but do you know what kind of share is East
13 and West Coast?

14 MR. DRAGONE: I don't think I would say most
15 of the demand is east of the Rockies. You're talking
16 about for the domestic mills?

17 MS. BRYAN: No, just for U.S. consumption,
18 U.S. demand.

19 MR. DRAGONE: U.S. consumption is -- the hub
20 of the U.S. printing market, if you drew a circle 600
21 miles using Chicago as the epicenter, that would
22 probably be two-thirds of the printing market in the
23 United States, but the West Coast has a very vibrant
24 printing industry California and up the coast all the
25 way to Vancouver and there are other markets that are

1 fairly substantial, but, as Rick indicated earlier,
2 there's very little -- in times of allocation, very
3 little domestic product finds its way to the West
4 Coast.

5 MS. BRYAN: Could you also commend on the
6 covers versus text grade? When you make a purchase or
7 when you make a sale to one of your purchasers,
8 what percentage may include cover weight versus text
9 weight? If there's any impact on price, what is it?

10 MR. ANDERSON: In the affairs of PaperlinX
11 North American, the split between text weights and
12 cover weights is 60/40, respectively, which I believe
13 would not be terribly inconsistent with other
14 distributors.

15 In terms of the pricing differential, there
16 is a small premium that is applied for cover weights,
17 which typically is in the five to six percentage
18 range.

19 MS. BRYAN: Okay. I don't know how to best
20 say this, but do some transactions not include any
21 covers? Are some transactions just text weight?

22 MR. DRAGONE: Absolutely.

23 MS. BRYAN: Okay.

24 MR. DRAGONE: Some transactions will just be
25 cover.

1 MS. BRYAN: So there's a range?

2 MR. DRAGONE: And some will be just text.

3 MS. BRYAN: Okay. So will the amount or
4 will the share of the total that is accounted for by
5 the cover weight, will that ever impact the price of
6 the total? Do you get a discount because you get half
7 cover weight or half this or a price premium because
8 of that? They're totally separate, independent
9 prices?

10 MR. DRAGONE: Not at Unisource.

11 MR. ANDERSON: Nor PaperlinX.

12 MS. BRYAN: Okay. Thanks.

13 This is sort of a broad question, but do you
14 get any sense that the U.S. market demand in any near
15 future would be trending away from the rolls more into
16 the sheet or is just always 70 percent of the market
17 rolls and it's always going to be? Do you have a
18 sense of that?

19 MR. DRAGONE: I think it's just the
20 opposite. I think one of the concerns -- well,
21 I think the trend would be more from sheets to web.
22 The web has gotten more competitive at lower runs than
23 it did in the past. Historically, there was a
24 demarcation that at this level it didn't make any
25 sense to set up a web press to run this few

1 impressions and what's happened is that the make ready
2 time, the ability for the press to get ready to run a
3 job, as those presses have changed and the technology
4 has changed, they are getting closer and closer to
5 what traditionally would be looked upon as sheetfed
6 business.

7 MR. ANDERSON: Absolutely. Yes.

8 MS. BRYAN: Okay. I have one last question
9 about substitutes.

10 We sort of heard in the morning that there
11 is coated groundwood, but it's not necessarily a close
12 substitute because people don't want to switch their
13 publication styles.

14 Can you comment on at what point your
15 customers maybe would substitute away from coated free
16 sheet into something else, either a price or a lack of
17 supply?

18 MR. ANDERSON: As it pertains to coated free
19 sheet sheets, which I think is the issue that we
20 should focus on, there are very few customers that I'm
21 aware of of PaperlinX that would be prepared to
22 substitute a coated free sheet product for either an
23 uncoated grade or a lower coated paper, including a
24 coated mechanical product.

25 MS. BRYAN: What about the other way, from

1 coated free sheet to groundwood?

2 MR. ANDERSON: That's more in the web market
3 and I think Mr. Dragone is probably in a better
4 position to comment on the web.

5 MS. BRYAN: Okay.

6 MR. DRAGONE: There's quite a bit of
7 transition on a coated web standpoint between
8 groundwood and free sheet whenever the market dynamics
9 interact because in many cases coated web free sheet
10 and coated web mechanical don't overlap. They're
11 different manufacturers, different machines, different
12 mills many times. And so what you find is if the
13 coated free sheet prices started to move up
14 dramatically, you could see some migration, people
15 moving into coated groundwood if they could get a
16 better value, but it's a drop down in quality. If
17 you're moving from coated free sheet to coated
18 groundwood, you're dropping in quality, though your
19 cost structure might go down and your ability to run
20 lighter basis weights and get a yield advantage. But,
21 really, no one makes groundwood coated sheetfed. The
22 last mill was a mill that I had responsibility for in
23 upstate New York, Deferiet, New York, which was an old
24 mill that made a Raylight product, which was a coated
25 number 5 sheetfed product.

1 MR. CAMERON: Nancy, if I could just
2 interrupt for one second?

3 On the coated groundwood, can that run on
4 the web press?

5 MR. DRAGONE: Can what run? I'm sorry.

6 MR. CAMERON: The coated groundwood paper.
7 Would that run on a web press?

8 MR. DRAGONE: Coated groundwood web will run
9 on any web press.

10 MR. CAMERON: A web press, but the sheeter
11 roll will not run on the web press?

12 MR. DRAGONE: Well, a sheeter role, as Jim
13 described very well, there's a difference in the
14 dynamics between a sheetfed press and a web press and
15 not only is it a moisture content because the web
16 press puts the paper under a lot more stress because
17 it goes through an oven at high temperatures and so
18 the moisture content makes a big difference in how it
19 runs. That's why Jim said it's not guaranteed --
20 sheeter rolls are not guaranteed to run web because
21 they're not made to the same characteristics as a web
22 product would and when it would go through a web press
23 it could easily delaminate or it could bubble or
24 blister and could easily cause a claim, which is why
25 he very pointedly said he wouldn't stand behind any

1 claims that were based on a sheeter roll running in a
2 web environment.

3 MS. BRYAN: Okay. Thank you.

4 That's all I have.

5 MR. CARPENTER: Fred Forstall?

6 MR. FORSTALL: Thank you.

7 Let's try one of these issues from the other
8 direction. I think it was said -- one of the reasons
9 given for why the imports cannot participate in the
10 web market was that typically the imported sheets
11 would have less fiber. Does that mean that the
12 imported sheet for a given basis weight will be more
13 coating or more filler or what does that mean exactly,
14 when you say less fiber?

15 MR. HUNLEY: Okay. Is this a comment that
16 I made?

17 MR. FORSTALL: Yes, I believe so.

18 MR. HUNLEY: I think you misheard me. Could
19 you restate the question again, please?

20 MR. FORSTALL: I thought one of the reasons
21 given for why the imports cannot participate in the
22 web markets was that typically the sheets would have
23 less fiber.

24 MR. HUNLEY: No, that's not true. The
25 reasons that the imports do not typically compete in

1 the U.S. web market is -- there's a variety of
2 factors, but the additional costs of manufacturing a
3 different specification of sheet; the moisture
4 content, which was talked about earlier; there are
5 some different coating formulations that may be used
6 in order to withstand the higher temperatures in the
7 ovens on the web presses.

8 In addition, there's a transportation
9 inefficiency in shipping the rolls over, whereas
10 sheets are square and they fit nicely into a
11 container, rolls are obviously round and we cannot get
12 as much product into a container and therefore the
13 transportation costs per ton of product coming in is
14 higher.

15 MR. FORSTALL: Okay. Thank you for
16 clarifying that issue.

17 This is for Mr. Anderson. You did make the
18 claim that U.S. producers were reluctant to ship over
19 the Rockies and I think later on you came back and
20 said it was a transportation-related issue. In the
21 olden days, the Rockies sure did split the United
22 States in terms of paper markets; there's no denying
23 that. But on the other hand, from my perspective,
24 I was never really aware of very much coated free
25 sheet production out on the West Coast anyway, at any

1 time. So I guess my question is to the extent that
2 you can, if you have a specific data that would tend
3 to back up your claim that the U.S. producers are
4 reluctant to serve the West Coast, I would like to see
5 that in the post-conference brief.

6 MR. ANDERSON: I'd be more than happy to
7 provide that. We have a number of announcements from
8 the domestic producers making it abundantly clear that
9 that is the case and, in fact, imposing additional
10 costs in order to make deliveries to the west that
11 don't apply to the east. I'd be more than happy to do
12 that.

13 In addition to that, I think the reason that
14 the Asians have had a very strong presence in the
15 western part of the United States for the past 20
16 years is for exactly that reason. I don't believe
17 this is something new. It's been the case for some
18 time.

19 MR. FORSTALL: As I said, I was never aware
20 of too much coated free sheet capacity on the West
21 Coast of the United States for sure.

22 Mr. Dragone, you probably have a much better
23 feel for that than I do.

24 MR. DRAGONE: Well, what's interesting is
25 the West Coast has kind of been a unique market for a

1 long time. Prior to the Asians, actually, the first
2 imports were out of Europe, which wouldn't seem to
3 make any sense because of the distance, but many of
4 the predecessor companies to Unisource, because we're
5 a roll-up of 50 smaller distribution companies, the
6 West Coast had been an import market for quite some
7 time for products other than the Asian products. As
8 Rick said, for 20 years, it's been an Asian market,
9 but even prior to that, there were European sheets
10 that were coming in, if you want to go back into the
11 dark ages.

12 When I was working with Champion, our mills
13 were in Courtland, Alabama, Quinnisec, Michigan,
14 everything was east of the Mississippi. I wouldn't
15 say we actively vacated the market, but we put in
16 fairly significant transportation costs to our
17 customers in order to ship from our mills and it was
18 certainly a lot less profitable to ship from
19 Courtland, Alabama to Los Angeles than it was to ship
20 to the Chicago market.

21 MR. FORSTALL: Thank you.

22 Just looking at it from the standpoint of
23 the trends in the printing industry, I think one or
24 the other of you mentioned just a little while ago
25 that the trend is definitely towards a rotary-fed

1 press, a web-fed press as opposed to a sheetfed press.

2 Given that and given that the U.S. industry
3 has obviously developed a sheet that meets the demands
4 for those high-speed web-fed presses, that to me makes
5 perfect sense, if I'm in the business making coated
6 free sheet that I should develop a sheet that meets
7 what still is the majority of the market.

8 That doesn't necessarily translate into the
9 U.S. industry's unwillingness or inability to serve
10 the sheetfed market.

11 I guess my question to you would be do you
12 have any specific data and facts that -- presumably,
13 they've met the sheetfed market for years and years
14 and so I guess my question is what's changed? What
15 particular things changed that have kept them from
16 meeting the demands in the sheetfed market?

17 MR. CAMERON: Fred, if I can start out and
18 then let the witnesses speak?

19 MR. FORSTALL: Sure, by all means.

20 MR. CAMERON: I think that there's some
21 confusion and if we created it, we apologize.

22 We are not saying that the domestic industry
23 does not compete in the sheet market. They certainly
24 do compete in the sheet market. They produce sheet.
25 That's not problematic.

1 The issue is these guys started out saying,
2 well, there is no insulated market of competition in
3 this product. Well, that's not true. They have
4 approximately 70 percent of the market is insulated
5 because that web product is not imported from subject
6 producers. That is insulation from the subject
7 merchandise.

8 So you're talking about 70 percent that's
9 already carved out that they're not competing against
10 subject producers. As a matter of fact, given Nancy's
11 question earlier about the point of price competition
12 with coated groundwood paper, it does appear that
13 there's actually more competition on a price basis
14 between coated groundwood paper and coated CFS web at
15 the bottom when the price goes too high, rather than a
16 competition between coated sheet and web because you
17 can't use the sheet in the web application. That was
18 the point.

19 Now, to go into the issue of whether or not
20 there is competition in the sheet market, nobody is
21 denying that in fact U.S. producers are in the sheet
22 market and so are the imports. That really is not in
23 contention either.

24 Go ahead, Rick. Do you want to talk about
25 that?

1 MR. ANDERSON: The only point I would add to
2 that is that we don't believe currently there is
3 sufficient demand in sheets to support what the market
4 requires.

5 MR. FORSTALL: Thank you.

6 MR. DRAGONE: If I can just add to that?

7 MR. FORSTALL: Certainly.

8 MR. DRAGONE: Obviously, you heard me
9 reference earlier, we are one of NewPage's largest
10 customers. I don't know if Jim would tell us our
11 exact position, but we're one of the larger customers,
12 and we sell 163,000 tons of their product or we are on
13 the pace to sell that this year, but we're up
14 dramatically with them on the sheetfed side of the
15 business, as well as on the roll side, but we're also
16 up significantly with them on the sheetfed side of the
17 business. They make a very good product.

18 MR. FORSTALL: I'll stay with you,
19 Mr. Dragone --

20 MR. ANDERSON: Mr. Forstall, just to
21 clarify, I think I said inadequate supply. I'm sorry,
22 I said inadequate demand.

23 MR. FORSTALL: I knew what you meant.
24 Thank you, Mr. Anderson.

25 Mr. Dragone, let me stay with you for just a

1 moment. You probably said this in reference to being
2 put on allocation and the allocation system that you
3 spoke of a few minutes ago.

4 Why specifically did that occur, demand
5 going up and the U.S. producers had plenty of business
6 elsewhere?

7 MR. DRAGONE: I think that the reason it
8 happened is there had been some rationalization of
9 capacity over the prior couple of years. It was a
10 very difficult time in the paper industry and in the
11 distribution business from 2001 really to 004. The
12 economy was down and total consumption of paper
13 products were done. The coated side of the business
14 actually was better than the rest of the industry.
15 I think what took place is that a demand jumped up,
16 there had been rationalization of capacity and the
17 pipeline in our business can get -- when you're
18 running at low inventory levels and all of a sudden
19 you realize that demand has picked up, you start
20 ordering product and what happens is it fills what we
21 call the pipeline very quickly and then the next thing
22 you know the backlogs start to creep out at the mills
23 and when the backlogs get beyond a reasonable service
24 level, which is usually like 30 days, then they start
25 protecting themselves by putting in reservation

1 systems or allocation systems so that they can
2 maintain a better schedule for their machines.

3 MR. FORSTALL: And does a better schedule
4 mean a higher paying customer base? I'm just asking.

5 MR. DRAGONE: I would say that you then look
6 at your backlog and try to figure out how you can
7 manage this to the greatest profitability for the
8 company, whether it's basis weight or whether it's
9 customer. You're certainly going to take care of your
10 customers that are growing and paying you promptly and
11 giving you the type of representation in the
12 marketplace that you want.

13 MR. CAMERON: I believe in H beams they
14 referred to this as controlled order entry and I think
15 under any of the various synonyms for allocation to
16 the customers what it is, it's allocation to the
17 customers.

18 MR. FORSTALL: Right.

19 Mr. Hunley, I think you mentioned the issue
20 of stiffness and, typically, from my perspective,
21 stiffness is a more important product specification
22 for coated bristols and my understanding is that
23 coated bristols aren't part of the scope of this
24 investigation.

25 You're saying that stiffness is also a

1 concern in the coated free sheet markets as well?

2 MR. HUNLEY: I'm saying it's just one of
3 many factors that can be used to differentiate
4 products, depending upon the application.

5 MR. FORSTALL: Right. Thank you.

6 And, finally, for Mr. Klett, just as a
7 matter of the data that you presented that I believe
8 was sourced from RISI, do you have any idea how the
9 good old boys at RISI developed those sheet versus
10 roll market share data that you presented just a
11 little while ago?

12 MR. KLETT: Well, they indicate, I think,
13 based on their reports, that they're based on surveys.
14 They also talk about the industry coverage that's
15 behind the data and I think it's fairly high, maybe
16 even 100 percent, but in terms of the mechanics of how
17 they collect the data, I don't know.

18 By the way, Petitioners, I think, relied
19 extensively on RISI data in their petition.

20 MR. FORSTALL: I'm sure they did, but in
21 that specific case, those were interesting numbers.

22 MR. KLETT: Mr. Forstall, also, because this
23 is a public forum I relied on RISI for that purpose.
24 In our brief, I think we have a certain level of
25 detail from your own questionnaire data and we'll

1 present a similar analysis using confidential
2 information.

3 MR. FORSTALL: I'd like to, of course, see
4 that, but also whatever other information specifically
5 on the RISI numbers that you can provide.

6 MR. KLETT: I'd be happy to do that.

7 MR. FORSTALL: Thanks.

8 MR. DRAGONE: The breakdown for rolls and
9 sheets should be readily available from the AFMPA as
10 well, which is the paper industry function. All the
11 mills report and I'd be surprised if they didn't break
12 out rolls and sheets so that you could see what the
13 ratio is.

14 MR. FORSTALL: Great. Thank you.

15 That's all my questions.

16 MR. CARPENTER: John Ascienzo, sitting in
17 for Justin Jee.

18 MR. ASCIENZO: Thank you. I apologize for
19 Justin. He had to go away, he had an engagement he
20 couldn't break, so I'm filling in for him.

21 I'll start with Mr. Klett.

22 Petitioners were probably already going to
23 respond to your discussion about the hedging. I think
24 Mr. Jee might have already touched base with them, but
25 I just want to say for the record that we are going to

1 follow up with your discussion about the hedging.

2 MR. KLETT: Thank you.

3 MR. ASCIENZO: In some of the discussion
4 today, we've seen that prices have gone up or at least
5 on some of the products. How about raw materials?
6 How about like fiber and chemicals and whatever else
7 goes in? Any thoughts on that?

8 MR. DRAGONE: There's no question that the
9 costs have gone up, the energy and fiber costs. Pulp
10 is at almost an all-time high as well. In a
11 normalized market, pulp prices have moved up
12 significantly. So from an overall cost standpoint,
13 there's no question that the costs of raw materials
14 have gone up and now are starting to abate.

15 MR. KLETT: Mr. Ascienzo, I think also when
16 you look at your own financial data, because you have
17 revenue and cost, we can see if costs went up whether
18 they went up faster than prices on average or whether
19 prices went up faster on average than costs. And
20 based on at least the publicly available data I have
21 from the SEC in terms of profitability trends and the
22 increased operating and gross profit margins, it
23 appears that prices are going up on average faster
24 than unit costs.

25 MR. DRAGONE: I think if I can just add one

1 thing to that, having come from the mill side of the
2 business earlier in my career, the raw material
3 costs -- and this is unfortunate for industry but it's
4 been a fact for as long as I can remember -- really
5 don't get reflected in pricing. It really comes down
6 to a supply-demand scenario. If you have a growing
7 market and you can constrain the supply or it is
8 constrained by the growth in the market, then you can
9 get a price increase. But as someone who lived
10 through many, many bad years at Champion
11 International, when our costs were going up but we
12 couldn't pass on a price increase because in fact the
13 market wouldn't support it because of the lack of
14 demand, I would say that there's no question that the
15 reason you're getting a price increase in a lot of
16 markets today is the supply-demand balance and not a
17 cost of raw materials scenario.

18 MR. ASCIENZO: Thank you.

19 The fiber, is there a market for that? Is
20 that openly traded? That's logs, I guess? Is there
21 much buying and selling, to your knowledge? And you
22 can answer, of course, confidentially in your
23 post-conference brief. Is there much buying and
24 selling among different producers?

25 MR. CAMERON: I think when you're talking

1 about fiber, I believe the main fiber is chips. Isn't
2 that correct? Wood chips.

3 MR. ASCIENZO: Wood chips coming from logs,
4 though, right? If you go back far enough? Okay.

5 MR. HUNLEY: There are different grades and
6 types of fiber: long fiber, short fiber, lots of
7 different classifications. There is quite a bit of
8 open market buying and selling across the globe. It's
9 pretty much an international market at this point.

10 MR. ASCIENZO: Thank you.

11 We talked about the recycled paper a little
12 bit. To your knowledge, can mills, do mills, when they
13 make paper, can they mix chips and recycled product or
14 is it all recycled or is there a mix or how does that
15 work? Are different mills different?

16 MS. MENDOZA: I think we may need to get you
17 an answer later on that.

18 MR. CAMERON: We can get it in the
19 post-hearing brief.

20 MR. ASCIENZO: Okay. Fine. Thank you.

21 MR. HUNLEY: There are a number of paper
22 grades across all paper types, not just cut or free
23 sheet, that will have differing amounts of recycled
24 fiber content in them. Some of that is supply
25 restraint. You may actually need to put recycled

1 fiber in a particular grade because you don't have
2 access to anything. Some of it is market driven.
3 There are customers that want a certain amount of
4 recycled fiber in their product.

5 MR. ASCIENZO: Okay. Thank you.

6 There's been some discussion about mills
7 that have closed and the older mills are less
8 efficient than newer mills. Once again, to your
9 knowledge, just your general knowledge, if a newer
10 mill's cost was a dollar a ton, what would the costs
11 per ton of an older mill be, \$1.10, \$1.30, if you give
12 a range? And if you have real information you'd like
13 to give confidentially, once again, in your
14 post-conference brief, that would be great.

15 MR. DRAGONE: I could speak off the cuff,
16 but you can get a number of studies that show the cost
17 structure of various mills. The CIRCI studies will
18 show you on a global basis by region, in other words,
19 Europe, Asia, and it's a pretty good indication of
20 what the cost structure is for a given location, not
21 necessary down to a machine level, but to a given
22 location. In other words, you could see where Luke
23 compared on a global basis, you could see where it
24 compared on a North American basis by looking at the
25 CIRCI study and seeing what their cost structure was.

1 It's very good information, actually. It would be
2 something probably worth looking at.

3 MR. ASCIENZO: Is that study something that
4 you can put on the record?

5 MR. DRAGONE: Yes.

6 MR. ASCIENZO: Thank you. Please do.

7 MR. DRAGONE: Well, you have to buy it and
8 it's very expensive, but it's one that any of the
9 major North American mills, I would bet, would have in
10 their library because it's very good information as
11 far as where you stack up on a global basis and we use
12 that ourselves when we choose suppliers because you
13 certainly don't want to be with someone who is in the
14 bottom of the rankings from a cost standpoint because
15 obviously they're probably not going to be around
16 long-term and they won't be able to provide you with
17 the necessary market pricing.

18 MR. ASCIENZO: Since I understand we don't
19 have it, any party that has it, if they could put it
20 in their post-conference brief, that would be
21 excellent.

22 That's all that I have. Thank you very
23 much.

24 MR. CARPENTER: Diane Mazur?

25 MS. MAZUR: Thank you all very much for a

1 very, very enlightening afternoon of testimony and we
2 really do appreciate your coming to Washington to
3 share this wealth of information with us.

4 I wonder if I could get the industry
5 representatives to talk about, again, non-subject
6 imports other than China, Indonesia and Korea. Where
7 do you see them in the marketplace? Where do you see
8 them in competition with what you're selling?

9 Mr. Dragone, I understand you source from a
10 number of European mills as well as Asian.

11 I wonder if you could all just discuss the
12 role of non-subject imports in the marketplace.

13 MR. DRAGONE: From my experience at
14 Unisource, we also have two European mills that we
15 source from, one in Italy and one in Germany. They
16 make excellent products. The mill in Germany, we get
17 both sheetfed product and web product from. The mill
18 in Italy, we get sheetfed product from only. They're
19 very competitive. The product is different. If you
20 look at products, the European products tend to have a
21 finer surface, a smoother surface, as I indicated
22 earlier.

23 We've had relationships with the Italian
24 mill for 15 years. With the Mill in Germany, we've
25 had a relationship for three years, a little over

1 three years. We believe that they are complimentary
2 to our domestic mills and to our Asian mills.

3 MS. MAZUR: So you are describing something
4 other than a commodity product, perhaps?

5 MR. DRAGONE: I think that -- the funny
6 thing is for the first part of my career I spent a
7 long, long time trying to create an environment where
8 it wasn't a commodity product. Now that I'm on the
9 distribution side, I will tell you that it's much more
10 of a commodity today than it was.

11 MS. MAZUR: Okay.

12 MR. ANDERSON: Within the affairs of
13 PaperlinX, we have imports from Japan and the grade
14 that we source from that supplier is competitively
15 positioned relative to other Asian products. However,
16 it does command a premium in the marketplace because
17 it has a particular range of value added components
18 that printers happen to enjoy using it. The product
19 has some longevity in the marketplace and is very well
20 recognized as a premium quality product.

21 In terms of European suppliers, we also have
22 a small amount of product coming into our business
23 from Europe. The predominance of European sheets,
24 however, is in the eastern part of the United States
25 and our footprint at this stage stops at St. Louis, so

1 we don't sell anywhere near the amount of European
2 source product that some of our competitors do, but in
3 the eastern states, from our information, those
4 products are as competitive as other and certainly the
5 subject suppliers.

6 MR. HUNLEY: We see primarily the European
7 grades in the marketplace all the time. Your comment
8 about whether the product is a non-commodity product
9 versus commodity, there is a constant and never-ending
10 battle in the marketplace trying to make sure that the
11 products are as non-commodity as possible so that you
12 can differentiate.

13 We heard Al and Rick say that they use
14 branding as a big component of their attempts to
15 de-commoditize a product. And then there are other
16 people that are looking at this from more of a
17 commodity substitution point of view.

18 The non-subject imports are direct
19 competitors. We see them in the market all the time
20 and they're a very formidable presence in the
21 marketplace.

22 MR. CAMERON: It's useful to point out that
23 to the extent that you're using branding as a way to
24 de-commoditize a product, the reason you're using
25 branding to de-commoditize is the recognition that

1 without the branding it is largely a commodity because
2 physically the products are largely interchangeable.
3 That's why they're directly competitive and that's
4 also why they sink their money into branding in order
5 to differentiate the product.

6 MS. MAZUR: Along those lines, then, if
7 I could ask the attorneys here today to discuss the
8 Bratsk issue with respect to --

9 MR. CAMERON: Which case is that?

10 (Laughter.)

11 MS. MAZUR: And then also if I can get the
12 attorneys here to talk about the question of like
13 product. There is a lack of discussion here today;
14 does that indicate that you are in agreement with the
15 Petitioners' scope of the product under investigation?

16 Mr. Morgan?

17 MR. MORGAN: I think for purposes of the
18 prelim, we don't have any intention of contesting.
19 I think we have a very strong case on the products
20 that they have defined in the petition.

21 MS. MAZUR: For purposes of the prelim?

22 Does that --

23 MR. MORGAN: Of course I have to reserve my
24 rights; I'm a lawyer. We have to fight it if the
25 commission gets it wrong, but the case is so strong

1 for the negative that I think we're going to fight it
2 on the like product as defined currently by the
3 Petitioners and the very limited information they've
4 produced so that we could start working on this case.

5 MS. MAZUR: Okay.

6 MR. CAMERON: We agree with that.

7 MS. MAZUR: Okay. Those are all the
8 questions I have. Thank you again very much.

9 MR. CARPENTER: Just one follow-up, also for
10 counsel. If you have any additional insights you'd
11 like to share with us on cumulation or related
12 parties, either now or probably more likely in your
13 brief, please do so.

14 MS. MENDOZA: We'd be happy to do that.

15 MR. CAMERON: We'll be glad to do that. If
16 I could just interject, we were asked for some data,
17 I think, that we're going to try and get some RISI
18 data with regard to the difference between the rolls
19 and the sheets, but as was pointed out earlier, the
20 real source of that data is AFMPA and I don't know
21 about other people here but we don't have the AFMPA.
22 I think the Petitioners do. So I think that a
23 question with regard to AFMPA data would really be
24 directed to them, unless you guys already have it.

25 MS. BAKER: Debra Baker, Office of

Heritage Reporting Corporation
(202) 628-4888

1 Investigations. One quick question. Is there
2 anything about the coating which is used, which I
3 understand is often kaolin but can be other
4 substances, that can differentiate the product in any
5 way? We've had virtually no discussion today about
6 the actual coating of the product.

7 MR. DRAGONE: The coatings can be various
8 coatings. They can be synthetic coatings as well as
9 clays, kaolins. Some of the best clays at one time
10 were from Georgia and they were higher quality, finer
11 clays, but now in most mills, I think, synthetics play
12 a role in the coating process as well and so I don't
13 think that you can really differentiate much. Rick
14 might feel differently, but the coatings really don't
15 play a part in differentiating. The fiber plays more
16 of a role than the coating does.

17 MS. BAKER: That would seem like it made
18 sense, given the amount of discussion we've had, but
19 I wanted to get that issue on the record.

20 MR. ANDERSON: I think the fundamental
21 difference in terms of coating is either the number of
22 coatings that a particular sheet may have. We have
23 double and triple-coated products and that tends to be
24 the difference, as opposed to the type of coating.
25 It's more the amount of the coating.

1 MS. BAKER: And all producers would have the
2 ability to do that, depending upon the customer's
3 demand?

4 MR. ANDERSON: Some producers have the
5 ability to do it more efficiently than others,
6 depending on their paper manufacturing equipment.

7 MS. BAKER: But it isn't a major issue in
8 terms of pricing or in terms of product availability?

9 MR. ANDERSON: No.

10 MS. BAKER: Thank you.

11 MR. CARPENTER: Any other questions?

12 (No response.)

13 MR. CARPENTER: That concludes the staff
14 questions for the Respondents. Again, we want to
15 thank this panel for your testimony this afternoon and
16 for your responses to our questions.

17 At this point, we'll take about a ten-minute
18 break or until about 2:00 on the clock in the back and
19 resume with the closing statements, beginning with the
20 Petitioners.

21 (A brief recess was taken.)

22 MR. CARPENTER: If everyone could take a
23 seat, we will resume the conference at this point.

24 Mr. Kaplan, welcome back. Please proceed
25 whenever you're ready.

1 MR. KAPLAN: Thank you, Mr. Chairman and
2 members of the commission staff.

3 We appreciate the time you've taken to
4 listen to our presentation and to the other side's
5 presentation. I'll try to wrap up quickly, obviously,
6 a number of key points.

7 On the issue of injury, we've heard nothing
8 from the other side on the layoffs. We've heard
9 nothing about the Luke press release, which I'll read
10 from in a moment as it relates to the Machine No. 7.
11 We've heard nothing about the capacity shutdowns.
12 We've heard nothing about the new equipment and the
13 investments by the U.S. industry. We've heard some
14 vague, totally timeless and unspecified charges about
15 allocations. These were not directed or indicated
16 where they were or what products they related to or
17 what was going on.

18 What's remarkable in their presentation is
19 given all the things that these subject producers do
20 not make, how did they get from 9 percent to
21 14 percent market share? How did they get to
22 9 percent to begin with and how did they get to
23 14 percent in the last few months?

24 They are making a lot of product and
25 bringing it into this country. They're taking market

1 share not only from the domestic industry but from the
2 non-subject imports. That's very clear from public
3 data.

4 Mr. Hunley says there's so much we can't
5 sell, we can't gain share. The exact opposite is
6 shown by the record.

7 In a cyclical industry like this one, in an
8 industry where capacity utilization is as high as it
9 is right now, we should be making a lot of money. We
10 are not making a lot of money. I can't obviously talk
11 about the confidential information, but this industry
12 has had years of very bad financial performance. We
13 should be seeing a significant upturn.

14 What does the look press release say? "In a
15 market that is increasingly impacted by global
16 competitors, we are committed to take steps to improve
17 our operating performance in order to protect the
18 long-term viability of our business. With the growing
19 influx of low-priced coated freesheet product from
20 Asia, the smaller line scales of the paper machine in
21 Luke have become non-competitive. These actions,
22 while difficult, reflect our commitment to our
23 customers and other key stakeholders to be the best
24 and most efficient producer of coated paper products
25 in North American."

1 We have had to shut down state-of-the-art
2 machines. We have had to take steps that are very
3 damaging to us.

4 On the sheet and roll issue, which we've
5 heard a lot about, let me just say a few things.
6 Sheet is made from roll. The Koreans targeted the
7 sheet market, as did other producers, but nothing will
8 prevent them from exporting web rolls to the United
9 States. The two products are linked in terms of
10 pricing. Sheet competition is in fact just the
11 beginning of subject import assault. There are no
12 barriers to selling web rolls.

13 Mr. Cameron said it's made on the same
14 equipment. Mr. Dragone said web and sheet are
15 interchangeable in terms of their production
16 processes. They would not answer your question can
17 you make web rolls. It's not confidential. It's on
18 the web because we got it on the web while we were
19 sitting back there. Hankuk makes web roll.
20 Shinmoorim makes web rolls. Kyesung makes web rolls.
21 Shen Min, a Chinese company, makes rolls. They're
22 making rolls. They would not answer your question
23 because they don't want you to know the answer to your
24 question.

25 Mr. Tyrone has clearly articulated how

1 subject imports of sheet and rolls negatively affect
2 the web market, effects on pricing and effects on how
3 the entire market fits together. They've conceded
4 there is one like product. They've conceded that at
5 least 30 percent of the market has been heavily
6 impacted by their imports and we're certainly not
7 saying the rest of the market isn't a critical part of
8 it and won't be impacted, but imports are increasing
9 both in terms of sheet and in terms of rolls. They
10 make some charge that these rolls are not web rolls.
11 There's no backup for that that they've provided.
12 We're seeing significant market share increases from
13 the subject producers.

14 We talked briefly about the Indonesia
15 negligibility issue. We certainly have not conceded
16 that we are not seeing 4 percent imports. We are
17 seeing 4 percent imports. There was 4 percent last
18 month. We just got that after we filed the petition.
19 There was 4 percent in other months. There is nothing
20 in the statute or anywhere else that talks about where
21 you look at this 4 percent figure. They are over
22 4 percent right now. We believe that you have got to
23 look at the interrelation between the largest
24 Indonesian coated free sheet producer, APP, and the
25 largest Chinese coated free sheet producer, APP. It's

1 the same company represented by the same counsel.
2 Talk about fungibility. Given the obvious fungibility
3 of coated free sheet paper from China and Indonesia,
4 this raises the high likelihood that duties on one
5 country and not the other would result in a diversion
6 to imports from the country not subject to the duty.

7 The petition sets forth very clearly the
8 stark upward trend in imports from Indonesia this
9 year. Based on the projection of current trends,
10 imports from Indonesia will exceed 4 percent of total
11 imports in just two months. If that's not imminent,
12 I don't know what is.

13 We now know, because we got this information
14 just a little bit ago from the Department of Commerce,
15 that they have initiated the first countervailing duty
16 case on China ever and they are looking at the key
17 issues here.

18 We would ask given the strong indications of
19 injury, given the lack of, we would say, significant
20 points made by the other side that you reach a
21 preliminary affirmative injury determination.

22 I'd like to say a little bit about what we
23 heard nothing about from the Respondents. I've
24 mentioned a few things. We heard nothing about
25 underselling. Where is the market share coming from?

1 The market share growth. They said nothing about
2 underselling. It's just miraculous?

3 They talked about capacity drops in the
4 world. What about the capacity increases in Korea,
5 Indonesia, and China? We didn't hear anything about
6 that, but that's totally clear. It cannot be
7 contested.

8 So we ask you to look at the Chinese and
9 Korean export and capacity expansions in Indonesia.
10 We ask you to look at the effect of subsidies that are
11 occurring in China on the U.S. manufacturing base, as
12 specifically reflected in this particular industry.
13 We see very large increases in Chinese exports and
14 imports into the United States. We see a history of
15 targeting and we see strong indices of injury to the
16 United States industry.

17 I would just close by saying sometimes it's
18 important to step back and think about what this all
19 really means. For those people working on Machine
20 No. 7 in Luke, their lives will not be the same after
21 the beginning of next year, but maybe with prompt and
22 meaningful action in this case things can be corrected
23 over time.

24 In conclusion, NewPage Corporation on behalf
25 of the U.S. coated free sheet industry requests that

1 the United States International Trade Commission issue
2 affirmative determinations in all six investigations
3 and refer the investigation of dumping and subsidies
4 to the U.S. Department of Commerce for a full and fair
5 examination on the merits.

6 This is a critical United States industry
7 that unfortunately demands the attention of the United
8 States government at this time.

9 Thank you for your attention and your
10 assistance.

11 MR. CARPENTER: Thank you, Mr. Kaplan.

12 Mr. Morgan and Mr. Cameron?

13 MR. MORGAN: Frank Morgan with White & Case.
14 These remarks are on behalf of all Respondents and
15 Mr. Cameron has promised to correct me if I have
16 missed anything. I'll keep these remarks brief.

17 The first thing that strikes us is the
18 commission is not a gate keeper for the Department of
19 Commerce. I heard that repeatedly in Mr. Kaplan's
20 statements, that the commission is here to sort of let
21 the case proceed to the Department of Commerce so
22 subsidies and dumping can be investigated, but there
23 is a test and that test is not met by Petitioners'
24 case in this investigation and the commission must
25 vote in the negative.

1 We thank staff for the hard work you've done
2 to date. We think that on our side we've got
3 100 percent coverage for foreign producers
4 questionnaires, which is pretty remarkable for a case
5 that's proceeded this quickly with non-English
6 speakers responding, so we are quite happy to continue
7 to work with you to get you whatever data you need for
8 a complete and accurate record in this investigation.

9 It's striking that NewPage is trying to fit
10 a square peg in a round hole in this investigation,
11 but the testimony you heard today demonstrates some
12 distinct factors, starting with the domestic
13 industry's condition. The data will show a healthy
14 industry exhibiting positive trends over the period
15 and, most especially, in the year-to-date '05/'06
16 comparisons when there was an alleged 59 percent
17 increase in the volume of subject imports.

18 The very different story that you heard from
19 NewPage today just is not going to be consistent
20 either with the confidential data or with what the
21 public record already contains. Every public report,
22 including NewPage's most recent third quarter results,
23 shows that CFS paper producers are having a fantastic
24 year, enjoying high prices, strong shipment levels and
25 operating at effectively full capacity.

1 These are not market conditions you expect
2 to see in the face of injurious import competition and
3 this reference to the press release from the third
4 quarter and the shutdown of the Luke mill, if I'm
5 correct, that was dated the day after the petition was
6 filed, so we ask you to take that with a grain of
7 salt. When you look at their second quarter results,
8 I'm fairly certain that imports aren't mentioned at
9 all before the petition was filed, the second quarter
10 results announcement was made.

11 Indeed, the lack of a meaningful correlation
12 between the subject imports presence and the domestic
13 industry's condition are explained by the prevailing
14 conditions of competition and I think the only
15 testimony you heard of value on anything that was
16 going on in the market for the first time came today
17 and it came from our side. You heard about market
18 segmentation: 70 percent, and this is a figure that
19 the domestic industry recognized, 70 percent of the
20 domestic producer sales are of rolls and these are the
21 heat-seat web offset rolls, we're not talking about
22 the sheeter rolls, you heard testimony that this
23 accounts for a significant portion of the domestic
24 industry sales and that the products can't be used
25 interchangeably. In fact, you heard that if you try

1 to use a coater sheet roll on a web press, they
2 disclaim responsibility for it, so to say that you're
3 going to be rolling these rolls on a web press just is
4 incredible.

5 In contrast, a significant portion of
6 subject imports entering are in sheets. They're
7 simply not competitive in the web product and you
8 heard extensive testimony about why that was, contrary
9 to Mr. Kaplan's statements.

10 Because a heat-seat web press can't run
11 sheets, the degree to which substitution between these
12 products could conceivably occur is practically
13 non-existent. This means that subject imports are
14 effectively blocked from a significant segment of the
15 U.S. market; limited direct competition between the
16 imports and the U.S. producers, yet you heard a
17 significant amount of testimony about the selling
18 practices, branding, carrying U.S. product, carrying
19 European product, carrying Asian product.

20 Unlike a number of industries the commission
21 has investigated, the subject CFS imports are not
22 typically sold in spot sales and lead times are quite
23 long. Most, if not all, of the subject merchandise is
24 produced to order.

25 Industry consolidation and rationalization

1 efforts. Again, despite Mr. Kaplan's claims to the
2 contrary, I think we heard a significant amount about
3 what accounted for the rationalization and
4 consolidation, when it started, that it had no
5 relationship to subject imports, that it is ongoing in
6 other parts of the paper industry that are completely
7 unrelated to CFS, that it's a healthy phenomena, that
8 it allows producers to get better prices. You heard
9 this from someone who used to operate a U.S. mill and
10 he told you that the last significant investment was
11 in 1990. Our understanding, and we'll continue to
12 document this for the post-conference brief, is that
13 to the extent there's been investment, it's been for
14 environmental compliance efforts, it's not production
15 efficiency efforts, it's simply done to keep the
16 machinery running and to keep it compliant with
17 environmental standards.

18 And if you don't believe us, look at what
19 the other domestic producers have said publicly about
20 their consolidation and rationalization efforts.
21 They're saying the same thing: this is a healthy,
22 positive trend. Maybe that's why NewPage stands alone
23 at the end of the day here.

24 You heard that there are some differences
25 between the domestically produced product and the

1 imported product. We're not belaboring them, but they
2 are distinguishing factors. When you combine these
3 with all of the conditions of competition, it readily
4 explains the fact why despite an increase in subject
5 import volumes, there's absolutely no impact on the
6 domestic industry's condition and you actually have
7 increasing profitability.

8 Just a few quick points on volume and price.
9 The volume point really is just that. On price, gosh,
10 we didn't talk about underselling. Last time
11 I checked, it was all confidential data. Did we talk
12 about prices that we could in a public forum?
13 Absolutely. We know when the commission looks at the
14 confidential data, it's going to be consistent with
15 what we were talking about and what you can see in the
16 producers' own statements about what prices are doing
17 in this market: they're increasing, they're high and
18 they're happy they're there.

19 Finally, with threat, you're going to find
20 that the subject industries, unsurprisingly, are
21 operating at high rates of capacity utilization
22 because this is an industry where that tends to be the
23 case, so you don't have excess capacity that's getting
24 dumped. You also heard about the way the selling
25 conditions work. These products are produced to

1 order, so the fact that they're producing at high
2 rates is a reflection of the fact that they are in
3 fact getting the orders, the demand is there. You
4 heard about that from Mr. Dragone as well, that the
5 demand is there. So the fact that we haven't talked
6 about these kinds of things, I'm just astounded and
7 I know Don will help me out here.

8 Asia has the fastest, and it's undisputed,
9 growing demand for the product in the world. There is
10 no question that the Asian market is by far the
11 quickest and fastest growing market. You heard that
12 GDP growth is generally the measure of what you would
13 expect CFS growth to be and based on what I know of
14 recent demand, increases in China and Korea, you're
15 going to see a very continued and sustained high level
16 of demand and you're going to find that for China this
17 is not an export oriented industry. They ship the
18 vast majority to their home market, which is, again,
19 strong and growing.

20 We would urge the commission to reach a
21 negative decision and I would turn it over to Don.

22 MR. CAMERON: After hearing counsel's
23 statement, I was compelled to respond to two points
24 that he made in his rebuttal.

25 With all due respect, he stated that

1 quote-unquote, Respondents weren't candid with this
2 panel. I am absolutely astounded by this statement.
3 This is from the domestic industry who stated earlier
4 today that there is no segment of this market in which
5 we are insulated from import competition.

6 We weren't candid? You have got to be
7 kidding me. That must be the reason that we had this
8 extensive discussion by Petitioners, either in the
9 brief or in their direct presentation on the
10 difference between the market for web rolls and the
11 market between sheets and rolls. And, oh, that
12 70 percent in which we are insulated from import
13 competition just came right out of the air. I am
14 astounded at that.

15 Secondly, it was suggested by counsel that
16 somehow -- I believe he suggested in his rebuttal that
17 we denied that we make web rolls. You know, we must
18 have been in a different universe or a different room.
19 I don't believe that anybody at this table denied that
20 they make web rolls. I believe that the question we
21 were asked was you guys asked us for the quantities
22 that we make of web and sheet and we said that we
23 would provide that for the commission. We have
24 absolutely no problem in doing so. I know that the
25 amount of web that we produce is small, but exactly

1 what it is, we don't know and that is going to be
2 confidential information. We do intend to provide it
3 to you, but there is no big secret about the fact that
4 there is some production.

5 Our assertion, and I believe that it's
6 backed up by the facts, is that since 1987 that's not
7 the market that we compete in and that is pretty clear
8 on its face.

9 With that, I would like to say thank you
10 very much to the commission, to the commission staff.
11 We know you guys are working hard and we appreciate
12 your patience.

13 Thank you. Especially over the Thanksgiving
14 weekend. Thank you.

15 MR. CARPENTER: Thank you, gentleman.

16 On behalf of the commission and the staff,
17 I want to thank the witnesses who came here today, as
18 well as counsel, for sharing their insights with us
19 and helping us develop the record in this
20 investigation.

21 Before concluding, let me mention a few
22 dates to keep in mind. The deadline for the
23 submission of corrections to the transcript is Monday,
24 November 27, and the deadline for briefs in the
25 investigations is Tuesday, November 28, at 9:00 a.m.

1 If briefs contain business proprietary information, a
2 public version is due by close of business on
3 November 28.

4 The commission has tentatively scheduled its
5 vote on the investigations for December 15 at 11:00
6 a.m. and will report its determinations to the
7 Secretary of Commerce later that day.

8 Commissioners' opinions will be transmitted
9 to Commerce on December 22.

10 Thank you for coming. This conference is
11 adjourned.

12 (Whereupon, at 2:22 p.m., the preliminary
13 conference was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Coated Free Sheet Paper from China
INVESTIGATION NO.: 701-TA-444-446, 701-TA-1107-1109
HEARING DATE: November 21, 2006
LOCATION: Washington, D.C.
NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: November 21, 2006

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter