

# UNITED STATES INTERNATIONAL TRADE COMMISSION

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In the Matter of: ) Investigation No.: 701-TA-530  
SUPERCALENDERED PAPER FROM CANADA ) (Preliminary)

**REVISED AND CORRECTED**

Pages: 1 - 181  
Place: Washington, D.C.  
Date: Thursday, March 19, 2015



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3 In the Matter of: ) Investigation No.:

4 ) 701-TA-530

5 SUPERCALENDERED ) (PRELIMINARY)

6 PAPER FROM CANADA )

7 Thursday, March 19, 2015

8 Main Hearing Room (Room 101)

9 U.S. International

10 Trade Commission

11 500 E Street, S.W.

12 Washington, D.C.

13 The meeting commenced, pursuant to notice, at  
14 9:30 a.m., before the Investigative Staff of the United  
15 States International Trade Commission, James McClure, Acting  
16 Director of Investigations, presiding.

17

## 18 APPEARANCES:

19 On behalf of the International Trade Commission:

20 James McClure, Acting Director of Investigations

21 Chris Cassise, Investigator

22 Vincent Honnold, International Trade Analyst

23 Aimee Larsen, Economist

24 Michael Haldenstein, Attorney/Advisor

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1 APPEARANCES (Continued):

2 David Boyland, Accountant/Auditor

3 William R. Bishop, Supervisory Hearings and  
4 Information Officer

5 Sharon Bellamy, Program Support Specialist

6 Mikayla Kelley, Student Intern

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8 In Support of the Imposition of the Countervailing Duty  
9 Order:

10 King & Spalding LLP, Washington, DC on behalf of,  
11 Coalition for Fair Paper Imports

12 E. Russell Drechsel, President and Chief  
13 Executive Officer, Madison Paper Industries

14 Michael Johnston, Vice President Distribution  
15 Sales, UPM-Kymrnene, Inc.

16 Greg Hadley, Assistant General Counsel, Verso  
17 Corporation

18 Paul Clancy, Vice President Pricing and  
19 Commercial Finance, Verso Corporation

20 Bonnie B. Byers, Consultant, King & Spalding LLP

21 Terry McBride, Legal Consultant, Madison Paper  
22 Industries

23 Dr. Seth Kaplan, Senior Economic Advisor, Capital  
24 Trade, Inc.

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1 APPEARANCES (Continued)

2 Of Counsel:

3 Gilbert B. Kaplan, Brian E. McGill

4 King & Spalding

5 Washington, DC

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7 In Opposition to the Imposition of Countervailing Duty

8 Order:

9 Steptoe & Johnson LLP, Washington, DC On behalf of and

10 Law Offices of Gary N. Horlick, Washington, DC on behalf of

11 and

12 Law Offices of Peggy A. Clark, Washington, DC on behalf of:

13 Port Hawkesbury Paper LP ("PHPLP")

14

15 Neil De Gelder, President, Port Hawkesbury

16 Investments Ltd.

17 Shawn Lewis, Vice President, General Counsel and

18 Secretary, Port Hawkesbury Investments Ltd.

19 Michael Ostrowski, Vice President Supercalendered

20 Sales, West Linn Paper Company

21 Bruce Malashevich, President, Economic Consulting

22 Services LLC

23 Cara Groden, Economist, Economic Consulting

24 Services LLC

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1 APPEARANCES (Continued):

2 Of Counsel:

3 Thomas J. Trendl, Nathan W. Cunningham

4 Gary N. Horlick,

5 Peggy A. Clark,

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8 Washington, DC

9 on behalf of:

10 Irving Paper Limited

11 Mark Mosher, Vice President of Pulp and Paper Operations,

12 J.D. Irving, Limited

13 Of Counsel:

14 Warren E. Connelly,

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16 Sidley Austin LLP

17 Washington, DC

18 on behalf of:

19 Catalyst Paper Corporation ("Catalyst")

20 Of Counsel:

21 Richard Weiner

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1 APPEARANCES (Continued):

2 Interested Party:

3 Baker & Hostetler LLP

4 Washington, DC

5 on behalf of:

6 Resolute Forest Products Inc.

7 Of Counsel

8 Elliot J. Feldman

9

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1 P R O C E E D I N G S

2 (9:32 a.m.)

3 MR. BISHOP: Will the room please come to  
4 order?

5 MR. McCLURE: Before we officially start, I  
6 think all of you are aware of this. We'll do the opening  
7 statements. We will do the Petitioner presentation. At  
8 that point, 10:40 or so, we will stand in recess. Probably  
9 best to clear the room, because I think there's going to be  
10 a fair crowd to observe the sugar vote. That won't take  
11 long. It starts at eleven and should be over in five  
12 minutes, and then Bill will have that crowd clear the room  
13 and you can come back in.

14 If you want to try to get a snack or whatever  
15 during that period, or if you haven't completed your Final  
16 Four bracket, you can do that and get them into your office.  
17 Now to begin, where is the opening statement?

18 Good morning and welcome to the U.S.  
19 International Trade Commission's conference in connection  
20 with the Countervailing Duty Investigation No. 701-TA-530  
21 Concerning Supercalender Paper from Canada. My name is Jim  
22 McClure. I'm the acting director of the Office of  
23 Investigations, which shows if you stay around this agency  
24 long enough, the agency will reach the bottom of the barrel.

25 I will preside at this conference. Among

1 those present from the Commission staff on my far right is  
2 Vincent Honnold, the Industry Analyst. Next to him is Chris  
3 Cassise, the Investigator. On my left, Michael Haldenstein,  
4 our Attorney Advisor. On his left, Amy Larsen, our  
5 Economist, and to her left, David Boyland, the Accountant  
6 Auditor.

7 I understand the parties are aware of time  
8 allocations. I would remind speakers not to refer in your  
9 remarks to business proprietary information and to speak  
10 directly into the microphones. We also ask that you state  
11 your name and affiliation for the record before beginning  
12 your presentation, or answering questions for the benefit of  
13 the court reporter. If you don't, I will remind you.

14 All witnesses must be sworn in before  
15 presenting testimony. I understand the parties -- already  
16 said that. Any questions regarding the time allocation  
17 should be addressed to the Secretary. Are there any  
18 questions?

19 (No response.)

20 MR. McCLURE: Mr. Secretary, are there any  
21 preliminary matters?

22 MR. BISHOP: No, Mr. Chairman.

23 MR. McCLURE: Very well. Let us proceed with  
24 the opening statements.

25 MR. BISHOP: Opening remarks on behalf of

1 Petitioners will be Gilbert B. Kaplan, King and Spalding.

2 OPENING REMARKS BY GILBERT B. KAPLAN, ESQ.

3 MR. KAPLAN: Thank you Mr. McClure and members  
4 of the Commission staff. I'm very happy to be here and  
5 thank you for presenting us with this opportunity to present  
6 information about our case. As noted, I'm Gilbert B. Kaplan  
7 from King & Spalding, appearing on behalf of Petitioner the  
8 Coalition for Fair Paper Imports, which consists of the  
9 only two U.S. producers of significant size of  
10 supercalendered paper, Verso and Madison Paper.

11 This case is about the unfairly subsidized and  
12 increasing imports from Canada of supercalendered paper,  
13 which I will refer to as SC paper. These increased imports  
14 have caused material injury to the domestic industry  
15 producing SC paper, and threaten to cause further material  
16 injury in the imminent future.

17 There are several key conditions of  
18 competition that are important to this investigation.  
19 First, the investigation presents a situation where the U.S.  
20 market was dramatically affected by the reopening of the  
21 Port Hawkesbury mill, which added approximately 400,000 tons  
22 of additional supply into the U.S. market.

23 This represents approximately a quarter of  
24 total U.S. demand for SC paper. This event was highly  
25 disruptive, as even the other Canadian respondents are

1       likely to admit. In fact, but for the enormous illegal  
2       subsidies received by the new owners of Ports Hawkesbury,  
3       this mill would still be closed and U.S. market prices would  
4       be substantially higher.

5                       Second, all SC producers have high, fixed  
6       costs and their papermaking operations are only profitable  
7       when they maintain high capacity utilization rates based on  
8       a 24-7 operating structure.

9                       Third, imports from Canada are a dominant  
10      presence in the U.S. market. Industry commentators have  
11      estimated that approximately 70 percent of U.S. market  
12      consumption is now being supplied by imports from Canada.  
13      Obviously, price movements by the Canadian producers have a  
14      major impact on U.S. market prices.

15                      Fourth, the U.S. market is essential to the  
16      Canadian producers. They have no meaningful alternative  
17      export markets, and the Canadian market is relatively small  
18      and inconsequential to Canadian producer operations. Thus,  
19      the Canadian producers must sell as much as possible into  
20      the U.S. market, to maintain production volume.

21                      Fifth, U.S. market demand is experiencing an  
22      established structural decline. While U.S. consumption  
23      fluctuated over the period from 2012 to 2014, the overall  
24      trend is decreased demand in the end use market for SC  
25      paper.

1                   Sixth, purchasers of SC paper are highly price  
2 sensitive. Retailers that rely on SC paper for the printed  
3 advertising materials inserted into newspapers are under  
4 pressure to reduce costs. Thus, producers of SC paper are  
5 competing with each other to serve declining demand of cost  
6 conscious purchasers.

7                   Seventh, imports from Canada are completely  
8 substitutable with the domestic like product. Imports from  
9 Canada supply all grades of SC paper, and there is no  
10 segment of the market in which U.S. producers do not face  
11 imports from Canada.

12                   The data on domestic industry performance from  
13 2012 to 2014 strongly indicates material injury. But the  
14 U.S. producers have indicated that the market conditions  
15 have deteriorated further in the first quarter of 2015,  
16 resulting in the closing of the Madison plant for a period  
17 of time and the layoff of a substantial number of its  
18 workers as a result of unfairly traded imports.

19                   U.S. producers cannot continue to chase  
20 subject import prices lower to maintain sales volume. But  
21 they also must maintain sales volume to run their high fixed  
22 cost operations on a profitable basis. Thus, fair  
23 competition in the U.S. market is essential to the viability  
24 of the U.S. industry, and we urge you to make an affirmative  
25 finding in this case. Thank you.

1                   MR. BISHOP: Opening remarks on behalf of  
2 Respondents will be by Thomas J. Trendl, Steptoe and  
3 Johnson.

4                   OPENING REMARKS BY THOMAS J. TRENDL, ESQ.

5                   MR. TRENDL: Thank you Mr. McClure and staff.  
6 My name is Tom Trendl. I'm with Steptoe and Johnson. I  
7 appreciate the opportunity to appear before you today on  
8 behalf of Port Hawkesbury Paper, a Respondent opposed to the  
9 petition in this investigation. While I appear here solely  
10 on behalf of PHP, in this introduction I'll make some  
11 observations on the case as a whole as well.

12                   I'm from Chicago, and in 1986, two years  
13 before I moved to D.C., Geraldo Rivera captivated my home  
14 town and the country as a whole with his search of Al  
15 Capone's secret room, a room allegedly filled with a huge  
16 stash of cash and stolen gold and an arsenal of guns and a  
17 lot of liquor, and maybe even a dead enemy or two.

18                   We all watched anxiously in anticipation when  
19 Geraldo and his hard-hatted construction workers broke  
20 through the wall into the secret room, and inside nothing.  
21 Well, maybe a couple of empty bottles and some dirt. No  
22 cash, no gold, no guns and somewhat gratefully, no dead  
23 enemies.

24                   The injury section of this petition is much  
25 the same. When I first read it, it appeared to be a strong

1 and classic injury case. But like Geraldo's expedition,  
2 once you break through the allegations and get to the real  
3 data and the real facts, you'll see that there's nothing  
4 here. It's Geraldo's empty room.

5 Now, as been made clear, PHP seems to be the  
6 major target of Petitioners' ire. I'll make a few  
7 observations regarding PHP specifically. First, PHP didn't  
8 really get into the market until 2013. As such, it's  
9 impossible for PHP to cause any injury in 2012. Second, PHP  
10 entered the market at a time when Verso quite unfortunately  
11 had a plant close down due to a fire in May 2012. This  
12 event created a substantial supply gap, which was partially  
13 filled by the reopening of the PHP mill later that year.

14 Third, PHP was acquired at fair market value.  
15 In fact, the highest price offered, a plant at New Page,  
16 bankrupted and closed. That plant had no inventory, no  
17 sales force, no data entry system, no wood, no chemicals, no  
18 inputs, no senior management, no sales staff. PHP  
19 restructured every aspect of that mill's operation, to make  
20 it one of the most efficient and productive in North  
21 America.

22 Fourth, when PHP entered the market in the end  
23 of 2012 and the beginning of 2013, it could have brought a  
24 fair amount of SC paper to the U.S. market. Rather than do  
25 this and deliberately seeking to avoid market disruption,

1 PHP exported this product. PHP acted responsibly with  
2 regard to the U.S. market.

3 Fifth, when PHP entered the market in earnest,  
4 it displaced imports from the EU and from coated ground  
5 wood. You'll hear much more about this from our witnesses  
6 later today. Sixth, PHP has lost sales and lost revenue to  
7 lower prices to its competitors, including U.S. producers  
8 over the last two years. It's part of doing business, and  
9 PHP understands that.

10 PHP's focus is on the premium SC grades, SC  
11 A+, SC A++, both of which compete with coated ground wood.  
12 SC A+ and SC A++ make up a small portion of both  
13 Petitioners' sales. In fact, Madison makes neither of these  
14 grades and Verso only produces SC+. Moreover,  
15 PHP's SC A++ is a product unique to PHP and has expanded the  
16 demand for SC paper by facilitating migration from coated  
17 ground wood. Finally, PHP poses no threat to the U.S.  
18 industry. It is not growing or adding capacity.

19 Now regarding the effect of Canadian SC  
20 producers as a whole on domestic producers, if anything,  
21 Canadian producers have been injured. No U.S. mill  
22 producing SC paper closed during the POI. However, two  
23 Canadian mills producing subject merchandise closed during  
24 the POI. The SC paper price declines were caused by  
25 factors separate from subject merchandise. Price declines

1 in coated ground wood caused price declines in SC A.

2

3 Second, the falling exchange rate of the  
4 Canadian dollar vis-a-vis the U.S. dollar caused SC prices  
5 to decline during the POI. Third, digital technology has  
6 resulted in declining demand for SC paper products, which  
7 has impacted prices. Lastly, imports from the EU have  
8 impacted the U.S. market as a result of currency changes as  
9 well as other factors.

10 While not a predominant factor in the market,  
11 EU imports have definitely put downward pressure on U.S. SC  
12 prices. You'll hear from Mike Ostrowski, VP of  
13 Supercalender Sales and Bruce Malashevich, our outside  
14 economist, who will go into these issues in great detail.  
15 We welcome the opportunity to show you why there's nothing  
16 substantive in Petitioners' injury allegation, and look  
17 forward to answering any questions that you may have. Thank  
18 you very much.

19 MR. McCLURE: Thank you, Mr. Trendl. I've  
20 been here a lot of years and I would bet if I went through  
21 every transcript, you would never find the name Geraldo  
22 Rivera in any of them. Anyway, we can --

23 MR. TRENDL: I was shooting for that actually.

24 MR. McCLURE: Anyway, we can begin the  
25 presentation by Petitioners.

1                   MR. BISHOP: Mr. Chairman, before we begin, I  
2 would note that all witnesses for today's conference have  
3 been sworn in. Would the first panel, those in support of  
4 the imposition of countervailing duty order, please come  
5 forward and be seated?

6                   (Pause.)

7                   MR. McCLURE: Okay, Mr. Kaplan. You may fire  
8 away. Again, I would remind everybody for the court  
9 reporter, when you open your mouth, let your name come out  
10 first.

11   STATEMENT OF GILBERT B. KAPLAN

12                   MR. KAPLAN: Thank you again. My name is  
13 Gilbert B. Kaplan. The record in this case establishes that  
14 there is a reasonable indication of material injury by  
15 reason of subject imports. Because there are only two  
16 significant U.S. producers, virtually all the information  
17 indicating material injury is necessarily confidential, and  
18 I cannot discuss that data in more than very general terms  
19 at this public hearing.

20   But available public information establishes  
21 the presence of several key injury indicators. First, the  
22 absolute volume of imports from Canada increased from 2012  
23 to 2014. Based on what Petitioner knows about their own  
24 operations, it is also clear that the U.S. market share of  
25 subject imports has likewise grown over this period, as has

1 the ratio of subject imports to U.S. production.

2 In sum, the volume of subject imports is  
3 significant and the increase in volume of subject imports is  
4 also significant. The increased volume of subject imports  
5 has caused negative price effects in the U.S. market, both  
6 because of the distortion of the supply and demand balance  
7 and also because of significant underselling of the domestic  
8 like product.

9 As our industry witnesses today will tell you,  
10 they have lost sales and had to reduce prices to maintain  
11 sales volume. There is intense price competition between  
12 the domestic industry and the subject imports for sales of  
13 all grades. As a result of the increased supply and the  
14 underselling by subject imports, the U.S. producers have had  
15 to reduce prices with consequent significant negative  
16 effects on their financial performance.

17 The fall of the domestic industry  
18 profitability compelled the filing of the petition, as there  
19 is simply too much low-priced supply from the subject  
20 imports in the U.S. market. With that, I'll turn it over to  
21 Russ Drechsel.

22 STATEMENT OF RUSS DRECHSEL

23 MR. DRECHSEL: So good morning. My name is  
24 Russ Drechsel, and since January 1st, 2002, I have been the  
25 chief executive officer and president of Madison Paper

1 Industries. I am responsible for all aspects of the  
2 supercalender paper manufacturing facility located in  
3 Madison, Maine, including personnel, safety, quality,  
4 productivity, environmental compliance, public relations and  
5 financial performance.

6 Since 1981, I have held various operating and  
7 engineering positions at the Madison site, and for a period  
8 of two years I was employed in a technical position at two  
9 related SC manufacturing facilities in southern Germany.  
10 I'm a University of Maine paper school graduate, and I have  
11 39 years' experience in the U.S. paper industry.

12  
13 Madison Paper has been producing  
14 supercalendered paper at the mill in Madison, Maine since  
15 1978. In 1981, the mill underwent a massive \$200 million  
16 modernization program, and installed a new SC paper machine,  
17 after which the mill began to produce a high quality  
18 supercalendered paper product.

19 In 2001, Madison invested another \$50 million  
20 in modernizing the 1981 machine. Today, the only product we  
21 produce in our mill at Madison is supercalendered paper, and  
22 that is the only product that the machine is designed to  
23 produce. We also produce pressurized ground wood pulp at  
24 Madison, which we consume internally to produce the  
25 supercalendered paper.

1                   Paper production is a highly capital intensive  
2 industry. A new or Greenfield pulp and paper facility would  
3 cost approximately 500 to 700 million dollars today. These  
4 mills are designed to run 24-7, and profitability is  
5 dependent on maintaining high capacity utilization rates.  
6 When we run at lower operating rates, our operating  
7 efficiency is significantly reduced, and our costs are  
8 significantly increased.

9                   When we can no longer sell our supercalendered  
10 paper profitably, we are forced to take extended down time  
11 on our paper machine. If we are unable to sell profitably  
12 over an extended period of time, we would be forced to shut  
13 the mill. We have been suffering significant material  
14 injury as a result of unfairly traded imports of SC coming  
15 from Canada.

16                   Earlier this year, we were forced to curtail  
17 production at our supercalendered paper mill in Madison,  
18 Maine from January 24th to February 10th. Most of Madison's  
19 non-salaried employees were laid off during this curtailment  
20 period. This meant no paychecks in the dead of winter for  
21 many U.S. workers. We regretted taking this action very  
22 much, but we had no choice.

23                   Due to the high volume of low-priced imports  
24 from Canada, our margins have been compressed, to the point  
25 that we cannot profitably run our operations through the

1 winter. As indicated, this led to a 17 day closure in  
2 January and February of this year. Madison's business has  
3 struggled particularly since the Nova Scotia government  
4 provided subsidies in excess of \$125 million to restart the  
5 supercalendered paper mill at Port Hawkesbury, Nova Scotia.

6 Now we understand that Port Hawkesbury has  
7 applied for additional government aid of \$40 million from  
8 Canada's Forest Industry Transformation Fund. Madison Paper  
9 is situated on the banks of Maine's Kennebec River. We  
10 produce a clean, hydro power from our two generating  
11 stations, that provide a portion of the power for our mill.

12  
13 In addition to providing power for the mill,  
14 Kennebec River also supplies water for our paper machine.  
15 Having access to abundant clean water source is critical to  
16 the production of paper. Our facilities include a wood  
17 yard, two drum debarkers, six pressurized grinder, a boiler  
18 station providing steam to the papermaking facility, two  
19 hydroelectric generating stations, one paper production  
20 line, as well as facility offices.

21 Our SC production line includes stock  
22 preparation, a gap-forming paper machine with a fourth  
23 press, three supercalenders, two winders, a roll wrapper, a  
24 warehouse and a shipping area. SC paper is used as a  
25 substrate for print magazines, catalogues, newspaper

1 inserts, coupons, direct mail materials, as well as other  
2 advertising and publication materials. All supercalender  
3 paper produced in our mill is sold and shipped to customer  
4 in roll form.

5 To my knowledge, all supercalender paper sold  
6 in the U.S. market is sold in the form of rolls for printing  
7 presses. I am not aware of any supercalender paper being  
8 sold in the form of sheets.

9 SC paper is produced from mechanical pulp,  
10 chemical pulp, mineral fillers and other additives.  
11 Chemical pulp, also known as Kraft pulp, can be produced by  
12 the paper producer or it can be purchased on the open  
13 market. At Madison, we purchase our chemical pulp. The  
14 mechanical pulp used to produce SC paper can be provided via  
15 several methods, including ground wood, pressurized ground  
16 wood or thermal mechanical pulping. The mechanical pulp is  
17 typically bleached to improve the optical properties of the  
18 paper. Paper manufacturing begins at the  
19 head box of the paper machine when a pipeline liquid slurry  
20 mixture, which is about 99 percent water and one percent  
21 filler and minerals, is changed from a pipeline flow to a  
22 laminar flow. The dilute stock leaves the head box and is  
23 either injected between two fast moving forming fabrics, or  
24 is spread out on top of a single forming fabric.

25 The forming section initially forms the stock

1 into a wet web, which is made up of pulp fibers mixed with  
2 water, filler and additives. Figure 1 of the pictures  
3 distributed is of this unit operation. In the forming  
4 section, the water drains away and the fibers are retained  
5 on the surface of the fabrics on a finely woven plastic  
6 mesh, in an absolutely even layer.

7 The forming fabrics or wires are especially  
8 designed to keep the bound fibers laying flat, thereby  
9 letting the water drain. Water is collected throughout the  
10 papermaking process for reuse. The direction of the fiber  
11 in the paper is determined in the forming section, where  
12 strength, formation and two-sidedness can also be affected.

13

14 As the stock water mixture reaches the press  
15 section, the wet web is now approximately 80 percent water.  
16 The pulp is transported into the wet presses by the press  
17 felt, a type of conveyor belt. The presses squeeze the  
18 water out of the wet web. As the mixture exits the press  
19 section, the solid to water content is now 50-50. The press  
20 felts absorb water from the paper web for reuse.

21 Pressing improves fiber bonding by squeezing  
22 the fibers closer together. In the pressing section, the  
23 bulk, stiffness, opacity and surface roughness of the paper  
24 are influenced. Press section equipment can be seen in  
25 Slide 2. The paper web continues into the drying section,

1       which consists of steam-heated cylinders that evaporate more  
2       water.

3                       After going through the drying section, the  
4       paper has a moisture content of three to eight percent,  
5       depending upon the grade and basis weight being  
6       manufactured. Drying requires a large amount of steam,  
7       which is typically produced in an integrated power plant of  
8       the mill, or purchased from a local power plant.

9                       At Madison, we produce our own steam. The  
10      drying section affects the moisture content and thus the  
11      curl of the paper. Supercalendering is used to produce SC  
12      A+, SC A, SC B grades of SC paper. The scope of this  
13      petition also includes soft nip calendered paper, which  
14      undergoes a less rigorous calendering process known as soft  
15      calendering.

16                      Supercalendering can take place either online  
17      or offline, and this is done at the end of the papermaking  
18      process, before cutting the paper rolls into  
19      customer-desired sizes. At Madison, our supercalendering  
20      occurs offline. The supercalender typically consists of 10  
21      to 12 hard and soft cylinders, although there are other  
22      configurations that produce the same results.

23                      The hard cylinders are made from steel, and  
24      the soft cylinders are made from cotton or some other  
25      resilient material such as plastic. The paper web snakes

1 around each roll. Heat, pressure and friction in the nips  
2 glaze both surfaces of the paper, to make them smooth and  
3 glossy. At the same time glazing makes the paper denser,  
4 thinner, more transparent and less stiff.

5 Soft calendering typically occurs online and  
6 involves fewer hard and soft cylinders. A typical soft  
7 calender consists of approximately two to four hard and soft  
8 cylinders. Supercalendering equipment can be seen in Slide  
9 3. There are two machines dedicated to the production of  
10 supercalendered paper in the United States, which are  
11 operated by Madison Paper and Verso Corporation.

12 As described in the petition and in our  
13 questionnaire responses, our industry has been injured as a  
14 result of subject merchandise from Canada. The  
15 supercalendered paper industry, as in the case with the  
16 entire printing and writing sector, is undergoing a  
17 long-term decline in sales as a result of the rise in  
18 e-commerce and online marketing.

19 As a result, inefficient production operations  
20 in the United States, Canada and Europe have been  
21 permanently closed. This has forced the U.S. industry to  
22 become as lean and as efficient as possible. Madison Paper  
23 has done everything in its power to trim costs. In 2013,  
24 for example, we converted fuel used in our boilers from oil  
25 to natural gas. We have also invested in new pulp grinding

1 technology. Our pressurized ground wood pulp mill is one of  
2 a kind. We employ only diamond grinding surfaces to  
3 manufacture ground wood pulp, whereas other manufactures of  
4 ground wood pulp utilize ceramic grinding surfaces to  
5 produce their pulp.

6 The diamond surfaces have significantly  
7 reduced the amount of electricity required to produce the  
8 quality of pulp needed for the SC manufacturing process.  
9 Other investments to improve the quality of the product  
10 offered, such as paper defect sensors, and to further reduce  
11 the power required to manufacture the paper, high efficiency  
12 motors and agitators, have been made.

13 However, despite all our efforts to reduce  
14 costs, and despite the closure of several mills, falling  
15 prices over the past three years have resulted in  
16 deteriorating profitability for our company. The reason  
17 that prices in the United States have remained so depressed  
18 over the Period of Investigation is because of the pervasive  
19 underselling by Canadian producers.

20 There are four Canadian producers of  
21 supercalendered paper: JD Irving in New Brunswick;  
22 Catalyst Paper in British Columbia; Resolute Paper in  
23 Quebec; and Port Hawkesbury Paper in Nova Scotia. We  
24 estimate the Canadian producers export at least 75 percent  
25 of their production to the United States. Canadian paper

1 producers have benefitted from subsidies from the Canadian  
2 government and from provincial governments.

3 But in 2012, subsidies to one company in  
4 particular, Port Hawkesbury Paper, created a major market  
5 impact and compounded the negative price effects from  
6 imports from Canada. The mill in Port Hawkesbury was  
7 previously owned by New Page Corporation. New Page closed  
8 that mill in September 2011 and filed for bankruptcy for the  
9 facility.

10 The reasons cited for the unprofitability of  
11 this mill were that it faced high energy and wood costs.  
12 Moreover, the mill was located on an island off the coast of  
13 Nova Scotia, a very long distance for most customers in the  
14 United States and Canada, putting the mill at a tremendous  
15 disadvantage in terms of transportation costs.

16 After the mill stopped operating, prices for  
17 SC paper in the United States began to recover, but this  
18 reprieve, however, was short-lived. In September 2012, the  
19 mill was sold to a purchaser in British Columbia, who agreed  
20 to restart the mill. The purchase and restart of the mill  
21 was only made possible, however, by massive subsidies  
22 provided to the new owner by the provincial government of  
23 Nova Scotia.

24 Among other subsidies, the new purchaser,  
25 Pacific West Corporation, received a \$125 million lifeline

1 from the government in Nova Scotia to start the mill. The  
2 company also received a rate reduction from the provincial  
3 electric company, and a reduction in the price it pays for  
4 timber from provincial crown lands, all in the name of  
5 making the mill more competitive.

6 Through the provision of more than \$125  
7 million in subsidies, the government in Nova Scotia enabled  
8 the sale and ensured the continued operation of the Port  
9 Hawkesbury mill. Without the subsidies, this otherwise  
10 unprofitable mill would have ceased to exist.

11 After the Port Hawkesbury mill restarted in  
12 October '12, Canadian imports shot up. Between 2012 and  
13 2014, imports from Canada increased by over 35 percent, and  
14 our market share declined. Prices immediately began to  
15 erode, and so did our profitability.

16 Underselling by all Canadian producers has  
17 long been a problem, because all Canadian producers receive  
18 subsidies, as detailed in our CVD petition. But when Port  
19 Hawkesbury resumed production and sales, adding another  
20 400,000 tons back into the market, underselling intensified.

21 The extensive loss revenue information that we  
22 have provided demonstrates that we have consistently had to  
23 lower our prices to meet competition from Canadian  
24 producers. As mentioned earlier, pricing has been so  
25 terrible in the first part of 2015, that we were forced to

1 curtail production for 17 days, shutting down our machine  
2 and laying off all our production workers during that  
3 period.

4 In cold winter months, we sometimes experience  
5 an increase in energy costs. But the large volume of  
6 low-priced Canadian imports suppressed our prices, and  
7 unlike in previous years, suppressed our margins so much  
8 that we were forced to temporarily shut down. We have also  
9 had to put facility upgrades on hold, given the current  
10 pricing environment. These difficulties are described in  
11 greater detail in our questionnaire response.

12 In short, we have been materially injured by  
13 the subsidized imports from Canada. Moreover, the future of  
14 the U.S. industry producing supercalender paper is bleak,  
15 unless duties are imposed to offset the subsidized imports  
16 from Canada. If we are not able to level the playing field  
17 in the United States, the future of our mill is in jeopardy.

18 On behalf of Madison Paper and our 215  
19 employees, we ask the Commission to reach an affirmative  
20 preliminary determination. Thank you.

21 STATEMENT OF MICHAEL JOHNSTON

22 MR. JOHNSTON: Good morning. My name is Mike  
23 Johnston. I'm the Vice President of Distribution Sales for  
24 UPM-Kymmene, Inc. which handles sales of supercalendered  
25 paper produced by Madison Paper Industries. I started my

1 employment with UPM in August of 2006. During my 20 years  
2 in the supercalendered paper industry I also worked as Vice  
3 President and General Manager for Saint Mary's Paper, a  
4 former Canadian producer of supercalendered paper which  
5 closed in 2011.

6 My job experience has thus given me a good  
7 perspective on the supercalendered paper industry from both  
8 sides of the border.

9 The scope of our petition covers all  
10 supercalendered paper including all brightnesses and basis  
11 weights. Supercalendared paper is sold in the form of  
12 rolls, although our petition covers supercalendered paper in  
13 any form including sheets. All supercalendered paper share  
14 the same physical characteristics and uses and are sold to  
15 the same types of end users.

16 SC paper differs from other paper such as coated  
17 ground-wood, coated free-sheet, other types of uncoated  
18 mechanical or newsprint.

19 Coated papers are more costly to produce than SC  
20 paper because they require an additional processing step in  
21 which the papers are coated on one or both sides with  
22 materials used to enhance the print quality, ink holdout and  
23 longevity of the paper.

24 Coated and uncoated free-sheet paper also differ  
25 from SC paper in that they are produced primarily with

1 chemical pulp. By contrast SC paper is produced primarily  
2 with mechanical pulp and is thus a ground-wood paper.  
3 Coated papers also generally have heavier basis weights than  
4 SC paper due to the coating. Thus, SC paper is better  
5 suited for use in Sunday supplements, catalogs, coupons,  
6 magazines, and certain direct mail materials where weight  
7 and mailing costs are a consideration.

8 SC paper also differs from other types of  
9 uncoated paper including uncoated free-sheet, uncoated  
10 ground-wood and newsprint. Although it is an uncoated  
11 paper, SC paper has a glossy finish that results from the  
12 supercalendering that renders it more similar in appearance  
13 and performance to coated papers than to uncoated papers  
14 which have a matte finish.

15 The glossy finish of SC paper makes it more  
16 suitable for printing multi-colored graphics, particularly  
17 photographic material, than uncoated papers which do not  
18 lend themselves to these end uses.

19 SC paper comes in a continuum of grades: SCA  
20 plus, SCA, SCB, and SNC that equate to the brightness and  
21 smoothness levels of the paper with SCA plus being the  
22 brightest and smoothest and SNC being the least bright and  
23 smooth.

24 As I noted, SC paper is sold in rolls and not  
25 sold in sheets. This stands in contrast to uncoated free

1 sheet and coated free-sheet papers which can be sold in the  
2 form of rolls for printing and web offset printing presses,  
3 or in the form of sheets for use in sheet-fed houses or  
4 presses.

5 SC paper is generally not interchangeable with  
6 other types of paper. Coated free-sheet paper tends to be  
7 heavier, stiffer, and has a superior finish to SC paper and  
8 is therefore the paper of choice for higher-end publications  
9 and brochures, calendars, point-of-sale displays, book  
10 covers and direct mail cards which demand higher-quality  
11 printed graphics.

12 Newsprint, uncoated free-sheet, and ground-wood  
13 papers are not interchangeable with SC paper. The surface  
14 porosity of newsprint and uncoated papers make them largely  
15 unsuitable for printing graphic material particularly in  
16 higher resolutions and in color as compared to SC paper.  
17 One hundred percent of the SC paper we produce is made to  
18 order. SC paper is sold to end users which can be  
19 retailers, catalogers, publishers or printers, and through  
20 brokers. Regardless of the purchaser, however, SC paper is  
21 shipped directly to the printer. This is true for both U.S.  
22 produced SC paper and SC paper imported from Canada.

23 Customers and producers generally view SC paper  
24 as distinct from other types of graphic paper. For example,  
25 customers typically regard SC paper as more suitable than

1 coated papers for weekly advertising in mailers and  
2 newspapers because it is lighter, it does not need to have  
3 the same durability or longevity as other types of graphic  
4 papers given that it is often discarded or recycled after a  
5 short period of time.

6 At the same time, SC paper has qualities for  
7 photographic reproduction required in advertising that  
8 uncoated papers do not possess. If SC paper prices decline  
9 enough relative to the price of coated paper, there is the  
10 potential for substitution.

11 Paper machines that are used to produce SC paper  
12 are not used to produce other types of paper. SC paper  
13 machines typically do not have coaters and thus cannot  
14 produce coated papers. Paper machines used to produce  
15 certain types of lighter-basis weight coated ground-wood  
16 paper can, with some adjustment, be used to produce SC  
17 paper. But this involves shutting down the coating part of  
18 the production process. Papers machines designed to produce  
19 uncoated free-sheet, uncoated ground-wood papers, and  
20 newsprint typically do not have a supercalendering or soft  
21 calendaring equipment required to produce SC paper. Thus,  
22 to the extent SC paper is produced in the same facilities as  
23 other types of paper, the production lines are usually  
24 distinct.

25 SC paper is also unlike uncoated and coated

1 free-sheet because the pulp used to produce these products  
2 differs. Free-sheet paper uses mainly chemical pulp while  
3 SC papers use mainly mechanical pulp. Although coated  
4 ground-wood and types of uncoated ground-wood, other than SC  
5 paper are made with mechanical pulp, these papers are not  
6 produced with the same type of filler, typically clay, talc,  
7 or other mineral additives, which permits the calendaring to  
8 result in a glossy, glazed finish that characterizes SC  
9 paper.

10 Prices for SC paper have historically been lower  
11 than prices for coated free-sheet, coated ground-wood, and  
12 uncoated free-sheet paper, but higher than the prices of  
13 other types of uncoated ground-wood, like directory or book  
14 paper and newsprint.

15 Subsidized imports from Canada have caused  
16 significant negative effects on our operations. We compete  
17 head to head with subject SC paper in all of the SC paper  
18 grades produced at Madison. We also compete with subject  
19 paper in all geographic markets in the United States. Based  
20 on our experience in the market, U.S. and Canadian producers  
21 compete for business at all of our major accounts.

22 We have had to lower our prices to meet  
23 competition from subsidized Canadian producers which  
24 significantly reduced our revenue over the period of  
25 investigation. Our average unit values fell significantly

1 from 2012 to 2014 and continued to move lower in 2015.  
2 Although Madison paper has made significant efforts to  
3 reduce costs over the period of investigation, low market  
4 prices have eroded our profitability to an unsustainable  
5 level.

6 As Russ noted, price erosion has been  
7 particularly pronounced since the Port Hawkesbury mill  
8 restarted production in October of 2012. The negative  
9 impact resulting from the restart of Port Hawkesbury mill  
10 with the help of millions in government subsidies has not  
11 been limited to U.S. producers. In November 2012, Resolute  
12 Forest Products closed one of its SC paper machines at its  
13 Laurentide SC paper mill in Quebec. At that time Resolute  
14 noted the closure was due in part to the reopening of the  
15 Port Hawkesbury mill.

16 Then in September 2014 Resolute announced that it  
17 was shutting its remaining SC paper machine and mill  
18 permanently. Resolute squarely blamed the restart of the  
19 Port Hawkesbury mill for having to close the Laurentide  
20 Mill. In its earnings statement from February of this year,  
21 Resolute noted that, and I quote, "The Laurentide Mill was  
22 closed in mid-October. Its competitiveness was mainly  
23 affected by the restart of a competitor's mill at the end of  
24 2012."

25 Thank you. I'd be happy to answer any questions.

1 STATEMENT OF GREG HADLEY

2 MR. HADLEY: Good morning. My name is Greg  
3 Hadley and I'm assistant general counsel at Verso  
4 Corporation. I joined Verso at the time that Verso acquired  
5 New Page Corporation which occurred on January 7, 2015. I  
6 had been assistant general counsel at New Page for eight  
7 years. Before that I was senior corporate counsel at  
8 Wendy's International for about nine years.

9 Verso operates eight paper mills located in  
10 Kentucky, Maine, Maryland, Michigan, Minnesota, and  
11 Wisconsin. Verso produces SC paper at its mill in Duluth,  
12 Minnesota which began operations in 1987. You can see  
13 pictures of this mill on Slides 6 through 8. It has one  
14 paper machine, three supercalenders, two winders, a  
15 pressurized ground wood pulp mill, and a recycled pulp mill.

16

17 The paper machine at our Duluth mill produces  
18 only one thing, SC paper. The mill has the capacity to  
19 produce 270,000 short tons of SC paper per year and employs  
20 about 290 people.

21 Verso used to have a mill in Sartel, Minnesota  
22 that produced SC paper. That mill experienced a fire in May  
23 of 2012 and the paper machine was idled. In August 2012  
24 Verso decided to permanently close that mill. The decision  
25 to permanently close that mill was due in part to reports

1       that the SC mill in Port Hawkesbury would reopen.

2               Verso has experienced significant negative  
3       effects as a result of the competition from subsidized SC  
4       paper imports from Canada. Canadian producers benefit from  
5       provincial and national subsidies and these subsidies have  
6       allowed Canadian producers to gain a price advantage and to  
7       undersell U.S. producers. However, when the government of  
8       Nova Scotia undertook a comprehensive set of subsidies aimed  
9       at attracting a buyer for the Port Hawkesbury mill in Port  
10      Tupper, that changed the competitive environment completely  
11      and sent the SC paper industry in the United States into a  
12      downward spiral.

13              As Mr. Clancy will describe in greater detail, we  
14      have been forced to reduce our prices as a result of  
15      subsidized competition from Port Hawkesbury and other  
16      Canadian producers. This has resulted in a decrease in  
17      profitability and cash flow as well as other indicia of  
18      injury as can be seen in our questionnaire response. It is  
19      critical for the success of our supercalendered paper  
20      business that we are able to sell in our home market free  
21      from the impact of subsidized imports from Canada.

22              An affirmative injury determination is warranted  
23      in this case.

24              As Mr. Drechsel mentioned, the mill in Port  
25      Hawkesbury was formerly owned by New Page which acquired the

1 facility when New Page purchased all of the North American  
2 papermaking assets of Stora Enso in 2007. In September  
3 2011, New Page closed the mill and applied for protection  
4 under Canada's Companies' Creditor Arrangement Act. The  
5 reason for New Page's decision to close the mill was  
6 straightforward. We never made a profit on that mill. In  
7 fact, we were losing money at the rate of about \$4 million  
8 per month.

9           The Port Hawkesbury mill was unprofitable for  
10 several reasons. First, the mill had very high electricity  
11 costs which, given the large amount of electric energy used  
12 in paper making, was a huge cost disadvantage.

13           Second, the mill was not competitive in terms of  
14 the prices it was paying for wood sourced from Provincial  
15 Crown Lands.

16           Third, the mill is located in a very remote part  
17 of Canada, far from virtually all customers in the United  
18 States. High transportation costs were a significant factor  
19 in the decision to close the mill.

20           The Port Hawkesbury mill reopened with a new  
21 owner, Pacific West, in October 2012. The only reason that  
22 the mill could be sold to someone that would run it as a  
23 going concern was the massive subsidies provided by the  
24 government of Nova Scotia. In addition to a \$125 million  
25 package of grants and loans, the government also reduced the

1 electricity and fiber costs that the mill has to pay.

2 As Ron Stern, principal in Pacific West noted at  
3 the time, quote, "Unless the Port Hawkesbury mill can become  
4 a very low-cost operation, it simply will not succeed." End  
5 quote.

6 The government of Nova Scotia has done everything  
7 in its power to reduce costs at the Port Hawkesbury mill and  
8 to guarantee its success, albeit at the expense of the other  
9 producers of SC paper.

10 This sort of unfair practice is condemned by the  
11 WTO and is exactly what the countervailing duties law is  
12 designed to address. Our company has been injured by the  
13 subsidized imports and we ask the Commission to make an  
14 affirmative determination in this investigation.

15 Thank you.

16 STATEMENT OF PAUL CLANCY

17

18 MR. CLANCY: Good morning. My name is Paul  
19 Clancy. I am the Vice President of Pricing and Commercial  
20 Finance at Verso Corporation.

21 In this role I am responsible for integrating  
22 these functions associated with the recent New Page  
23 acquisition. I have worked for Verso and her predecessor  
24 companies for 28 years starting with the Duluth mill when it  
25 was a stand-alone company, Lake Superior Paper Industries.

1 I was the first sales person hired 18 months before the mill  
2 started up, five years later I became Vice President of  
3 Marketing and Sales.

4 My previous role before the Verso acquisition was  
5 Vice President, Publishing Sales. In this role I was  
6 responsible for our sales to magazine and book publishers,  
7 catalog mailers, retailers, as well as the printers that  
8 served them. My previous leadership positions have been in  
9 distribution sales, marketing, direct sales, and business  
10 development. I have 35 years of experience in the U.S.  
11 paper industry.

12 The imports from Canada serve the entire range of  
13 end uses in the U.S. market and we compete against these  
14 imports in every product category. The imports from Canada  
15 are completely substitutable with our SC paper. It may be  
16 that the Canadian producers who will testify this afternoon  
17 will seek to differentiate their products from ours, but our  
18 experience has been there is no significant end-use  
19 application for which we do not compete.

20 Imports from Canada also serve the entire  
21 geographic U.S. market and we compete with those imports  
22 throughout the United States. In our sales negotiations  
23 with SC purchasers, we attempt to emphasize our product  
24 quality, reliability and our mills' close proximity to many  
25 important printers that utilize SC paper.

1                   Unfortunately, SC purchasers are under intense  
2                   pressure to reduce costs and want us to lower prices. All  
3                   the major customers also have imports from Canada as a  
4                   supply option. The U.S. market is essential to each of the  
5                   Canadian producers and they must sell most of their volume  
6                   in the United States. To make sales, the imports from  
7                   Canada routinely undersell us. Thus, we have had to reduce  
8                   prices to maintain sales volumes.

9                   Before discussing the competition we face in the  
10                  U.S. market, I want to reiterate a defining characteristic  
11                  of this industry, production of SC paper is highly capital  
12                  intensive, but more than that, paper machines are not  
13                  designed to be turned on and off. Every producer wants to  
14                  run 24/7. And this fact has undeniable implications for  
15                  competition for sales among SC producers. In short,  
16                  producers are loath to lose volume and will sacrifice profit  
17                  margins to keep the machines running. As shown in our  
18                  questionnaire response, we have done that.

19                  The current market conditions which were created  
20                  by Canadian imports from Canada preclude reasonable  
21                  profitability. I would like now to take you through the  
22                  supply and demand and then pricing dynamics that have led to  
23                  our appearance today before you.

24                  Although we compete with all Canadian producers,  
25                  there is one Canadian competitor that had a particularly

1 significant impact on the U.S. market during the period of  
2 your investigation. I am referring, of course, to the  
3 reopening of the closed Port Hawkesbury mill in the fourth  
4 quarter of 2012. This mill alone has an SC production  
5 capacity of 400,000 tons. And like our mill in Duluth it  
6 can only produce SC paper. Virtually all of the production  
7 from Port Hawkesbury is exported to the United States.

8 According to data from the Pulp and Paper Product  
9 Council, or PPPC, annual U.S. consumption at the beginning  
10 of the period of investigation was approximately 1.8 million  
11 tons. Thus, the reopening of Port Hawkesbury added SC  
12 available supply equal to approximately 23 percent of U.S.  
13 market in 2012. The addition supply had obvious  
14 implications for the supply/demand balance and U.S. market  
15 prices.

16 The negative impact of imports from Canada has  
17 grown since 2012 and the Port Hawkesbury mill is a large  
18 part of the problem.

19 Even before it reopened Port Hawkesbury was  
20 negatively affecting U.S. market prices as purchasers  
21 anticipated and leveraged the addition of massive new supply  
22 into the U.S. market. For example, our prices for SCA paper  
23 would have been higher in October 2012 but for the  
24 anticipation of the additional Port Hawkesbury supply.

25 The purchasers knew that Port Hawkesbury would be

1 offering low prices to quickly generate sales volume and  
2 gain market share. And that is what exactly happened. The  
3 only way Port Hawkesbury could move 400,000 new tons of SC  
4 paper was to gain positions with customers by driving prices  
5 down. So it's no surprise the domestic SC industry has  
6 experienced declining prices and sharply declining profits.

7 Any increase in SC consumption realized in 2013  
8 was some catalog and magazine publishing companies switching  
9 from coated paper was at the expense of domestic producer  
10 profitability.

11 And this damage has accelerated from 2012 onward  
12 as any potential concerns about Port Hawkesbury's  
13 reliability or continuity have disappeared. The damage is  
14 continuing and growing more severe in 2015.

15 As Mike Croteau will testify next, Madison had to  
16 shut down for 17 days in January and February, just a month  
17 ago. The damage hasn't just been caused by Port Hawkesbury,  
18 all the Canadian producers have contributed to our problem  
19 by driving prices down and as a country, over-supplying the  
20 U.S. market. They all need to run continuously and they  
21 have all have had the U.S. targeted as their largest and  
22 near exclusive market.

23 I cannot talk publicly about our specific  
24 performance results, but it is well-known that current U.S.  
25 market prices are not producing adequate operating returns.

1 Relief from the unfair imports from Canada is essential to  
2 returning reasonable pricing to the U.S. market. Absent  
3 relief, underselling by subject imports will continue and  
4 U.S. market prices will continue to be depressed to  
5 injurious levels.

6 Accordingly, on behalf of Verso Corporation and  
7 its employees, we ask that the Commission find that there is  
8 a reasonable indication of material injury by reason of  
9 subject imports.

10 Thank you.

11 STATEMENT OF MIKE CROTEAU

12 MR. CROTEAU: Good morning. Excuse my cough.  
13 I've been fighting a cold for two weeks and it's a losing  
14 battle. My name is Mike Croteau. I am the president of the  
15 United Steelworkers Local 36, representing 140 USW members  
16 at the Madison paper mill. I'm a trained master mechanic  
17 and now work as a winder crewman at the paper mill. I am  
18 also the safety advocate for our workers.

19 I've worked for Madison Paper for 13 years.  
20 The Madison mill also employs 42 members of the  
21 International Association of Machinist Union Local 559. The  
22 182 members are highly skilled and experienced, and are  
23 responsible for running and maintaining hundreds of millions  
24 of dollars of equipment that operate 24 hours a day, seven  
25 days a week, producing highly quality SC paper.

1                   I have come to Washington today to ask the  
2 Commission to make an affirmative determination that the  
3 industry producing supercalendered paper in the U.S. is  
4 injured as a result of unfairly subsidized imports from  
5 Canada. I sincerely believe that our jobs in Madison depend  
6 on it.

7                   Our region has a long history of papermaking.  
8 Many people working today at the Madison mill are third  
9 generation papermakers. Both my father-in-law and  
10 brother-in-law worked at the mill, and I have several  
11 nephews that work there today.

12                   The mill is the heart of our community. It is  
13 the largest employer in the area, ahead of the two other  
14 primary employers, the public school system and a tomato  
15 greenhouse business. Kennebec Valley Community College  
16 supports the industry by providing pulp and paper courses,  
17 which many in the mill have already taken.

18                   The mill has long provided stable, good-paying  
19 jobs with benefits to our citizens, and we have worked hard  
20 to make the mill as efficient and cost effective as  
21 possible. We recently renewed a cost-neutral contract with  
22 the mill in 2015. An increase in pay or benefits negotiated  
23 was offset by other changes in the contract that would cover  
24 these increases.

25                   We understand that in today's competitive

1 environment, there are shared sacrifices that have to be  
2 made in order to preserve our jobs. The mill also supports  
3 many other jobs in our community, from the loggers and  
4 truckers that supply fiber to the mill, to the police force  
5 and the fire department, and our schools and to our  
6 restaurants and retailers.

7           The state of Maine has estimated that every  
8 job at the mill supports four or five additional jobs in the  
9 Madison area. In January of this year, management announced  
10 that the mill would have to take 17 days of unscheduled down  
11 time. They explained to us that this was the result of  
12 increased energy costs and unfair trade on the part of the  
13 Canadian companies, especially the heavily subsidized Port  
14 Hawkesbury paper.

15           We've experienced one or two temporary  
16 shutdowns in the past for capital expansion projects, but  
17 this time was different. During past curtailments, our  
18 workers continued to be paid. But this time, we were told  
19 we would temporarily be laid off without pay during this  
20 period. It was of course a hardship on the employees to  
21 lose two weeks of pay during the depth of winter.

22           But what was worse was the panic that the  
23 shutdown caused among the workers and in the community more  
24 generally. Some of the mill workers have come up to me to  
25 ask if they should start drafting their resumes. It is

1 really nerve-wracking for everyone.

2                   Maine had three mill closures in 2014, at  
3 Bucksport, East Millinocket and Old Town. Everyone in  
4 Madison knows what those closures have done to those  
5 communities, and they are simply scared to death that it  
6 could happen to them.

7                   There is only one paper machine in Madison.  
8 If that paper machine shuts down permanently, the mill  
9 closes, period. I'd put our mill workers up against anyone  
10 in the industry. They are hardworking, well trained and  
11 very seasoned. Like all Mainers, we are willing to quietly  
12 and efficiently put our shoulders to the task. But we  
13 cannot compete against subsidized imports from Canada.

14                   Canada consumes very little supercalendered  
15 paper, and almost all the paper produced up there is sold  
16 into our market. When mills stay open and running because  
17 of government bailouts, they export unemployment to our  
18 mills. I ask you not to let that happen, by making an  
19 affirmative determination in this case and support the  
20 hard-working Maine families. Thank you.

21                   MR. KAPLAN: Mr. McClure and members of the  
22 Commission staff, that concludes our affirmative  
23 presentation. Maybe we could -- I think we have some extra  
24 time. Maybe we could save some of it for our closing, if  
25 possible. But in any case, we are concluded with our

1 affirmative presentation.

2 MR. McCLURE: Thank you. In the  
3 preliminaries, we don't add that to the closing.

4 MR. KAPLAN: Okay.

5 MR. McCLURE: So if you have more to say, you  
6 may want to say it now.

7 MR. KAPLAN: I think we're finished, and we'll  
8 just answer questions obviously and have our closing.

9 MR. McCLURE: Amazing with Mr. Kaplan sitting  
10 over there.

11 MR. KAPLAN: I know.

12 (Laughter.)

13 MR. KAPLAN: We're not unleashing him quite  
14 yet. We're saving him for the good stuff.

15 MR. McCLURE: Thank you. Okay. With that, we  
16 will stand in recess until the completion of the  
17 Commission's vote, and hopefully that will only take five to  
18 ten minutes. I would urge you to use this for, as I say,  
19 you know, if you want to grab a snack, whatever. If you're  
20 leaving the room, remember the room is not secure, so take  
21 your business proprietary information with you.

22 I understand that there is substantial  
23 interest in the sugar vote in particular, so I don't know  
24 what kind of numbers will be out there. They're going to be  
25 let in the room, I think, at 10:40 or 10:45. So it's up to

1 you, if you want to clear out or if you want to sit here and  
2 watch the sugar vote.

3 That's fine. There will be an army of lawyers  
4 in here, I assure you of that. Anyway, we will --

5 MR. KAPLAN: Could I just ask? Is there a  
6 specific time we're coming back, or should we just assume  
7 that five minutes after the vote's over or something we  
8 should all be back or --

9 MR. McCLURE: Bill, 11:15 is safe do you  
10 think?

11 MR. BISHOP: Yes.

12 MR. McCLURE: Okay. Let's make it 11:15.  
13 Just as soon as I say they'll be done in five minutes, this  
14 will be the rare instance when somebody wants to talk. So  
15 we stand in recess until 11:15.

16 (Whereupon, a short recess was taken.)

17 MR. BISHOP: Will the room please come to order.

18 MR. McCLURE: Welcome back. Now that you've had  
19 your sugar buzz for the morning, we will begin the  
20 questioning with Chris Cassise, the investigator on these  
21 investigations.

22 MR. CASSISE: Good morning, everyone. Thank you  
23 for your testimony. I would like to begin my questioning  
24 just going over and clarifying some of the direct testimony  
25 and kind of agreeing on some definitions.

1           Mr. Drechsel, you had mentioned that Madison had  
2           purchased pulp for their facility in Madison, but also  
3           produced pulp there. Could you explain which pulp you're  
4           buying and which pulp you're making and how that fits into  
5           the production process?

6           MR. DRECHSEL: Yes. The pulp that we purchase is  
7           known as Kraft pulp or a chemical pulp. It's a  
8           longer-fibered pulp and you can buy that on the open market  
9           fairly easily. The pulp that we produce, the fiber that we  
10          produce is a mechanical pulp and we produce that in our  
11          pressurized ground wood process. Making SC paper requires  
12          the chemical fiber, the long fiber, the mechanical pulp and  
13          a filler as the basic raw materials. There's other  
14          additives that are put into the paper making process.

15          In SC papers, the mechanical pulp portion is much  
16          larger than the chemical pulp portion.

17          MR. CASSISE: Okay. Is there a very specific  
18          recipe of all the ingredients that you mentioned that make  
19          -- that give SC paper its essence or is there a broad range  
20          of quantities that you could use?

21          MR. DRECHSEL: There is a broad range of  
22          quantities that can be used for each depending on the basis  
23          weight that you're manufacturing, or the type of product  
24          that you want to end with. But generally the mechanical  
25          pulp portion is going to be significantly larger than the

1 chemical pulp portion.

2 MR. CASSISE: And that would distinguish SC paper  
3 from other papers that use a majority of chemical pulp or  
4 craft pulp?

5 MR. DRECHSEL: Yes. Correct.

6 MR. CASSISE: Could you describe the prices of  
7 Kraft pulp over our period of investigation? Has there been  
8 a trend in those prices?

9 MR. DRECHSEL: I believe those prices are in our  
10 questionnaire that we provided in the financial information.

11 MR. CASSISE: Would you describe those as  
12 increasing prices or decreasing prices or stable prices?

13 MR. DRECHSEL: I would describe them as  
14 increasing prices, but I'd like to go back and look at the  
15 data to make sure.

16 MR. CASSISE: Okay. I'm not asking for a  
17 specific --

18 MR. DRECHSEL: Okay.

19 MR. CASSISE: -- percentage just if there was a  
20 dramatic increase in a raw material price, that would be --

21 MR. DRECHSEL: Generally increasing.

22 MR. CASSISE: Okay.

23 MR. DRECHSEL: And that pulp is -- the chemical  
24 pulp is the soft wood.

25 MR. CASSISE: Also in the manufacturing process,

1 I know that everyone this morning described their SC paper  
2 and production lines as dedicated and the facilities as only  
3 producing those products. Is that the production lines are  
4 physically able -- only able to produce those products, or  
5 that it would take a lot of retooling and resources to shift  
6 production to a different product? It appears to me that a  
7 lot of the machines that were described in the slides were  
8 paper machines that could be used to make other paper  
9 products except of course maybe the supercalendering portion  
10 of the production line which at least Mr. Drechsel, I think  
11 you had stated was off the production line, was not even  
12 part of your original production line. Therefore my  
13 question is, this dedication to this particular product, is  
14 it that you have made a business decision to dedicate this  
15 product to this line? Or is it that it would be a  
16 tremendous expense to shift to a different product? And if  
17 it is a tremendous expense, could you describe the time and  
18 resources that it would entail to shift production?

19 MR. DRECHSEL: When we refer to our  
20 supercalendering operation being offline, what is meant by  
21 that is that it's not on the same web that's being processed  
22 as we build the paper sheet. So we take large spools of  
23 paper and we take them off the paper machine and then  
24 supercalender them and then wind them into what the customer  
25 would like to have. So it's an offline process. There are

1       some supercalenders that have been installed recently that  
2       are right on the paper machine, so the supercalender the  
3       product at the end of the paper manufacturing process.

4               The second part of the question was, could we  
5       convert the machine to make some other product? Time,  
6       resource, and money, you can demolish everything and put in  
7       a new factory. To make other products, we're not situated  
8       to make an uncoated or a coated product. We do not have  
9       coating stations and typically you would be looking for a  
10      coating kitchen, investments in coating stations and that  
11      lengthens the paper machine or the building. So that's  
12      quite an extensive undertaking. We would not be making a  
13      product that would be ground wood free or wood free because  
14      we do not have a chemical Kraft pulp mill on site, and that  
15      would be a huge undertaking. Other than that, we've made  
16      the investments back in 1981 and in 2001 with the  
17      supercalenders to make the SC product.

18             Our stock preparation systems, all our chemical  
19      additive systems are geared to that one product line,  
20      supercalendered paper.

21             MR. CASSISE: Okay. If I understand your answer,  
22      because you don't have coating capabilities on that line,  
23      all coated paper products would not be a potential product  
24      that you could shift production to.

25             MR. DRECHSEL: Correct.

1                   MR. CASSISE: I understand that. As far as other  
2                   uncoated products go, what is -- what would you call the  
3                   product that comes off the line before it's wound up and  
4                   taken over to the supercalendered line? What is that  
5                   product?

6                   MR. DRECHSEL: We call that a machine finish.

7                   MR. CASSISE: Machine finish. Is that a  
8                   commercial product?

9                   MR. DRECHSEL: No, it is not.

10                  MR. CASSISE: But you could, and we talked about  
11                  the recipe that goes in between pulp and fillers, that go  
12                  into the beginning of the machine, you could -- there's  
13                  nothing in the physical machine that would prevent you from  
14                  changing that recipe and getting a different product out of  
15                  the paper mill itself up until the supercalendering  
16                  procedure?

17                  MR. DRECHSEL: There are resonance times for  
18                  certain reactions to happen and retention mechanisms to  
19                  happen for different grades of paper and we could not have  
20                  -- potentially we would have to look at tank sizes,  
21                  resonance times for fibers and some of the additives. If  
22                  we're considering making an uncoated ground wood product or  
23                  a newsprint or a telephone directory on our paper machine,  
24                  we do not have a machine calendar and that would be  
25                  required.

1           Our pulp mill with our screening and with our  
2 energy levels that we require, our pulp stones are all  
3 designed for SC product. So it's not just the paper  
4 machine, but it's all the material input to the paper  
5 machine that has to be investigated.

6           MR. CASSISE: Right.

7           MR. DRECHSEL: And those are large capital costs  
8 to change tank sizes or to put tanks in or change piping  
9 around.

10          MR. CASSISE: Would it be fair to say that in  
11 order to switch production would cost tens of millions of  
12 dollars, hundreds of millions of dollars, ballpark figure  
13 that you could provide that would be helpful?

14          MR. DRECHSEL: It's easily in the tens of  
15 millions.

16          MR. CASSISE: Okay. My point is, you can't  
17 switch production between even uncoated products very  
18 easily?

19          MR. DRECHSEL: No.

20          MR. CASSISE: Okay.

21          MR. DRECHSEL: No, not at all.

22          MR. CASSISE: Okay. The --

23          MR. DRECHSEL: If we were able to switch  
24 something like that, instead of shutting down for 17 days,  
25 we would have switched.

1 MR. CASSISE: Right. Okay.

2 MR. DRECHSEL: That's, you know, that's the  
3 reality of it. Sending people home without paychecks is no  
4 fun.

5 MR. CASSISE: You also mentioned, again, back the  
6 recipe very briefly, the fillers that go into the SC paper,  
7 are these fillers that are unique to SC paper, or are these  
8 fillers that are used throughout the industry in varying  
9 quantities? If you could describe the fillers a little bit  
10 more, that might be helpful.

11 MR. DRECHSEL: I would tend to say that each SC  
12 manufacturer uses their own special type of filler. They  
13 are purchased on an open market. At the Madison site we use  
14 a precipitated calcium carbonate filler that we generate on  
15 site. We have also used filler clays from Georgia. You can  
16 also use filler clays from other sources in the world,  
17 whether they be English China clays or South American clays.

18 MR. CASSISE: Mr. Kaplan, this might be better  
19 directed to you.

20 MS. BYERS: No, I'm Bonnie Byers, I just wanted  
21 -- Russ, you I think your question was, are the fillers  
22 different for supercalender than for other types of paper,  
23 or are the recipes different?

24 MR. CASSISE: Right.

25 MS. BYERS: Or in other words, do you use special

1 fillers specifically for --

2 MR. DRECHSEL: Yes, we do.

3 MS. BYERS: -- calendering?

4 MR. DRECHSEL: Yes, the fillers that we use in  
5 make our SC sheets are special and they may not be used in  
6 other types of coated products. It would be a different  
7 class of filler that would be used.

8 MR. CASSISE: Is that a proprietary recipe that  
9 each manufacturer --

10 MR. DRECHSEL: For us the characteristics of that  
11 filler is very proprietary.

12 MR. CASSISE: Okay. Okay. My next question may  
13 be better directed at Mr. Kaplan. And it's in regards to  
14 scope definition. There was a portion of the scope that  
15 states that all uncoated paper that meets the scope  
16 definition regardless of the pulp fiber or the filler used,  
17 I mean, are there uncoated papers in the market that go  
18 through a supercalendered process that aren't deemed SC  
19 paper?

20 MR. KAPLAN: No, I think as Mr. Drechsel is  
21 saying -- oh, Gilbert Kaplan. It's as Mr. Drechsel said,  
22 the SC paper has generally specific fillers and constituents  
23 that are used in all SC paper.

24 MR. CASSISE: But then that raises the issue of  
25 you have in your scope definition a description of the

1 product that says regardless of the fillers and the pulp  
2 used?

3 MR. KAPLAN: Well, I mean, I think what that was  
4 meant to address is you could use -- there's different  
5 proprietary recipes, different companies can use slightly  
6 different fillers and the like, so we didn't try to specify  
7 every, you know, particular chemical filler. I don't think  
8 we could have done that reasonably.

9 MR. CASSISE: Well, that raises the question I  
10 asked, are you casting too wide of a net? Are there  
11 uncoated papers that use other pulps or fillers that go  
12 through a supercalendering process that are not considered  
13 SC paper?

14 MR. KAPLAN: I don't -- I think we're talking  
15 about SC paper that has specific -- I'm looking at this.

16 MR. CASSISE: Well, let me ask it this way, are  
17 there any commercial products that you sell that are not SC  
18 paper that go through your supercalendering process?

19 MR. DRECHSEL: Absolutely not.

20 MR. CASSISE: Okay. That's all I need to know.

21 MR. DRECHSEL: Russ Drechsel.

22 (Laughter.)

23 MR. McCLURE: Now, I do this because with a panel  
24 this big, and where the court reporter sits, it does help  
25 him out. Of course, we know who Dr. Kaplan is, so he

1 doesn't need to give his name.

2 MR. CASSISE: Mr. Johnston, you moved, yes.

3 (Laughter.)

4 MR. CASSISE: You had stated in your testimony, I  
5 think you anticipated some of the arguments that may be  
6 raised this afternoon about different like product issues  
7 and you kind of went through some of the differences in what  
8 you see in SC paper versus other types of paper, especially  
9 a light-weight coated paper which I believe the petition  
10 kind of anticipated as a potential argument for a like  
11 product. So we could maybe go through some of those factors  
12 and you touched on all of them briefly. And we can just go  
13 through each one a little bit more in detail. I think  
14 physical characteristics we talked a lot about already, but  
15 you could tell us -- plus from the standpoint of kind of the  
16 consumer, if there's any interchangeability and at what end  
17 uses you might see that interchangeability.

18 MR. JOHNSTON: Sure. Mike Johnston, UPM. There  
19 is interchangeability between some of the grades from a  
20 consumer standpoint. Certainly within the band of SC  
21 papers, there's switching on a day-to-day basis. Certain  
22 end users like major retailers, for their free-standing  
23 inserts, the advertising supplements, there's Sunday  
24 newspaper magazine, coupons, there's catalogs, and other  
25 regular magazines as well. In all those areas we compete

1 day in, day out from the low end of the product scale to the  
2 high end. The switching between coated and SC is a little  
3 bit more difficult. You're talking about a product that is  
4 a higher cost to produce and the longevity is something that  
5 unless the advertiser is willing to pay the publisher to use  
6 a higher quality sheet, the publisher is not willing to  
7 usually do that.

8 MR. CASSISE: Have there been any advances in  
9 technology that have made newsprint more interchangeable  
10 with this product seeing as though the color printing and  
11 photo printing on newsprint seems to be a little bit more  
12 prevalent today?

13 MR. JOHNSTON: I'm not a newsprint manufacturer,  
14 so I'm not 100 percent sure. But relatively I don't think  
15 the advances in newsprint production have progressed that  
16 much. More the printing process has improved over time to  
17 accommodate printing color on newsprint. But if you do look  
18 at the difference between a typical newsprint sheet versus a  
19 supercalendered sheet, the reproductive capability on SC is  
20 far superior than it is on newsprint. The detail of what  
21 you're showing is by far greater on supercal.

22 MR. CASSISE: So it would be fair to say that the  
23 competition comes more from light-weight coated paper than  
24 from any newsprint competition?

25 MR. JOHNSTON: Correct.

1                   MR. CASSISE: Okay. And that also brings me to  
2 the channels of distribution and who you guys sell to. I  
3 understand what printers and publishers are going to do with  
4 the big rolls, but help me understand what a retailer is  
5 going to do and how they -- I understand that they make  
6 Sunday circular, but who actually prints them and how is  
7 that transaction conducted in the real world?

8                   MR. JOHNSTON: Yeah, I had that same issue when I  
9 was first hired into the industry, not understanding that.  
10 So it's something that a retailer or a publisher typically  
11 will not see. So they could buy the paper from us. So it  
12 could be the printer, it could be a publisher, it could be  
13 an advertiser. They buy it, we send it to their printer of  
14 choice. There are major printers in the United States and  
15 Canada, Mexico as well, that do this kind of printing. Once  
16 it's printed, from there the printer takes all the artwork,  
17 the details from their publisher and builds the finished  
18 product. It's then distributed, typically for retail  
19 advertising insert into a Sunday newspaper, so it never  
20 actually ends up in a retail shop or in a publisher's  
21 offices. It's distributed from the printer to those end-use  
22 segments.

23                   MR. CASSISE: So the retailer negotiates all of  
24 these details with that publisher or that printer?

25                   MR. JOHNSTON: The --

1                   MR. CASSISE: Which paper to use, where to  
2 distribute the final circular, all of those negotiations are  
3 conducted with the printer?

4                   MR. JOHNSTON: No. There's actually several ways  
5 they can do it. So we sell directly to the publisher so  
6 they will have a buying team that manages selecting the  
7 paper and ordering it and having us -- telling us where we  
8 should ship the product. There are the printers that can be  
9 hired by the end users to manage the paper process for them.  
10 So sometimes the printer gets involved, but he's more or  
11 less listening to what the end user is determining should be  
12 the use.

13                   There are also brokers who are in between the  
14 process that maybe manage a relationship with a retailer, a  
15 cataloger, et cetera that will then place orders on behalf  
16 of that person ultimately ending at the printer and then  
17 distributing from there.

18                   MR. CASSISE: Okay. Well, let me ask a simple  
19 question that when you're selling to a retailer, who calls  
20 you and orders the paper? Is it somebody at say, Macy's  
21 that calls you up, or is it the public -- the printer?

22                   MR. JOHNSTON: It can be both.

23                   MR. CASSISE: Okay. Well, that did not -- that  
24 didn't clear that up at all.

25                   MR. JOHNSTON: Not at all.

1 (Laughter.)

2 MR. CASSISE: Just as an aside on the weekly  
3 advertisements, of all SC paper, what share of say U.S.  
4 demand would be these weekly circulars? How much is going  
5 to those retail circulars as opposed to other end users?

6 MR. JOHNSTON: I'll take a stab. Mike Johnston  
7 from UPM. The share -- I think each producer has its own  
8 share depending on the nature of their business.

9 MR. CASSISE: Okay.

10 MR. JOHNSTON: There's not publicly available  
11 information that's credible or verifiable that gives that  
12 information. But in general in SC paper the predominant  
13 consumer would be the retailers followed by catalog and then  
14 by magazine publishers.

15 MR. CASSISE: Would it be fair to say then  
16 regardless of the producer, at least 51 percent, a majority  
17 of the SC paper goes to the weekly advertisements, the  
18 circular? And it may be different for each one, I'm just  
19 trying to see if there's a general idea.

20 MR. CLANCY: This is Paul Clancy from Verso  
21 Corporation. There is not a tracking service that would  
22 monitor what the share of use and end uses for SC paper are  
23 in the United States or North America. It would just be  
24 specifically up to individual companies and their customer  
25 mix.

1                   MR. CASSISE: And that could be different for  
2 each company?

3                   MR. CLANCY: Yes.

4                   MR. CASSISE: And it was mentioned that the shift  
5 from paper to digital media and the decrease in newspaper  
6 circulation, that was mentioned earlier, has the industry  
7 come to kind of a consensus of what the drop in demand each  
8 year will probably be, an acceptable amount of demand drop  
9 because of this phenomenon?

10                  MR. JOHNSTON: Mike Johnston, UPM. The industry,  
11 I think, would tend to be happy if the demand decline were  
12 only 5 percent. But it continues to be even greater than  
13 that from year to year. There have been blips here and  
14 there, but the overall trend since 2007, which was at the  
15 peak in the market has been down significantly since then.  
16 So you're talking about a market that was north of 2.6, 2.7  
17 million tons to market, now it's 1.7, 1.8 in a fairly short  
18 period of time.

19                  MR. CASSISE: Is this a trend that's accelerating  
20 or steadying?

21                  MR. JOHNSTON: We would like to say it's  
22 steadying, but we're not seeing that yet. What we're  
23 actually seeing is, again, as marketers become wiser to the  
24 use of e-media, they're able to say, okay, I have \$100 to  
25 spend, I used to spend it on these mediums, now I have

1 e-marketing, it's cheaper, it may not quite be as effective  
2 at this point, but it's something that's compelling because  
3 it's so cheap. Paper, on the other hand, and print is  
4 extremely expensive. So we're the ones as an industry that  
5 face the cuts. So I think as they get smarter and there's  
6 certainly a trend away from paper.

7 An example would be Kohl's a large retailer that  
8 we should all know, just recently publicly announced the  
9 fact that they're going to be cutting their advertising  
10 insert program by 40 percent this year. That's a major  
11 shift. They are a major SC consumer similar to other  
12 companies. Target Corp. just recently let go of 1,700  
13 people as you've probably seen in the press. Of those 1,700  
14 the entire group that managed the free-standing insert  
15 program, so the buying, the artwork, all of the details  
16 behind that, they were all let go in this process. All  
17 because they're going to rededicate -- they're not going to  
18 totally move away from paper, but they're going to dedicate  
19 more of their time and resources on e-marketing. So it's a  
20 trend that isn't slowing down from our perspective.

21 MR. CASSISE: Okay. Dr. Kaplan, the first time  
22 we can hear your voice.

23 DR. KAPLAN: Good morning.

24 (Laughter.)

25 MR. CASSISE: The dulcet tones of Dr. Kaplan.

1 DR. KAPLAN: I think the statements that have  
2 just been made about the secular decline in demand that the  
3 consumptions numbers that the ITC sees should be put in  
4 context. So if you believe -- what I want to make sure that  
5 the Commission is aware of, that they should distinguish  
6 between consumption and demand. And what you're seeing is a  
7 significant secular decline in demand given the reasons of  
8 the move to e-commerce which makes the industry particularly  
9 vulnerable to the increase in imports. And the only way to  
10 move additional tonnage in a shrinking market is to force  
11 the prices down. And what you've seen in this industry is a  
12 decline in prices and a decline in profits. The production  
13 process and the fact that these mills have to run 24/7 and  
14 that they're designed that way and that they're very high  
15 cost makes the decision only to shut down or to lower price.  
16 You've seen some mills already shut down. So now you have  
17 continued declining demand, the need to operate 24/7, and  
18 suddenly the insertion of 400,000 additional tons into the  
19 market.

20 So I want you to be aware when you're looking at  
21 the dynamics of this industry that there is a cyclical  
22 decline in demand and that any increase in the supply during  
23 declining demand is going to put particularly severe price  
24 pressure on an industry that has to operate around the  
25 clock. And so when you look at the data and the consumption

1 data, look at that in the context of the overall decline and  
2 demand and then look at what's happened to prices and  
3 profitability.

4 So I've tried to do this without reviewing any  
5 confidential information, but I just wanted to tie together  
6 the discussion of production and the discussion of demand in  
7 this market to better be able to analyze the record data.

8 Thank you.

9 MR. CASSISE: Thank you.

10 MR. CASSISE: Just a related question on demand  
11 or consumption. Is there any seasonality? Do you see a big  
12 uptick in the fourth quarter for the holiday season?

13 MR. JOHNSTON: Yes, we do see a demand uptick in  
14 the fourth quarter. It used to be more pronounced, it used  
15 to be longer. But it is very much tied, as our business is  
16 quite heavily influenced by the retail environment. Their  
17 sales are driven in the fourth quarter, as we all know,  
18 Black Friday, etcetera. They're doing their advertising  
19 more heavily in that period. So there is some seasonality  
20 to the business.

21 MR. CASSISE: Is the seasonality so pronounced  
22 that say half your business is done in the fourth quarter or  
23 more, or is it -- it's more spread out than that?

24 MR. JOHNSTON: It's more spread out than that.

25 MR. CASSISE: Thank you. Mr. Hadley, you had

1 mentioned that Verso had closed their Sartell, Minnesota  
2 plant in 2012. You said it was due in part to the Port  
3 Hawkesbury imports entering the market, but also a fire that  
4 occurred there that year. Could you describe how much  
5 damage was done in that fire? Was it to the actual  
6 production capabilities and if so, I mean how much money  
7 would it have taken to reopen the plant?

8 MR. HADLEY: Yeah. The plant itself, I think,  
9 was closed in May 2012, the Memorial Day weekend due to the  
10 fire, and the paper machine there was idled at that time.  
11 Then in August 2012, Verso decided not to reopen the mill  
12 and restart the paper machine, due in part to the knowledge  
13 that the Port Hawkesbury mill was going to be reopening  
14 soon. But there was extensive damage done to the mill, and  
15 it would have required some serious capital investment to  
16 reopen it.

17 MR. McCLURE: For the court reporter, that was  
18 Greg Hadley speaking.

19 MR. HADLEY: Oh, I'm sorry.

20 MR. CLANCY: This is Paul Clancy. Mr. Hadley  
21 and I are both former New Page employees. So we can provide  
22 that data in an affidavit later.

23 MR. CASSISE: Okay, that would be helpful, I  
24 mean some more specifics on that. You know, we are in a  
25 unique situation in this investigation, where Petitioners

1 actually used to run the Respondents' mill, and so you have  
2 the opportunity to give us detailed information on the cost  
3 structure of that mill.

4 In the direct testimony, you mentioned the  
5 electricity cost, the wood cost and the transportation cost.  
6 You know, I'd like to give anyone an opportunity to provide  
7 more detail here in a public forum if you'd like, but  
8 definitely to -- in your post-conference briefs, give us  
9 some more detail as to the cost structure that you  
10 encountered when you were running the plant.

11 Mr. Clancy, you had made a statement in your  
12 direct testimony that the paper machines don't like to be  
13 turned off. I was just wondering if that was -- you stated  
14 that figuratively, in that you have high, fixed costs and  
15 you need to spread those costs, or is there something  
16 physically detrimental to the machine when you turn it off?

17 MR. CLANCY: Perhaps Mr. Drechsel would be  
18 better capable of answering that specific question, given  
19 that it's a manufacturing issue.

20 MR. CASSISE: Okay.

21 MR. DRECHSEL: Okay, so Mr. Drechsel. Machines  
22 are typically shut down for short periods of time to do  
23 maintenance, and short periods of time, maybe four hours or  
24 six hours. They're washed up. A lot of the material that  
25 may be contaminants tend to collect when the dust systems

1 and stock systems of the paper machine are cleaned up, and  
2 the conveyors and the wires and felts are changed as part of  
3 the normal operations of the machine.

4 And then when items are repaired or replaced,  
5 starting up a machine can be difficult. As it goes down,  
6 maybe some electrical wires were jiggled around, not making  
7 contacts. Maybe some of the drives have issues. Some of  
8 the repairs might not have been done to the level that were  
9 expected.

10 The machine also tends to cool down, and the  
11 longer the machine is down, then the harder it is to start  
12 up typically, because the temperature changes on the paper  
13 machine. Also temperature changes in the stock systems and  
14 the water systems. So where we drain all the water out of  
15 the forming section, it may not drain exactly the same as  
16 when it was running.

17 So it takes a while to stabilize the machine  
18 after it starts back up, and each machine is different. The  
19 more skilled the workers are, the more skilled and training  
20 everybody has the quicker that can be, and the less  
21 detrimental. But if a machine goes down on a non-scheduled  
22 basis because of lightening strike and a power failure, it  
23 can take three-four days to restart it and get it running.  
24 If it goes down on a scheduled basis, it can take five  
25 hours. So there's a wide range in between.

1                   MR. CASSISE: So there's -- it would be -- I  
2                   guess it would be fair to say there's a long procedural list  
3                   of things that need to be done to either shut a machine down  
4                   or turn it back on, and that if you plan for that, it  
5                   doesn't take as long. But if you -- it's not an on/off  
6                   switch?

7                   MR. DRECHSEL: It's not an on/off switch. It's  
8                   nothing that we want to do. We want to run that 24-7. It  
9                   can be problematic to start a machine back up. It's not  
10                  desirable to us, especially in the cold of winter, when you  
11                  have pipes freeze and you operate in Maine when the  
12                  temperature this year has been below zero for quite a few  
13                  months.

14                  MR. CASSISE: So there are physical reasons why  
15                  you would not want to do that, not just to spread fixed  
16                  costs?

17                  MR. DRECHSEL: That's correct, but the fixed  
18                  costs also have to be covered.

19                  MR. CASSISE: Let me see. Mr. Johnson (sic), I  
20                  believe you were talking about the rolls versus sheets  
21                  issue, I just wanted to briefly talk about that. Are there  
22                  -- you've stated in your testimony that there are no SC  
23                  paper sheets sold in the market that you know of?

24                  MR. JOHNSTON: Correct.

25                  MR. CASSISE: Are there any distributors or any

1 other firms that purchase the SC paper and sheet it?

2 MR. JOHNSTON: Not to my knowledge.

3 MR. CASSISE: Are there any end uses currently  
4 in the market that would use an SC paper already sheeted?

5 MR. JOHNSTON: Again, not to my knowledge.

6 MR. CASSISE: Mr. Kaplan, then the sheet  
7 language in the scope is designed for anti-circumvention  
8 motive?

9 MR. KAPLAN: Well partially and, you know, we  
10 sometimes don't have 100 percent knowledge of everything.  
11 So we wanted to make sure we covered rolls and sheets.

12 MR. CASSISE: Okay. I throw this out to anyone  
13 on the panel that knows the answer, but in a lot of the  
14 other paper cases, we usually get some very specific RISI  
15 data. Is there any RISI data that's available, that  
16 pertains directly to just SC paper?

17 MR. JOHNSTON: Mike Johnston, UPM. Yes, there  
18 is.

19 MR. CASSISE: I would request if you have it  
20 available that you attach it to your brief. That would be  
21 helpful. That's all the questions I have right now. Thank  
22 you.

23 MR. McCLURE: Thank you, Chris. Next Vince  
24 Honnold from the Office of Industries has a few questions.

25 MR. HONNOLD: Thank you. Again, this is Vincent

1 Honnold from the Office of Industries. I just have a couple  
2 of questions. This is kind of a broad question. Haven't  
3 Canadian producers of supercalendered paper, including Port  
4 Hawkesbury when they were online, haven't they always had a  
5 large presence in the U.S. market?

6 MR. JOHNSTON: Mike Johnston, UPM. Yes, the  
7 Canadian producers have had a long presence in the North  
8 American market. The big change this time was when they  
9 went out because it was an unprofitable mill. We believe  
10 the subsidies allowed them to compete in a way that has been  
11 damaging to the North American marketplace.

12 MR. HONNOLD: Did you want to comment on that,  
13 Mr. Clancy?

14 MR. CLANCY: No, I would concur.

15 MR. KAPLAN: Mr. Kaplan. Yeah. I would ask the  
16 Commission to look closely at their presence in the market,  
17 but also where their product goes. So whether they have an  
18 owned market or alternative markets. So you have a  
19 declining end use demand and a significant capacity with  
20 long-standing presence of channels of distribution in the  
21 United States, and a very small home market, with the U.S.  
22 being their choice market.

23 So I just wanted to kind of round out the  
24 picture of the Canadian experience in the United States in  
25 this product.

1                   MR. HONNOLD: Thank you. Can each of the  
2 producers -- I know you've discussed this, but maybe a  
3 chance to discuss it again? Specifically, what happened in  
4 the marketplace when Port Hawkesbury mill came back online?  
5 I guess it was in late 2012. Can each company describe  
6 their sort of -- how they responded to it and what they saw  
7 in the marketplace when this happened?

8                   MR. CLANCY: Well, as I described in my  
9 testimony, the fact that -- Paul Clancy, Verso Corporation.  
10 As I described in my testimony, the startup of a --  
11 essentially a new paper machine that had been idle for over  
12 a year, to a market that its size composed nearly 25 percent  
13 of that market, was very disruptive to market prices.

14                   That kind of increase in demand, available  
15 supply to a declining market gave buyers more choices, and  
16 these are the same buyers with -- which Mr. Johnston  
17 testified that are under restrained budget limits that are  
18 increasingly exploring lower cost digital media to  
19 communicate with their customers, had pushed suppliers to be  
20 competitive to the lowest prices, and again, this size of a  
21 machine coming online that much, that suddenly lowered any  
22 opportunity to realize a price increase in October of 2012,  
23 and then during the course of 2013 and 2014, has continued  
24 to put pressure on the market.

25                   I think we heard in the testimony by the counsel

1 that they were exporting product. In 2014, we saw the  
2 Canadians repatriate product that had been exported  
3 overseas. Half of their volume was repatriated and brought  
4 back into North America, into the United States in  
5 particular. So it has been very disruptive to our business.

6 MR. HONNOLD: Mr. Drechsel, could you respond to  
7 that please?

8 MR. DRECHSEL: Mr. Johnston.

9 MR. HONNOLD: That's fine.

10 MR. JOHNSTON: Mike Johnston, UPM. When the  
11 word on the street was that there was a purchaser for this  
12 mill, immediately buyers took advantage of that opportunity,  
13 to remind us that there was a large slug of volume coming in  
14 and therefore pricing would be under pressure. That's an  
15 obvious discussion.

16 Typically in a negotiating season, our deals  
17 tend to run yearly. There's other nuances that will be  
18 available in the post-conference brief. But what happens is  
19 you start to negotiate some time in the fall for the  
20 following year. What happened this time was as this machine  
21 was potentially coming on, many buyers wanted to wait and  
22 wait to the last possible minute to see what would happen.

23 So already there was price pressure because of  
24 the announcement of this machine potentially coming on.  
25 Once it was on and running, even if it was officially not

1 shipping paper until 2013, it was already negatively  
2 impacting the market in 2013. And as Paul said, that  
3 continued into 2014 and 2015.

4 The first year, our feedback from customers was  
5 that we're not so sure that this machine will survive. It  
6 shut down before; what's to stop it from doing that again?  
7 So there was limited -- there was significant but limited  
8 damage in that first year, just for the fact that many  
9 customers wouldn't completely switch their purchases to that  
10 particular mill.

11 AS they've stayed around with the subsidies,  
12 they're able to compete. People believe that they'll be  
13 here longer. That damage is only getting worse. They're  
14 continuing to take market share at our expense.

15 MR. HONNOLD: Okay, thank you for that. Just  
16 one further question for Mr. Kaplan. Are you aware of any  
17 anti-dumping or countervailing duties in third country  
18 markets on supercalendered paper from Canada?

19 MR. KAPLAN: No, I'm not.

20 MR. HONNOLD: Okay, thank you. That's all my  
21 questions.

22 MR. McCLURE: The next questioner will be  
23 Michael Haldenstein from the general counsel's office.

24 MR. HALDENSTEIN: Good morning. I just have a  
25 few questions. I'm not that familiar with paper and this

1 product. Could somebody please explain the distinction  
2 between mechanical and chemical pulp?

3 MR. DRECHSEL: Russ Drechsel speaking. Chemical  
4 pulp is if you take a tree, you chip it up and you dissolve  
5 the lignin away from the cellulose, and that represents  
6 about 50 percent of the weight of a chip, and you're left  
7 with cellulose fiber. So that would be the chemical making  
8 process.

9 In the mechanical pulp, you use that lignin and  
10 you grind the wood up, and your yield is almost 98 percent,  
11 versus the chemical, which is about 50 percent. That's a  
12 quick summary on the differences. The chemical fiber is  
13 also a longer fiber, a stronger fiber than the mechanical  
14 pulp fiber is.

15 MR. HALDENSTEIN: I see, and you use mostly  
16 mechanical pulp in SC paper?

17 MR. DRECHSEL: Yes, mainly mechanical pulp in  
18 the SC paper. You use some of the chemical pulp, as you  
19 would in -- as a reinforcing pulp. If you think of how you  
20 see concrete, you have rebar and concrete in the cement.  
21 Think of the chemical pulp as the rebar, and the cement  
22 would be the mechanical pulp.

23 MR. HALDENSTEIN: Thank you. Could somebody  
24 please explain what portion of the market that SC paper  
25 constitutes of the entire paper market, to the extent people

1 know?

2 MR. KAPLAN: I think if it's all right, we'll do  
3 some -- Gil Kaplan. I'll do some research on that and get  
4 back to you, because there are some statistics probably --

5 MS. BYERS: I was just going to say that we can  
6 easily get that data for you. RISI publishes that and we  
7 can give it to you.

8 MR. HALDENSTEIN: Thank you. This is for  
9 Michael Johnston. I heard in your direct testimony that  
10 there was -- that if there are price declines for, I guess  
11 it was for SC paper, it would be more substitutable for  
12 other types, or maybe I misunderstood. Could you clarify  
13 what you were indicating?

14 MR. JOHNSTON: If I recall correctly, if pricing  
15 declines enough on SC paper relative to say coated paper,  
16 you're more inclined to interest those folks that are used  
17 to using coated paper. You're inclined to get them to  
18 consider making a switch, and that's something that has  
19 happened over the past couple of years now, with pricing  
20 remaining depressed.

21 MR. HALDENSTEIN: I see, and does your firm  
22 carry both types of paper?

23 MR. JOHNSTON: Yes.

24 MR. HALDENSTEIN: So you do receive inquiries  
25 asking what, you know, how much more for the coated paper?

1 MR. JOHNSTON: Yes.

2 MR. HALDENSTEIN: I see, and usually there's  
3 like a good spread between the two? Is that --

4 MR. JOHNSTON: Yeah. There's a historic  
5 differential between SCA and coated paper on like basis  
6 weights that's published in the RISI report. Off the top of  
7 my head, I'm not exactly sure what that is. But that  
8 differential has changed over the past few years.

9 MR. HALDENSTEIN: Thank you, and you're with  
10 UPM. What is that firm's relationship with Madison?

11 MR. JOHNSTON: Oh, we're part of a joint venture  
12 partnership with the New York Times, that owns Madison Paper  
13 Industries.

14 MR. HALDENSTEIN: I see. So your firm actually  
15 owns Madison?

16 MR. JOHNSTON: Yes.

17 MR. HALDENSTEIN: And does your firm import SC  
18 paper?

19 MR. JOHNSTON: Yes, we do.

20 MR. HALDENSTEIN: From Canada?

21 MR. JOHNSTON: No, from Europe.

22 MR. HALDENSTEIN: Okay. I heard somebody  
23 indicate that SC paper is made to order. Is it not held in  
24 inventories? Could somebody address that?

25 MR. JOHNSTON: It's made to order. Each order

1 is a customized order in terms of quantity, roll size and  
2 distribution point. So it's made to order. We don't --  
3 other than work in process and a short holding period, it's  
4 shipped direct to the end user on an order by order basis.

5 MR. HALDENSTEIN: So you don't -- firms don't  
6 maintain inventories of this product to any great extent?

7 MR. JOHNSTON: No.

8 MR. HALDENSTEIN: One more question. I guess  
9 this is for Mr. Hadley perhaps, and you're with Verso Paper;  
10 is that correct?

11 MR. HADLEY: Yes, I am.

12 MR. HALDENSTEIN: And I believe I heard that New  
13 Page owned the Canadian producer at one point, Port  
14 Hawkesbury?

15 MR. HADLEY: That's correct. Greg Hadley, Verso  
16 Corporation. That's correct.

17 MR. HALDENSTEIN: Could you comment on, perhaps  
18 in your post-conference brief, whether Verso should be  
19 considered a related party under the statute that you can be  
20 excluded from the domestic industry if it's considered a  
21 related party? So if you could just comment on whether you  
22 believe it is a related party, because of ownership of the  
23 Canadian producer at one point during the Period of  
24 Investigation?

25 MR. KAPLAN: Gil Kaplan. We will comment on

1       that.

2                   MR. HALDENSTEIN:   Okay.

3                   MS. BYERS:   I would -- Bonnie Byers.  I would  
4       just point out that there was no production, however, from  
5       that facility during your Period of Investigation.  It was  
6       closed for all of 2012 until it was reopened by the new  
7       owners.

8                   MR. HALDENSTEIN:   Okay.  So perhaps it wasn't  
9       even a producer?

10                  MS. BYERS:   Exactly.  I think that it was there.  
11       It was under receivership, but it wasn't producing anything.

12                  MR. HALDENSTEIN:   Okay.  Well thank you, and  
13       that's all the questions I have.

14                  MR. McCLURE:   Next questioner will be Amy Larsen  
15       from the Office of Economics.

16                  MS. LARSEN:   Good morning.  I have several  
17       general market questions that I think will be most  
18       applicable for Mr. Johnston and Mr. Clancy.  I'm going to  
19       fill in what some of the questions that Chris has already  
20       asked regarding channels of distribution.  For those sales  
21       to end users, we were -- we talked about how they were sold  
22       to retailers, cataloguers, publishers and printers.  What  
23       share do retailers, actual sales to retailers is made?  Is  
24       it a small portion?

25                  MR. CLANCY:   It's a material portion of what

1       retailers -- the use of SC paper by retailers. It's a  
2       material portion of the overall consumption, but a specific  
3       percentage of that is not published publicly. It would be  
4       dependent upon each suppliers' book of business.

5               MR. McCLURE: For the court reporter, that was  
6       Paul Clancy.

7               MR. JOHNSTON: Mike Johnston, UPM. I would add  
8       to that that each -- we have that information and we will  
9       share that from a producer by producer basis in the  
10      post-conference brief.

11              MS. LARSEN: Thank you, and I think this  
12      question just was answered, so from my understanding that  
13      there's no inventories held. It's all produced to order.  
14      But would printers purchase a large volume and then maybe  
15      hold that inventory, and use it for both a Kohl's and a  
16      K-Mart, or are printers purchasing specifically for a  
17      specific end user purchase request?

18              MR. JOHNSTON: Mike Johnston, UPM. The  
19      printers, if they're buying it, are buying for a specific  
20      end user. There is, of course, the chance to speculate and  
21      hope that an order comes in from somebody. But you know,  
22      that would be not necessarily the best way to operate your  
23      business. So it's typically even from them, it's made to  
24      order.

25              MS. LARSEN: Okay, and what is it about the SC

1 paper that you want a specific order? Why isn't there a  
2 generic roll that would be used for both a different  
3 retailer?

4 MR. JOHNSTON: I think the simple answer to that  
5 -- again Mike Johnston, UPM -- is that each retailer wants  
6 to be different. They want to stand out. So the format of  
7 the booklet they're producing, the number of pages that come  
8 changes the roll size. There's a whole bunch of different  
9 factors that make it so that it's different from order to  
10 order.

11 We would love to have consistent one roll size  
12 and a perfect size that trims our machine in equal  
13 quantities every time. That's not how it works.

14 MS. LARSEN: Kinds of moving towards that  
15 direction, so then do you find that purchasers purchase only  
16 a specific grade, as kind of like their branding, or are  
17 they switching between the grades that they purchase?

18 MR. CLANCY: Paul Clancy from Verso Corporation.  
19 Customers, especially retailers, will -- can vary the type  
20 of paper, roll size, type of SC paper and roll size, even  
21 printing process that they will use based on a particular  
22 objective for that weekend's newspaper insert.

23 MS. LARSEN: Okay. Moving towards  
24 transportation delivery cost issues, are printers located  
25 throughout the United States, or is there kind of heavily

1 concentrated regions in the U.S.?

2 MR. JOHNSTON: Mike Johnston, UPM. They're  
3 located throughout the country, throughout the U.S., but  
4 they're more concentrated in the Midwest and the East,  
5 Northeast-Southeast, etcetera. So it's similar to the  
6 population.

7 MS. LARSEN: And how is SC paper typically  
8 transported? Is that on rail or --

9 MR. JOHNSTON: I think each firm handles it  
10 slightly differently. But the mix is rail, truck and it can  
11 also be intermodal.

12 MS. LARSEN: I don't know if this is  
13 proprietary, but do you often ship multiple orders for the  
14 same printing at the same time on one delivery, or do you  
15 normally ship just one order to that printer at a time?

16 MR. JOHNSTON: You typically ship one order  
17 dedicated to that delivery. But if, depending on the  
18 quantity and the available space in a given rail car or  
19 truck, you can mix. You have regular shipments going to the  
20 same places on a daily basis.

21 MS. LARSEN: Okay, and then just to reiterate  
22 one more thing, are sales that are sold to a broker, they  
23 never take that as a warehouse inventory? Those broker  
24 sales still go straight to the printer/publisher; is that  
25 correct?

1 MR. JOHNSTON: Correct.

2 MS. LARSEN: Okay. With grades -- if I take two  
3 SC paper samples that are the same grade and the same basis  
4 weight, are they visually comparable, or will I see  
5 different -- visual differences potentially between the  
6 papers?

7 MR. DRECHSEL: This is Russ Drechsel. There's  
8 no independent standards organization that would set those  
9 standards. So you can have a visually different, even  
10 though they both are SCA , SCB, SCA+, and your eye or my eye  
11 could pick it up. I think yours could also.

12 MS. LARSEN: And does it -- you kind of talked  
13 about this a little bit earlier, Mr. Drechsel, about the  
14 machinery and the four rolls versus 12. So is it my  
15 understanding that it requires mainly not different  
16 machinery but -- well different machinery to achieve the  
17 higher grades? Would you ever have a manufacturer that only  
18 had -- that did the supercalendered process but only had  
19 four, a smaller supercalendered machine?

20 MR. DRECHSEL: This is Russ Drechsel. Not that  
21 I know of. The supercalender machines are generally 10 to  
22 12 rolls.

23 MS. LARSEN: So then all producers who have this  
24 machine can produce easily all four grades?

25 MR. DRECHSEL: For the soft nip calendars, those

1 are the four grade, four rolls. For the higher  
2 supercalendered SCA+, some of the B, those are the 10-12  
3 roll supercalender stacks.

4 MS. LARSEN: Okay.

5 MR. DRECHSEL: You can reduce the number of  
6 rolls by having higher heat steam temperature pressures.

7 MS. LARSEN: Okay. Are there any grades --  
8 while there's no independent standard, are there grades that  
9 might fall outside this SC+ through the soft nip range? Is  
10 there like a much lower end or even a higher premium end?

11 MR. DRECHSEL: This is Russ Drechsel. The  
12 supercalender grades are, you know, one set of grades that  
13 we've designated by the letters. At Madison, we just  
14 manufacture the supercalender grades that we've said here,  
15 the A and the B. But those lines between the supercalender  
16 grades are very blurry.

17 MS. LARSEN: Okay.

18 MR. DRECHSEL: So they're not like a steel  
19 manufacturer, where you have to have a specific criteria,  
20 because of ASTM, or because of a DIN standard. The same  
21 does not apply.

22 MS. LARSEN: But it's recognized throughout the  
23 industry these grades. So Madison will use the same grade  
24 terminology as Verso, versus other foreign producers or --

25 MR. DRECHSEL: Yes, same grade terminology, and

1 that was Russ Drechsel.

2 MS. LARSEN: One question going back to the  
3 substitutability between lightweight coated ground wood  
4 paper and SC paper. Where are we seeing that  
5 substitutability? Is it through any kind of SC paper, or is  
6 it like a higher end, higher grades or lower grades?

7 MR. JOHNSTON: Mike Johnston, UPM. It covers  
8 the range of SC papers. There are magazine publishers that  
9 use an SCB. There are magazine publishers, the New York  
10 Times having been one of them with their Sunday insert that  
11 you may have seen, that uses our SCA, and it works its way  
12 up. There's the introduction of SC++, and that has made  
13 some penetration in that market as well. But that market  
14 had already been using other forms of SC papers as well.

15 MS. LARSEN: Ok.

16 You discussed purchasers' reluctance to order  
17 during that 2012 right when Port HHawkesbury was about to  
18 come on line. Have you seen a shift between the type of  
19 sales contract terms to spot sales throughout the POI, the  
20 period of investigation?

21 MR. JOHNSTON: I can't say that I've seen a major  
22 change.

23 MR. CLANCY: This is Paul Clancy from Verso  
24 Corporation. We would be happy to talk about that in our  
25 closed session about the changes in the type of sale that

1 we've been seeing since the start-up of the Port Hawkesbury  
2 mill in the fourth quarter of October '12, particularly in  
3 years 2014 and this year.

4 MS. LARSEN: Great that will be helpful. Thank  
5 you.

6 What factors do you find that your customers  
7 consider when making a purchasing decision like the primary  
8 motivating factors?

9 MR. JOHNSTON: Mike Johnston, UPM. The primary  
10 factor, the secondary and the tertiary of price.

11 MS. LARSEN: Okay.

12 MR. JOHNSTON: Then there's relative  
13 considerations around quality, but basically the grades are  
14 interchangeable, so it really does come down to price.

15 MR. CLANCY: This is Paul Clancy from Verso  
16 Corporation. And, again, I would say price is becoming and  
17 has become an increasingly important component of the  
18 purchasers spending decision. Again, this goes back to  
19 their overall advertising budget and it's continuing to lose  
20 -- print is losing share to digital and e-commerce. So it's  
21 putting more and more pressure on those buyers to buy the  
22 lowest cost paper -- SC paper in that particular category.

23 MS. LARSEN: Would it be fair to say that  
24 considering they have a fixed budget for print media that  
25 they are then looking at what's the highest grade that they

1 can purchase at a set price? Or does the actual grade have  
2 an end-use application that's specific?

3 MR. JOHNSTON: Mike Johnston, UPM. There's not a  
4 requirement to have any grade of paper in say advertising  
5 magazines, et cetera. It's by choice or by preference and  
6 also perhaps the market you're going for, so demographics  
7 kick in. The use of the product, is it going to sit on a  
8 table for a long time or is it going to be like an  
9 advertising insert that's discarded sometimes within minutes  
10 after receiving it. So it's really about the biggest bang  
11 for your buck in a lot of cases, and that's what SC paper  
12 has provided for a long time.

13 MS. LARSEN: How important are geographic  
14 logistics to a purchaser?

15 MR. CLANCY: Could you repeat that question,  
16 please? This is Paul Clancy from Verso?

17 MS. LARSEN: How important are geographic  
18 logistics when they're looking to purchase? Are they  
19 looking for a producer -- how important is a producer's  
20 location to them or to their printer when they're making  
21 purchasing decisions?

22 MR. CLANCY: It's relevant, but our paper, the  
23 prices that we have shared with you in the questionnaire are  
24 delivered prices and we are competing with Canadian  
25 producers in all geographies of the United States.

1 MS. LARSEN: Yeah.

2 DR. KAPLAN: I encourage you to -- Seth Kaplan.  
3 You do want me to -- yes, Mr. McClure, I'll get the ground  
4 rules right.

5 I encourage you to take out a map and find Port  
6 Hawkesbury and see if they've been having any problem  
7 selling their product in the United States. I think that  
8 might help with your issue of does plant location matter.  
9 Being on an island across a bridge in New Brunswick hasn't  
10 seem to stop someone if the subsidies are large enough.

11 MS. LARSEN: Thank you. Are there differences in  
12 the type of purchasers that purchase via contract or spot  
13 sales, do you have certain -- do publishers always purchase  
14 through a contract or is there any differences by  
15 purchasers?

16 MR. JOHNSTON: Mike Johnston, UPM. It varies and  
17 there's no specific end user that has a different strategy  
18 necessarily.

19 MR. CLANCY: Paul Clancy from Verso Corporation.  
20 I think it really depends on the kind of buyer. There may  
21 be a catalog customer that publishes a catalog once per year  
22 versus a retailer or a magazine publisher who is publishing  
23 an insert or a magazine every week or every month, they're  
24 going to be buying in a different fashion.

25 MS. LARSEN: Thank you.

1                   And I have one last final question, kind of  
2                   wrapping up this raw material. And this might be better  
3                   discussed in the post conference briefs. What share of the  
4                   total cost of goods sold is accounted for by energy costs?  
5                   It seems like energy is a large variable in the  
6                   profitability?

7                   MR. KAPLAN: Gil Kaplan. Yes, given the  
8                   constituent cost of production I think would generally be  
9                   confidential. So we'll handle that post conference.

10                  MS. LARSEN: Thank you very much.

11                  MR. McCLURE: The next questioner will be David  
12                  Boyland, our auditor for these investigations.

13                  MR. BOYLAND: Good afternoon. Thank you for your  
14                  testimony. I've already actually directed specific  
15                  questions to the companies which I think are pretty  
16                  company-specific, so these are general questions.

17                  In terms of product mix, when I calculate an  
18                  average sales value for the industry, we have a trend and I  
19                  guess what I'm asking would be, am I seeing just simply  
20                  prices declining, or is there any product mix involved in  
21                  this that would explain the trend in prices?

22                  MR. JOHNSTON: I can't answer that in this formal  
23                  -- we can take it for the post-conference brief.

24                  MR. BOYLAND: In terms of sales value itself, is  
25                  there any provision for passing through changes in raw

1 material costs?

2 MR. CLANCY: Again, in our testimony the  
3 economics of or the fundamental dynamic in the SC paper  
4 industry is for manufacturers to run their machines 24/7,  
5 compete until their machine capacities are filled. So it is  
6 a difficult environment particularly since the fourth  
7 quarter of 2012 when the Port Hawkesbury machine came on  
8 line to even remotely engage in that discussion with a  
9 customer.

10 MR. BOYLAND: And I guess sort of dovetailing to  
11 the 24/7 issue, is it -- interpreting the testimony, it  
12 sounds like, you know, there is no annual down time like a  
13 scheduled two-week outage. Is it sort of a rolling, you  
14 know, you fix what needs to be fixed, but is it correct  
15 there is no two-week or four-week period that the plant  
16 shuts down?

17 MR. DRECHSEL: This is Russ Drechsel. No, there  
18 is not a scheduled down time for an extended period of time  
19 of a two-week or four-week to retool as you might have in  
20 other industries.

21 MR. BOYLAND: And that's true for both companies?

22 MR. CLANCY: This is Paul Clancy from Verso  
23 Corporation. The only down time that we take in our mill in  
24 Duluth, Minnesota is for planned maintenance outages that  
25 Mr. Drechsel spoke to.

1                   MR. BOYLAND: And planned outages, would they be  
2 for maintenance a day or two, or at most?

3                   MR. CLANCY: Based on if there's capital that had  
4 been planned, which would -- that would be some degree of  
5 retooling, those outages last anywhere from two to four  
6 hours to not more than 36 hours.

7                   MR. DRECHSEL: This is Russ Drechsel from Madison  
8 Paper. We have had years in the past where we have run 365  
9 days out of the year, not taking any major maintenance  
10 downtime for more than 18 hours at one time. These machines  
11 and fixed costs are such that we need to run 24/7.

12                  DR. KAPLAN: I want to stress the implications of  
13 that for the economics so the Commission is well aware of  
14 other very capital intensive industries like steel, for  
15 example. Steel shuts down for a while and then they start  
16 back up again. I would ask you to take a look at all the  
17 capacity and the capacity utilizations of all the firms,  
18 both in the foreign producer questionnaire and the domestic  
19 producer questionnaire to understand this 24/7 operation.  
20 And then look at the implications of lost profitability.

21                  The decision is not to shut down for six months.  
22 The decision is to shelter the facility. So you're talking  
23 about a plan in existence or a plant not in existence. And  
24 this is what these cases are about. This case is not about  
25 they're losing some money, they're going to have to shut

1 down. In steel they go to -- you know, they take a shift  
2 off and people come in and say, boy, we've got these  
3 expenses, we're only operating at one when we want to  
4 operate at two. You've very, very familiar with that from  
5 all these cases. This is a similar but more extreme given  
6 the capital intensity and give the way they operate. So  
7 we're not here talking about, you know, a shift or a shift  
8 or two over some period. We're talking about whether these  
9 facilities are permanently shuttered or whether they  
10 continue to operate.

11           The Canadians have decided that they have a  
12 facility that was permanently shuttered and they decided to  
13 subsidize it for tens over hundreds -- you know, potentially  
14 hundreds of millions of dollars when this is done to keep it  
15 running and to keep that mill running means another mill has  
16 to close given the 24/7 operations and the declining demand  
17 that is being suffered in this industry. So, you've heard  
18 these stories in steel about long -- the chance to return on  
19 investments and those issues, this is a similar capital  
20 intensive industry but on steroids. And the consequences of  
21 unfair trade are severe.

22           We talked about turning the machines on and off,  
23 we're talking about turning factories, facilities, plants,  
24 and in some cases, with mills that run the town, a town, a  
25 U.S. town on or off. So I just want you to realize the

1 magnitude of this driven by the economics and the physical  
2 capabilities of these machines and what is at stake in this  
3 investigation.

4 MR. BOYLAND: With regard to the profitability  
5 and sort of the decision that you're going to make to shut  
6 it down, is that basically driven by a contribution margin  
7 that you're covering your variable costs, you'll continue  
8 producing, at what point or at what level of profitability  
9 are you making that decision to say this isn't going to  
10 work? I mean, I'm assuming you're covering your variable  
11 costs. But, I mean, could you maybe give me a little more  
12 insight as to what the decision would be?

13 MR. DRECHSEL: Yeah, I think we ought to, given  
14 the sensitivity of profit data, cover that in post hearing.

15 MR. BOYLAND: Okay. Thank you.

16 And I think that question was sort of a little  
17 more qualitative too in terms of, you know, we look at gross  
18 margins. Maybe you're looking at contributions so it's sort  
19 of in addition to the actual numbers themselves, but  
20 qualitatively.

21 And the question about seasonality, I think, was  
22 answered from the perspective of demand and sales are higher  
23 fourth quarter. And it sounds like production itself would  
24 not change as a result of that if you're running 24/7,  
25 you're running 24/7; is that correct? I mean, production

1 wouldn't modulate based on changes in actual sales?

2 MR. DRECHSEL: This is Russ Drechsel from Madison  
3 Paper. Yes, that is correct. The production is 24/7 and  
4 there's a standard target tonnage to produce on a daily  
5 basis.

6 MR. BOYLAND: Thank you.

7 And I guess one of the final questions I had was  
8 with regard to Madison and the 17-day curtailment. You  
9 discussed energy costs as being one of the factors. And I  
10 guess one of the questions would be, obviously it's been a  
11 cold winter, but is that not a question in each winter  
12 energy costs are going to go up? Is that not something that  
13 the company deals with each winter? Or this was unusual.

14 MR. DRECHSEL: I think we can also address t hat  
15 in the post-conference brief better than we can in the open  
16 forum.

17 MR. BOYLAND: Fair enough.

18 MR. DRECHSEL: Russ Drechsel.

19 Gil reminded me, and, again, I'm Russ Drechsel  
20 from Madison Paper. We have never shut down the paper  
21 machine for the 17-day period because of the price of  
22 electricity in the 30 years.

23 MR. BOYLAND: Yes, you're answering my question  
24 which is essentially this was something beyond what the  
25 company --

1                   MR. DRECHSEL: Beyond the price of electricity,  
2                   this was our margin squeeze.

3                   MR. BOYLAND: Okay.

4                   MR. DRECHSEL: -- the price of paper.

5                   MR. BOYLAND: And I think some public information  
6                   was suggesting natural gas had some -- was this a factor?

7                   MR. DRECHSEL: It was not a factor.

8                   MR. BOYLAND: It was not?

9                   MR. DRECHSEL: No, it was not.

10                  MR. BOYLAND: I appreciate all your responses to  
11                  all my questions. Thank you.

12                  MR. MCCLURE: All right. We are finished. I  
13                  want to thank the panel, especially those who traveled from  
14                  out of town. You've been very responsive to our questions  
15                  and very patient. With this I want to say that Mr. Drechsel  
16                  get's the chair's -- as he performed like a well-oiled  
17                  Kentucky basketball team, he gets the chair's gold star for  
18                  name identification.

19                  Thank you.

20                  MR. MCCLURE: All right, we will begin with  
21                  Respondent's presentations, and then following that, before  
22                  we start any questioning we will give Mr. Feldman his seven  
23                  minutes.

24                  Anyway, welcome to Mr. Trendl and the assembled  
25                  masses with as many of you as we have at the table. It's

1 really, really, really important you identify yourself for  
2 the court reporter.

3 Mr. Malashevich, I must comment that I note we  
4 had all this discussion about moving, paper being replaced  
5 by digital, and I see you have a presentation thing designed  
6 by Fred Flintstone over here, so anyway, it should be  
7 interesting.

8 MR. MALASHEVICH: Mr. Chairman, I've always been  
9 a contrarian with respect to trends.

10 MR. MCCLURE: All right. Thank you. Mr. Trendl  
11 and gentlemen, ladies, fire away.

12 MR. TRENDL: Well, once again, Mr. McClure and  
13 staff, we appreciate the opportunity to now present some  
14 direct testimony, and most importantly, after all this,  
15 answer whatever questions you may have. We assume that you  
16 do have questions.

17 I will do as little talking as possible because  
18 I'm the hired help, and I know you want to hear from the  
19 company people and that's my goal as well. Presenting  
20 direct testimony here to my left is Michael Ostrowski. I  
21 mentioned him in the opening statement. He's going to make  
22 a presentation, and Mr. Malashevich will also make a  
23 presentation. Others here are available should questions  
24 come up, but that's going to be it as far as PHP goes, our  
25 main presentation, and then I think you're hear from Mr.

1 Connelly and his witness as well.

2 But at this point, if it's okay, Warren, will  
3 pass it over to Mr. Ostrowski.

4 STATEMENT OF MICHAEL OSTROWSKI

5 MR. OSTROWSKI: Thank you, Tom. Good afternoon.  
6 My name is Mike Ostrowski, Vice President of Supercalendered  
7 Sales for West Linn Paper Company.

8 West Linn provides the sales and marketing  
9 services for Port Hawkesbury and is based in Oregon. I  
10 thank you for the opportunity to discuss with you the  
11 operations of our company, the SC paper trade and market  
12 dynamics. I will be happy to respond to any questions you  
13 might have to provide additional details.

14 I have been with PHP for three years. Prior to  
15 that, I was Vice President of Sales at Madison, one of the  
16 two petitioning companies in this investigation. I worked  
17 for 19 years with that firm with great pride. I believe  
18 this background provides me a unique and solid foundation to  
19 address many of the issues at the core of this  
20 investigation.

21 I would also like to add that I have the utmost  
22 respect for the workers in the State of Maine, and in  
23 particular, at the Madison mill where I worked side-by-side  
24 with them for many years.

25 As Vice President of Sales for PHP, I oversee

1 their order book and I manage the bulk of the price  
2 decisions. I have frontline contact with all of the PHP  
3 customers. With 22 years of experience in the SC market,  
4 knowledge of our competitors and our customer base, I am  
5 very familiar with the paper-making process and how certain  
6 inputs affect the performance of paper on the different  
7 types of printing presses.

8 So, enough about me, let me give you some  
9 background on PHP under the current ownership. The plant  
10 was previously owned and operated by New Page, which was  
11 later bought by Verso, the other petitioning company, in  
12 September 2011.

13 New Page filed for creditor protection, at which  
14 point they ceased paper production. PHP purchased the plant  
15 from New Page through the court approved insolvency process  
16 and resumed paper production in early October 2012.

17 Currently, RSC production at that mill is lower  
18 than before we acquired it primarily because we produce a  
19 wide arrange of grades and basis weights. At this point,  
20 Port Hawkesbury produces all grades of supercalendered  
21 paper, which include SCB, SCA, SCA Plus, and what we call a  
22 plus/plus. Our SCA Plus/Plus grade, which has the trade  
23 name Artisan is a superior grade of paper unique to Port  
24 Hawkesbury and competes with SCA Plus and coated groundwood  
25 #5.

1           Port Hawkesbury paper currently does not produce  
2 other types of paper, although we compete with them. We try  
3 to differentiate our products in many ways. We have a  
4 state-of-the-art mill that produces what is widely viewed as  
5 the highest quality paper in the market. Because we produce  
6 the widest range of SC paper in the market we have the  
7 ability to serve as one-stop shopping for our SC customers.  
8 Also, our owners have a reputation for reliability and  
9 honoring commitments. We do what we say we will do, and  
10 that means a lot in this market.

11           I'd like to spend a minute describing the  
12 different grades of SC, their uses, and typical customers.  
13 The differentiating elements, in general, are brightness,  
14 gloss, smoothness, and opacity. We can provide specs on all  
15 of our grades for reference, but brightness is probably the  
16 most recognized difference between the grades, but we  
17 compete in a larger spectrum of grades.

18           Coated groundwood, right above us, is a prime  
19 market for us. And then we have four levels of SC that we  
20 make, which I described. And then just below SC is a  
21 category called "Other Coated Groundwood," which are called  
22 high brights, super brights. They compete brightness-wise,  
23 but they don't have the other sheet characteristics that SC  
24 papers have. And then, of course, below that is newsprint.

25           What's unique about our operations is that we can

1 manufacturer all four grades on one machine and do it cost  
2 efficiently. There are many solid reasons as to why we can  
3 do that, and I'm ready to explain that in further detail if  
4 requested. I am not aware of any other machine that can  
5 make that claim.

6 I will get into this at a little later, but I  
7 think that it is important to understand that the consistent  
8 SCB manufacturers in this market are all in Canada,  
9 Catalyst, Resolute, Irving and Port Hawkesbury. I'll come  
10 back to that point in a little bit.

11 I think it's important for you to understand how  
12 our sales process works and pricing. The vast percentage of  
13 our sales are made under short-term contracts, six months  
14 for the most part, with perhaps renewals, but it's never  
15 guaranteed. So, I will concentrate on that process here.

16 We do make some spot sales, and it's a much  
17 smaller percentage of our business; but as discussed  
18 earlier, they are all orders made, you know, for exact  
19 orders. There's no inventory made.

20 There are a number of companies competing in this  
21 market as we all know, so we often see multiple companies in  
22 the context of a given sales opportunity. Our typical sales  
23 process is as follows. We identify potential customers. We  
24 call on them. We introduce our company as well as the  
25 grades available. We describe the technical specs of the

1 paper because most buyers are at least knowledgeable enough  
2 to look at that.

3 We show them samples of the plain paper. We show  
4 them samples of printed products. And then, hopefully, we  
5 get to a trial roll where we supply a roll and say, hey, try  
6 our paper live on press on one of your jobs. And then at  
7 that point, hopefully, the customer is interested and then  
8 they come to us and they say, look, we like what you're  
9 offering. We're interested in this many tons shipping to  
10 this location. What's your price?

11 So, there are two bases for determining the price  
12 to offer. First, we calculate the differential based on  
13 coated groundwood transaction prices at the time and rely on  
14 market knowledge to determine whether or not that price is  
15 reasonable.

16 Secondly, the customer then gives us feedback and  
17 informs us whether or not another producer has offered  
18 something better. There are times when we lose sales  
19 because a customer requests a price lower than what we are  
20 prepared to sell at. It hurts, but we walk away from  
21 certain opportunities.

22 I should mention that we can cite many examples  
23 where I've reduced prices to try to match competition or get  
24 close to competition and still lost the sale to competitors,  
25 which I am sure includes Petitioners as well as European

1 companies. It's the reality of the business. No one gets  
2 everything.

3 As an example, a major U.S. retailer where we  
4 were the incumbent supplier and the major supplier second  
5 half of 2014 recently told us that despite our most  
6 competitive offer, which I adjusted the initial offer down,  
7 we are the second highest out of seven offers. So, again,  
8 it happens to us all the time. We lose business and it's  
9 just something that happens.

10 I just wanted to mention that, as a side note,  
11 when the mill reopened in October '12, we thought about  
12 minimizing disruption to the U.S. market, so we exported a  
13 significant portion of our early production to international  
14 markets and we actively pursued business in the grade just  
15 below this trying to get them to upgrade a little bit so we  
16 wouldn't disturb the traditional SC market.

17 I'd like to make a point to the Commission that,  
18 in total, if we -- we reference one company called the PPPC.  
19 And by their statistics, 2014, the demand, the market size  
20 for SC products was 1,800,000 short tons. The two U.S.  
21 companies combined in a good year where they're humming make  
22 500,000 tons. So, the market needs a million three. And  
23 most of our customers would prefer that most of that  
24 tonnage come from Canada rather than from the EU.

25 And just one other interesting fact is that in my

1 estimation when a product group has an operating rate that  
2 starts with a nine, it's over 90 percent, we believe that  
3 that's a pretty good statistic. Because if you look at  
4 statistics from Europe or even within North America in past  
5 years operating rates have been in the mid to high eighties  
6 at times. So, you see nine you feel pretty good about it.

7 In the two full years that we have been  
8 operating, the operating rate for high gloss, which includes  
9 all SC, was 91 percent both years. That's a pretty telling  
10 figure. And then the last item about sales is that -- just  
11 to give you a range, we have contracts with customers that  
12 buy as little as \$350,000 a year to as much as \$20 million a  
13 year, so we have a wide range of customers that we deal  
14 with.

15 Let's talk a moment about the breath of products  
16 included in this countervailing case. I'm not a lawyer, but  
17 it's pretty odd to me that this investigation covers all  
18 grades of SC. The Petitioners do not, per say, make SCB.  
19 They might make some at times to fill an order book, but  
20 they do not actively sell and market SCB, to my knowledge.

21 The Duluth mill does not even offer SCB on their  
22 product list. If you went to their website, which is public  
23 knowledge, and you look at the SC grades that they offer  
24 it's SCA and SCA Plus. UPM Madison does list their SCB  
25 grade, but if you look at the detail they offer it for

1 Rotogravure printing. There are two printing processes,  
2 Rotogravure and offset. We can get into those details at  
3 some other time, but they offer it for Rotogravure Printing.

4 Yes, we play in the SCB market. And I can tell  
5 you that over 70 percent of our sales go to regular offset,  
6 so we're not really competing with SCB, with Madison to a  
7 very large degree. And I would question if Madison's SCB  
8 total sales are relevant here or material.

9 Madison also does not make any of the Plus  
10 grades. They make traditional SCA. And where we compete  
11 with them, quite frankly, our footprint is pretty small,  
12 okay, if you look at SCA, which is the bulk of their  
13 product. Additionally, our 76 grade, brightness grade,  
14 Artisan is not manufactured by either Petitioner, so we're  
15 not really competing with them on that.

16 Let me talk a little bit about coated groundwood.  
17 There is no question that we compete with coated groundwood  
18 paper. Upon coming out of bankruptcy process, we focused on  
19 production of SCA and SCA Plus to compete directly with  
20 coated groundwood, which is a non-subject merchandise in  
21 this case. Prior to this restructuring process, the mill at  
22 Port Hawkesbury did not proactively sell SCA Plus. New Page  
23 had sister companies that made coated groundwood. They  
24 didn't want to poach that market, so at least in my  
25 experience in trying to view how they behaved in the market

1 they were not proactively going after the SCA Plus when they  
2 owned that mill.

3           Additionally, we believe that we benefited from  
4 the unfortunate fire that shut down Sartell's coated  
5 groundwood and SCA capacity. I would like to point out that  
6 capacity changes in products just above us or just below us  
7 they're going to spur grade migration at a faster clip and  
8 our timing was actually quite good for that. In fact, among  
9 industry analysts that follow this business, SC and coated  
10 groundwood are increasingly viewed as a single market when  
11 evaluating trends.

12           The industry-wide transition from coated  
13 groundwood to SCA Plus and SCA Plus/Plus continued at a  
14 healthy clip. We have a healthy list of customers in our  
15 order book that converted from coated groundwood. A big  
16 turning point occurred in the first half of 2013 when a  
17 major publisher, which we all know, made a wholesale switch  
18 from coated groundwood to SCA Plus. And quite frankly,  
19 since they're the leader in that market segment that opened  
20 up the floodgates for SCA and SCA Plus -- I'm sorry -- SCA  
21 Plus and SCA Plus/Plus grades to substitute for coated  
22 groundwood.

23           In summary, Port Hawkesbury -- PHP's focus after  
24 the bankruptcy process was the high grades of SC paper, SCA  
25 Plus/Plus and SCA Plus, which both compete primarily against

1 coated groundwood. It seems these grades are a relatively  
2 small part of the Petitioners' sales. In fact, as stated  
3 before, Madison makes neither of these grades and Verso  
4 produces an SCA Plus in this grade category only.

5 Another important point to note here is the  
6 impact of digital technology. There also is no doubt that  
7 the expanding use of digital technology has reduced demand  
8 for all grades of printing paper products, including end  
9 uses for supercalendered paper. All you have to do is look  
10 at the long-term demand trend for all printing paper grades  
11 and you'll see that to bear it out.

12 Another impact, as mentioned earlier, is the  
13 declining newspaper circulation. Most of the retail  
14 circulars that you see inserted in newspapers are -- I'm  
15 sorry -- are inserted in newspapers and just look how the  
16 circulation of the various newspapers have been decimated.  
17 So, the retailers have, you know, to some degree lost the  
18 ability to get their final product to market. Sure, they  
19 look at other alternative ways to get it to the consumer,  
20 but it's usually pretty darn expensive.

21 Let me touch on exchange rates. You'll hear from  
22 Mr. Malashevich about how exchange rates have affected the  
23 overall market for graphic and printing papers, but I want  
24 you to understand that PHP does not reduce its prices in  
25 response to a weaker Canadian dollar. My job, quite

1 frankly, is to increase revenues for our company and I take  
2 that responsibility very seriously.

3           Additionally, our employees at PH can earn  
4 variable pay based on profitability. I owe it to each and  
5 every one of them to maximum the returns on our sales and  
6 that all starts with the selling price.

7           Another factor to consider is EU imports.  
8 Imports from the EU, specifically imports from UPM, the  
9 parent company of Madison, a Petitioner, have had an impact  
10 on the U.S. market. This was particularly relevant when PHP  
11 entered the market in October 2012 as we competed directly  
12 with UPM and likely took some business at the expense of EU  
13 imports. Our impression is that U.S. imports from EU  
14 declined rather substantially as a result of our reentry  
15 into the U.S. market.

16           PHP gets its electricity from the privately-held  
17 company Nova Scotia, Inc. Under our contract, we are the  
18 last customer served, meaning that we get the most expensive  
19 power available, but have the option not to use it. As a  
20 result, from the time Port Hawkesbury resumed operations in  
21 October 12, 2012 until the end of 2014, we took 36.2 days  
22 down because electricity was either uneconomical or  
23 unavailable. And I think that kind of goes to the point  
24 that you can start up and shutdown a machine and still be  
25 efficient doing it.

1           I would venture to say that the Petitioners did  
2 not incur that magnitude of down time because of high power  
3 rates. On top of that, we take down time because of annual  
4 maintenance shuts and the monthly shuts that you've heard  
5 about where we change machine clothing, fix this up, clean  
6 this up, so we take our machine down quite a bit of time.

7           The reality is in my estimation is that down time  
8 is a common strategy to manage costs and seasonal  
9 fluctuations in demand and therefore cannot be viewed as an  
10 indicator of injury on the part of the domestic industry.

11           You should know that periodic outages among U.S.  
12 and Canadian producers are not at all unusual, both for  
13 reasons of planned maintenance and as a consequence of  
14 unanticipated events. On Memorial Day 2012, during the POI,  
15 one such unanticipated and very unfortunate event was the  
16 explosion and ensuing fire that completely destroyed the  
17 operations at Verso Sartell mill.

18           Sartell was a major producer of coated  
19 groundwood, but they also made SCA Plus on that machine.  
20 This event, literally overnight, created a large gap in the  
21 supply of coated groundwood and SC papers to U.S customers.  
22 Our startup shortly afterwards helped to fill this gap  
23 without displacing U.S. production. Again, PHP was able to  
24 supply SCA Plus grades to replace coated groundwood  
25 production and thereby expanded total U.S. demand for SC

1 paper without displacing U.S. production of mainstream  
2 products.

3 I've tried to cover a lot in this sort period of  
4 time this afternoon, and probably went too quickly over some  
5 topics, but I'm very willing to expand on anything or answer  
6 any questions you have. Thank you for the opportunity to  
7 testify.

8 MR. TRENDL: This is Tom Trendl again. We'll  
9 turn to Bruce Malashevich now.

10 STATEMENT OF BRUCE MALASHEVICH

11 MR. MALASHEVICH: Good afternoon Mr. Chairman,  
12 members of the staff. A pleasure to be here. May I just  
13 pause for a minute for a check on elapsed time? I don't  
14 want to deny appropriate time to the other witnesses.

15 MR. McCLURE: You have 37 minutes left.

16 MR. MALASHEVICH: Okay, thank you. I'm Bruce  
17 Malashevich. I'm president of Economic Consulting Services,  
18 LLC. My testimony today is as an economic expert to counsel  
19 for the individual Canadian Respondent, Port Hawkesbury  
20 Paper. My testimony benefits from a very complete record in  
21 this preliminary phase of the instant case, and from nearly  
22 39 years of appearances before this Commission in roughly  
23 200 investigations under Title VII.

24 About the record in this case, my calculation is  
25 that the Commission has questionnaire data covering 100

1 percent of U.S. production, 100 percent of imports from  
2 Canada, and for purposes of the preliminary, my calculations  
3 accept the estimates provided by the Petitioners in the  
4 petition for non-subject imports.

5 So the staff of the Commission has all the  
6 information it needs to go negative in this case, assuming  
7 the merits warrant, and they do. I'll begin by expanding on  
8 Mr. Ostrowski's testimony, touching on the conditions of  
9 competition in this case. I'll then briefly touch on  
10 certain points regarding the alleged industry with respect  
11 to volume, price and a limited degree of overall condition  
12 because of the confidential nature of the financial data.

13 My opinion is that there was no material injury  
14 caused, nor is one threatened by subject imports. The easel  
15 is there because if I have time, if not perhaps later in the  
16 proceeding, I literally will draw you a road map for how you  
17 reach a negative decision in this case with respect to  
18 price, volume and overall condition.

19 Proceed. It's generally known and very  
20 well-documented in the trade literature, of which I reviewed  
21 about 700 pages, that aggregate U.S. demand for graphic and  
22 printing papers generally, including SC or supercal as many  
23 people call it, has been a secular decline for some years  
24 and is forecast to continue to decline for the foreseeable  
25 future. Fair enough.

1                   However, the record shows that demand during the  
2                   POI in this case was exceptional, essentially stable.  
3                   Details will be provided in our post-conference brief on  
4                   this, but that's a very important point. The cause of the  
5                   secular decline is the wholesale replacement of paper with  
6                   various forms of electronic media that's been discussed by  
7                   Petitioners, by Mr. Ostrowski. It's a very clear fact of  
8                   life.

9                   But the important thing for this case is that  
10                  the decline has precipitated a contraction of the North  
11                  American industry producing graphic and printing papers, as  
12                  well as SC, as the industry naturally downsizes to address  
13                  the current and ongoing market reality. This has nothing to  
14                  do with subject imports. I believe nothing further needs to  
15                  be said on the subject of demand.

16                 The North American paper market has been closely  
17                 integrated for many years, with trade flows to and from  
18                 Canada and the United States moving duty free and presumably  
19                 in the most freight-efficient manner. That is important,  
20                 because freight cost per ton is relatively high for this  
21                 product, as you'll see from the questionnaires.

22                 The recent history among both Canadian and U.S.  
23                 producers of Supercal, and its close competitor, coated  
24                 ground wood paper or CGW, has been characterized by  
25                 routinely by permanent closures and a continuing series of

1 supply disruptions, owing to scheduled and unanticipated  
2 maintenance, temporary shutdowns owing to market conditions,  
3 including volatility of energy prices, as Mr. Ostrowski just  
4 testified with respect to his production facility, and other  
5 events.

6 Such events can and do affect purchasing and  
7 trading factors. Of particular importance to this case is  
8 the unanticipated and tragic fire at Verso's Sartell mill,  
9 which produced, as you heard from Mr. Ostrowski, both coated  
10 ground wood and SC papers, both being relevant to this case.

11 It's important because it represents a supply  
12 shock to the system. Some of these other more routine  
13 shutdowns are planned ahead and projected well in advance to  
14 purchasers, so they can plan accordingly. That was  
15 impossible. This was an unfortunate act of God or perhaps  
16 the devil.

17 But there was no planning that was possible and,  
18 and as you heard earlier from the domestic industry, very  
19 little inventory is kept on hand. Everybody had to  
20 scramble. There was a supply hole in the system, and part  
21 of that hole was filled with purchases from Canada of SC  
22 products produced in part at Port Hawkesbury.

23 A very important point. The event happened on  
24 Memorial Day 2012, and created this gap. This represents an  
25 unanticipated shock to the supply stream. Later, I'll

1 address the unanticipated shock to the demand side. There's  
2 an abundance of evidence is a very close substitute for  
3 Supercal, although the former is somewhat more expensive per  
4 unit.

5 This fact has an impact both on pricing and  
6 purchasing patterns, and mind you, I'm not making any  
7 alternative like product argument. This is a condition of  
8 competition that the Commission simply has to address. For  
9 example, when the order books for coated ground wood  
10 producers are slim, most have the capacity to switch into  
11 production of Supercal, to keep the plants running.

12 The U.S. market for CGW, in terms of tons, is  
13 roughly twice the size of the SC market. With respect to  
14 pricing and supply, they represent the 600 hundred pound  
15 gorilla driving both, and we will demonstrate that through a  
16 solid statistical analysis in the post-conference brief.

17 There's also the reality of the switches that  
18 occurred after Hawkesbury started anew, under new ownership.  
19 During the period of its idleness, you'll see from the  
20 record that it isn't like the domestic industry rushed to  
21 replace it. That was not the case. You will see from the  
22 data a huge surge in non-subject imports from Europe, and  
23 once Hawkesbury resumed production under its new owners,  
24 under its new operating format, you also see that the same  
25 imports from Europe sharply declined.

1           As a matter of fact, I did the arithmetic, and  
2           on nearly a ton for ton basis, the production, the new  
3           production at Hawkesbury was offset by a decline in imports  
4           from Europe. Nothing happened to U.S. production really one  
5           way or the other. All the action was a swap between Europe  
6           and Hawkesbury.

7           Although I agree with Dr. Kaplan's theoretical  
8           principle, that a big addition to supply can upset the  
9           balance and affect prices, the fact of the matter is there  
10          was no displacement of supply. There was little net change.  
11          It just -- the big event was offset by other factors  
12          reducing the supply and in essence, by coincidence really,  
13          making room for the new production.

14          Now let's talk about prices. The Commission  
15          typically associates expanding demand with the tendency to  
16          increase domestic selling prices. Here we have for over a  
17          long term a contraction in demand that no one expects to  
18          end. So we shouldn't expect prices to be robust and popping  
19          through the roof under such circumstances. I mean that's  
20          just not on.

21          But what does have a big influence are the  
22          surges in the value of the dollar with respect to Canada and  
23          the Euro, and also a collapse in the price of coated ground  
24          wood as the driver of pricing in the SC market. I'd like to  
25          pause for a bit to walk you through my exhibits that I

1 passed out. There are four exhibits.

2 Our firm is engaged in all kinds of quantitative  
3 analysis to be presented in the brief. This is really the  
4 tip of the iceberg of our findings. Forgive me Mr.  
5 Chairman. How much time has elapsed?

6 MR. McCLURE: You have 27 minutes remaining.

7 MR. MALASHEVICH: Well, I suppose I'll have to  
8 save going through this more thoroughly for later. But very  
9 briefly, if you look at Exhibit 1, you can see the  
10 relationship between changes in exchange rates and for the  
11 various printing papers at issue here, and you could look at  
12 -- Exhibit 2 basically takes a microscope to the Canadian  
13 dollar exchange rate.

14 Exhibit 1 ends with the fourth quarter of '14.  
15 Exhibit 2 continues to show the drama of the decline in  
16 value of the dollar into the present. Exhibit 3 is a simple  
17 illustration of exactly how closely coated ground wood  
18 prices relate to SC prices and we'll prove this  
19 statistically post-hearing. Just as a -- to whet your  
20 appetite on our findings, our Exhibit 4 shows the  
21 correlation coefficients between and among the products that  
22 are the most direct substitutes in the marketplace.

23 I'll turn to my colleagues at this point, but  
24 hopefully you'll give me an opportunity to be the artist  
25 later on. Thank you very much for your attention.

1 STATEMENT OF MARK MOSHER

2 MR. MOSHER: Good afternoon. My name is Mark  
3 Mosher, and I'm the vice president for Irving Paper Limited.  
4 Irving Paper's only line of business is in the production  
5 and sale of supercalendered paper. However, our affiliated  
6 companies are engaged in timber, tissue, craft pulp,  
7 packaging, corrugated medium and solid wood products.

8 Irving Paper operates two paper machines in New  
9 Brunswick. One machine is specifically dedicated to the  
10 SC-A and SC-A+ grades, and the other paper machine is  
11 dedicated to making pretty much predominantly SC-B. Our  
12 annual capacity exceeds 440,000 short tons per year, and we  
13 are the largest producer of SC paper in North America today,  
14 having approximately 25 percent, not quite 25 percent of the  
15 total capacity.

16 Our customers are the same customers that have  
17 been talked about here today, retailers, publishers,  
18 cataloguers throughout the United States and Canada, and  
19 over the past decade, we have operated our machinery at  
20 virtually 100 percent capacity. Other than minor shutdowns  
21 as has been spoken about, and our imports to the United  
22 States have virtually remained constant over that period of  
23 time. There's been no significant increases or decreases  
24 in capacity or imports to the U.S.

25 My testimony today really will focus on two

1 primary goals. The first goal is to talk a little bit about  
2 -- add a little bit more context to the U.S. market and how  
3 we compete in the U.S. market, and then the second one is to  
4 really look at a couple of other factors that we think the  
5 Commission needs to investigate more fully before it makes a  
6 determination.

7           If you look at the total graphic paper market  
8 that goes all the way from newsprint, SNC, SCB, SCA, coated  
9 and then the free sheets, historically the low end of the  
10 market, newsprint, SCB, SNC and SCA have always been  
11 produced in Canada. Canada, if you aggregate all of that,  
12 has been a very dominant supplier of the North American  
13 capacity over a period of time, 75 to 80 percent.

14           On the upper end of the market, the lightweight  
15 coated, coated free sheet and uncoated free sheets has  
16 virtually always been a U.S.-dominated production, with well  
17 over 80 percent of the capacity to date, almost 90 percent  
18 of the total capacity of those grades being produced in the  
19 U.S.

20           Canadian producers of SC paper have always  
21 focused on the U.S. market for the obvious reason, the size  
22 of the U.S. market, but also because a lot of Canadian  
23 retailers, Hudson Bay, Target when it was actually alive in  
24 Canada, many of the other retailers on Canada, actually  
25 produce their papers, their retail flyer inserts in the U.S.

1 for shipment up to Canada for distribution as well.

2 So the reality is if you're going to even be a  
3 producer and retailer in Canada, much of that supply is  
4 printed in the U.S. and up through. We do sell into the  
5 U.S. However, we are somewhat limited in the geographic  
6 areas in which we compete. Similar to one of the other --  
7 the parties, we are on the east coast of Canada.

8 So because of the cost of freight and our total  
9 supply cost, it is very difficult for us to compete on the  
10 west coast, due to the prohibitive cost of moving that  
11 through either truck or rail. For this reason, there is  
12 some attenuation in competition between our company and  
13 Verso, whose Duluth mill is certainly much more properly  
14 situated to supply the west coast.

15 Competition between our mill and Verso's mill is  
16 also very limited, because Verso does not produce SC-B or  
17 SNC paper as has been sold, or has been talked about  
18 earlier. They're solely an SC-A supplier, and because half  
19 of our mill output is SC-B, we compete on the other machine.

20 We are also unaware about how much actual true  
21 SC-B Madison Paper does produce and sell. We know that it  
22 predominantly tries to focus on the SC-A market. It  
23 operates a single machine, and that we know that Madison  
24 focuses on producing SC-A, although if it does produce and  
25 sell SC-B, we know -- we do not know whether it's within

1 their mill in Maine or whether it's their parent company.

2 But we do believe that their product, their  
3 production of SCB is incidental at best, and it's another  
4 basis for finding attenuated competition between subject  
5 imports and the domestic industry. The issue of the extent  
6 to which SCB and SCB production is the same is an issue that  
7 the staff should really need to carefully investigate.

8 As I said, historically SCB and SNC have always  
9 been produced predominantly in Canada, and through the years  
10 have always been that way. We believe the Commission should  
11 treat SCA products as separate like products from SCB and  
12 SNC products. If they are to be produced on different  
13 machines, then by definition they are produced in separate  
14 facilities, given the nature of the papermaking process.

15 In addition, we believe there is no question  
16 that the SCA grade on the one hand, and the SCB and SNC on  
17 the other hand, have different physical characteristics and  
18 different pricing characteristics. They are sold at  
19 different prices. So if neither of the two Petitioners  
20 actually produces SCB or a significant portion of SCB  
21 products, then there is no domestic SCB and SNC industry  
22 that could be injured by Canadian imports.

23 On the other hand, if Madison does produce both  
24 SCB and SCA on the same machine, there is a case for a  
25 single like product which is mentally stronger because there

1 is some obvious interchangeability between those two  
2 products. And the extent of this interchangeability between  
3 SCA and SCB is no greater than the extent of  
4 interchangeability between coated No. 5 and SC+ in magazine  
5 catalogues.

6 We have experienced numerous instances where  
7 we've competed against companies offering coated ground wood  
8 paper No. 5, comparable to or at lower prices than our SC+.  
9 The basis weights and properties of those two grades are  
10 very similar, and I would like to actually show one example.  
11 People magazines, one of the pioneers of converting from  
12 coated to SC+, this magazine, if you actually look at it, it  
13 is a combination.

14 It has both grades of lightweight coated and SC+  
15 in there. To the average person, you will not be able to  
16 tell which is which, because retailers and cataloguers very  
17 frequently move between the different grades based on a  
18 number of different products.

19 The other reason of interchangeability, last  
20 night I printed off of Verso's website their Voyager Harbor  
21 grade specifications, and I'll read it. It says that "a  
22 great choice for retail inserts coupons and other high end  
23 volume ^^^^ or other high volume brand communications. Our  
24 supercalendered A+ grade matches lightweight coated grades  
25 and provides," and I won't carry on. But basically it says

1 that their SC grade, SC-A+ grade matches that of lightweight  
2 coated.

3           When we look at the low end of the scale between  
4 SNC and SCB, we have also competed against the same  
5 companies offering high bright and newsprint. If you look  
6 at my other exhibits that I've passed out, it's a  
7 Walgreen's, a Shoppers Drug Mart, which is the Canadian  
8 equivalent of the Walgreen's and a Staples, one on each of  
9 the three grades. And again, many of these retailers will  
10 very frequently switch back and forth between all of those  
11 grades, all the way down from newsprint up to SNC and SCB.

12           So both at the high end, at the low end of the  
13 SC spectrum, there's a significant degree of  
14 interchangeability with all other types of paper. For those  
15 reasons, a very strong argument can be made that the  
16 definition of like product should be expanded beyond the  
17 Petitioners' definition to include coated ground wood paper,  
18 high bright paper and newsprint. At the end of the day,  
19 that's what our customers look for.

20           But even if the Commission chooses not to expand  
21 the definition, there is no question that the frequent  
22 interchangeability of subject products with non-subject  
23 products is an extremely relevant condition of competition  
24 that should be thoroughly investigated. We will identify  
25 specific instances of interchangeability with non-subject

1 products in our post-conference brief.

2 I want to turn now to how Irving Paper competes  
3 for business in the U.S. I want to -- first I would like to  
4 emphasize that the subsidies that our company has received  
5 from the Canadian federal government and the province of New  
6 Brunswick are extremely minor.

7 Most of them or several of them are generally  
8 available to all industries and therefore not  
9 countervailable. Although we believe the Commission has  
10 enough, more than enough information to reach a negative  
11 preliminary determination if the case proceeds, we are  
12 confident that the Commerce Department will conclude that  
13 the benefits that Irving Paper has received have been less  
14 than one percent of our sales value during the test year of  
15 2014.

16 Very brief look at the North American SC market.  
17 As has been said, the market is in decline, with consumption  
18 down over 25 percent in the last five years. This, combined  
19 with the high capital cost and high operating cost, results  
20 in all of the suppliers running to fill their order book and  
21 add 100 percent capacity whenever possible.

22 However, our U.S. marketing strategy focuses on  
23 quality of service, shorter lead times. We market ourselves  
24 as the person to call when a customer needs paper  
25 immediately, because of our affiliation with some of our

1        affiliate companies. By contrast, we have one of the most  
2        modern SC mills in North America, that has effectively had  
3        well over -- many hundred million dollars invested over the  
4        last number of years to improve their product quality.

5                There's no question that price is frequently a  
6        significant and determining element in the customer's  
7        decision. Nevertheless, we are not a low price supplier.  
8        We understand that the petition includes allegations of  
9        sales and revenues that the Petitioners lost in competition  
10       with Canadian producers. You should investigate those very  
11       carefully.

12                Actually, we have one business with prices equal  
13       to or less than those offered by Madison and Verso. But  
14       Irving Paper will demonstrate that for every one that we  
15       have lost or that we have gained, we have lost at least one  
16       in return. Our customers frequently tell us that we are  
17       uncompetitive price-wise in a very competitive business.

18                In that circumstance, price competition is  
19       inevitable, but that does not mean that it has caused  
20       material injury to Petitioners. Many other factors are at  
21       play, including foreign exchange rates, substantial  
22       competition from imports from Europe, which have been talked  
23       about, including those from UPM, Madison's parent company,  
24       and the aging technology of the mills, and therefore the  
25       innovation that the individual suppliers provide to their

1 customers.

2 In fact, both Petitioners produce coated  
3 mechanical paper in separate facilities from their SC paper  
4 mills. Coated mechanical paper has experienced an even  
5 greater decline in demand than SC paper. So it is likely  
6 that the same sorts of adverse effects that the Petitioners  
7 have allegedly suffered by reason of subject imports, have  
8 also been suffered to an even greater extent of the  
9 non-subject products that they produce.

10 This means that the causes of injury on SC paper  
11 very likely have nothing to do with subject imports. We  
12 would ask the Commission to look further at that.

13 In addition, the Canadian paper industry has  
14 been very responsive to the demand decline in North America.  
15 Since the secular decline started in 2007, the Canadian SC  
16 paper capacity or industry has removed well over 50 percent  
17 of its capacity to its current level of 1.3 million short  
18 tons, seven SC -- Canadian SC paper mills have been shut  
19 down, removing over 1.5 million tons.

20 In contrast, during that same period only three  
21 U.S. mills, SC mills have been shut down, removing 500,000  
22 tons of capacity. Canadians have done their part.

23 Price trends for SC paper are not much different  
24 from price trends for all other types of graphic paper and  
25 follow the same general trends, whether it's from newsprint

1 or all the way to lightweight coated. What is happening in  
2 the SC paper market is symptomatic of the entire graphic  
3 paper market, and we urge the staff to investigate domestic  
4 price trends in all of the segments of the market, to get a  
5 better understanding.

6 One other specific aspect of price trends that  
7 need to be explored is pricing for an expanded list of  
8 grades, such as the lower basis weight grades of SCA+.  
9 These are highest priced, highest margin business, and we  
10 sell a very significant quantity of our output into those.  
11 We request that you ask for quarterly pricing and volumes  
12 for many of these grades that we will provide in the  
13 post-conference. But many of those grades were not asked  
14 for in the questionnaire. It would not be difficult for all  
15 of the Petitioners and Respondents to quickly provide this  
16 information.

17 In conclusion, we don't think that the petition  
18 or the testimony today provides sufficient evidentiary basis  
19 for an affirmative preliminary determination. Thank you  
20 very much.

21 MR. TRENDL: I think that concludes our  
22 affirmative presentation at this point. I'm sure we're  
23 going to cover a lot in questions, including some of the  
24 stuff that Bruce Malashevich didn't continue with here. And  
25 I apologize because I didn't say my name first. That was

1 Tom Trendl.

2 MR. MCCLURE: Nice catch there, Mr. Trendl.

3 Actually, I forgot to bring my taser weapon today. Usually,  
4 that's more effective.

5 Anyway, we will now begin the questioning with --  
6 I'm sorry. It's Mr. Feldman's turn. You have your seven  
7 minutes. I apologize. How could I forget Mr. Feldman?  
8 After he's finished his testimony, we will begin the  
9 questioning.

10 Welcome, Mr. Feldman.

11 STATEMENT OF MR. ELLIOT FELDMAN

12 MR. FELDMAN: I'd been particularly upset because  
13 this is dedicated to you. I'm Elliot Feldman. I'm senior  
14 partner at Baker & Hostetler, and I'm here on behalf of  
15 Resolute Forest Products.  
16 They say they're hurtin'  
17 And well they may be,  
18 But we didn't do it.  
19 So you should set us free.  
20 Truth to be told,  
21 We're hurtin' too,  
22 Which put us on both sides,  
23 Not knowing what to do.  
24 Go to the statute,  
25 go to the distance there

1 and an answer will come calling,  
2 An answer true and fair.  
3 The statute says you must decide,  
4 If what a company ships,  
5 Is hurtin' those who say they're hurting  
6 When truth is on their lips.  
7 First, decide if they're hurtin', or threatened to be hurt.  
8 Then decide who did or does it.  
9 Then decided from whence it comes:  
10 The penalty must apply only to them,  
11 For them alone must it fit.  
12 The records show we didn't do it A  
13 And we alone ship from Quebec.  
14 You must find that Quebec, the country,  
15 Is the answer to the question from the Canadian Trebek.  
16 Make someone pay,  
17 but don't make it us.  
18 From where we sit,  
19 Someone must be thrown under the bus,  
20 Just don't make it us.  
21 We didn't do it.  
22 We're not doing it.  
23 We're hurtin' too.  
24 That's why there's a fuss.  
25 We shouldn't take the hit.

1 The penalty wouldn't fit because,  
2 As the record shows,  
3 We didn't do it, so don't make it us.

4 The record before the Commission shows already  
5 that Resolute Forest Products has closed a mill at  
6 Laurentide. That there's an overall decline when accounting  
7 for both supercalendered paper and lightweight coated paper,  
8 and as has been hinted from both sides, a wave of  
9 substitution away from our primary product in the United  
10 States of lightweight coated paper to a quality of  
11 supercalendered paper beyond our capabilities. And one  
12 thing no one seems willing so far today to admit, but we'll  
13 admit, we don't and cannot make the quality of SC paper  
14 that's made by the new entrants in the market and that makes  
15 a huge difference in the conditions of competition because  
16 of why they're able to do that.

17 So, the numbers also show that we're consistently  
18 undersold by others. We, therefore, are not driving prices  
19 down, and we're competing with a product that unquestionably  
20 is superior while driving prices down. There's an increased  
21 volume in the market. Everybody recognizes this is a  
22 product shift, a declining demand, and therefore on no  
23 dimension could Resolute be found to be a cause of injury.  
24 Instead, Resolute is a victim of market changes.

25 Now, there's also a relevant record before the

1 Commerce Department. There are no subsidy allegations that  
2 are tied to production or export of supercalendered paper by  
3 Resolute Forest Products. Some of the allegations are about  
4 subsidies in Ontario. There is no supercalendered paper in  
5 this case coming from Ontario. And indeed, one is about  
6 electricity in Northern Ontario.

7 And there's an allegation about Kraft pulp from a  
8 Resolute Forest Product's mill, but our production is with  
9 chemical pulp with a tiny, tiny little bit of craft pulp  
10 that's used for tensile strength. And indeed, in that case  
11 there was a hostile acquisition, a poster child for an arm's  
12 length transaction.

13 So, the Commerce Department should be finding  
14 those subsidies which would terminate Resolute in the  
15 investigation, but on the possibility that that's not what  
16 occurs, for whatever reason, I'm here to suggest today that  
17 we're entitled to a separate injury determination.

18 There are four companies in this case. Each one  
19 constitutes all of the imports from each of four different  
20 provinces. If you go to Section 1677(3) of the statute, you  
21 see the definition of countries. And the reason why there's  
22 a definition with respect to political subdivisions. The  
23 statute defines countries so that provinces, local  
24 governments, states cannot dispense subsidies and not be  
25 found responsible for those subsidies within the framework

1 of the WTO and the U.S. statute.

2 At the same time, therefore, if those countries,  
3 political subdivisions as defined in the statute, are not  
4 dispensing subsidies for the product, the merchandise coming  
5 from those states, those countries as defined by the statute  
6 are free of subsidies then they are not only entitled to be  
7 found de minimis and not be cumulated, but they also need to  
8 be recognized as separate countries.

9 Now, this may not resonate easily with you,  
10 particularly, if you come to the question with a framework  
11 of American states, but the Canadian system is a system that  
12 is confederation. The provinces are particularly  
13 susceptible and have already been recognized in this way.  
14 The Softwood Lumber Agreement recognizes each province  
15 differently, applies a different solution to each province.  
16 The Commission has examined the injury question with respect  
17 to each province in the Softwood Lumber proceedings.

18 In those cases, it had to arrive at an aggregate  
19 solution, and it had to arrive at an aggregate solution  
20 because these were countrywide rates because there were so  
21 many Respondents. Here you have only four companies, each  
22 constituting all of the imports from their respective  
23 provinces.

24 So, if somehow Commerce were not to exclude  
25 Resolute, and if the Commission were to find threat, but not

1 injury -- I make this distinction because cumulation in the  
2 statute is mandatory for the Commission in cases of injury,  
3 but not in cases of threat. In cases of threat, the  
4 Commission had discretion as to whether to cumulate. And  
5 the Commission need not and should not cumulate Quebec in  
6 this case. The authority there is in 1677(7)(H).

7 An order against supercalendered paper from  
8 Canada should not include Resolute, should not include  
9 Quebec because Resolute isn't subsidized. Quebec is not the  
10 source of threatening imports. Resolute is not causally  
11 linked in any way to a threat of injury. Resolute -Quebec-  
12 shouldn't be cumulated. Thank you.

13 MR. MCCLURE: Thank you, Mr. Feldman. Nice to  
14 see you haven't lost your poetic touch after the long ago  
15 Softwood Lumber case that may not be so long ago.

16 Anyhow, we will begin the questioning with our  
17 investigator, Chris Cassise.

18 MR. CASSISE: I'd like to thank everyone for  
19 their testimony.

20 I'd like to start with Mr. Ostrowski. Everybody  
21 had very informative direct testimony. It's going to take  
22 me some time to go through it with you. I'd just like to  
23 start -- there was a lot of talk of the different grades of  
24 SC paper on this panel and I think we'd better take a step  
25 back and maybe go through and have one or more of you

1 explain to us specifically the difference in the grades, the  
2 different production processes or the differences in the  
3 production processes that occur to make these grades, the  
4 different end use markets potentially for these grades, any  
5 distinguishing characteristics you could provide.

6 So, Mr. Ostrowski, I'll start with you. And when  
7 you go through your list of the grades, you also mentioned  
8 an SCA Plus/Plus that your firm produces. If you could add  
9 to your list what that grade means and what distinguishes  
10 that from the rest of the grades.

11 MR. OSTROWSKI: Mike Ostrowski.

12 The SCA Plus/Plus grade is primarily  
13 distinguished by brightness. The normal SCA Plus grades are  
14 71 to 72 brightness and the Artisan Plus/Plus grade that we  
15 manufacture is a 76 brightness. The gloss level, the  
16 smoothness is somewhat comparable to traditional SCA Pluses,  
17 so brightness is the most distinguishing factor.

18 MR. CASSISE: And if you could just quickly go  
19 through maybe the other grades and the hierarchy and what  
20 distinguishes them from each other like you did for the SCA  
21 Plus/Plus, but could you go through the spectrum for us?

22 MR. OSTROWSKI: Okay, Mike Ostrowski.

23 The SCA Plus grades normally have a 71 to 72  
24 brightness. They usually have a gloss level that is  
25 measured in the high forties to low fifties. It's just a

1 gloss measurement that we can provide details on how that's  
2 calculated.

3           And then also the smoothness of the sheet, the  
4 smoothness of the sheet is important for when you are laying  
5 ink on the sheet to make sure that the transfer on the  
6 printing presses from ink to paper happens smoothly, so you  
7 try to make the paper as smooth as possible to make sure  
8 that that occurs. The traditional SCA grades are normally  
9 in the 67 to 68 brightness levels. The gloss levels are  
10 more like in the low to mid-forties. The sheet will be  
11 normally slightly rougher than SCA Plus is, but not a whole  
12 lot.

13           And then SCB is normally a 63 brightness, maybe  
14 as high as 65 brightness, but in general, 63 brightness.  
15 It's much rougher sheet. I don't have the numbers for what  
16 the roughness is, and I'll have to get that for you, or the  
17 smoothness of the sheet is, I should say. So, those are the  
18 primary differences between the grades. And the results are  
19 seen in the printing processes and how clear an image looks  
20 on a particular piece of paper. And all those factors come  
21 into play as to how crisp and exact an image would look on a  
22 printed product.

23           MR. CASSISE: And what would be the different  
24 manufacturing processes or the tweaking of that process that  
25 you would use to get these grades? Is it merely just an

1 additional supercalendaring or does the change in the  
2 production process start at the very beginning?

3 MR. OSTROWSKI: I'm not a manufacturer by trade,  
4 but it starts in the pulping system where you can brighten  
5 up the pulp in that process to get to the different levels  
6 that I talked about. And also, it is done to some degree  
7 through the supercalendared stacks by adjusting pressures  
8 and heat in order to affect a gloss on the sheet.

9 MR. CASSISE: Does anyone else have any comments  
10 on that, anybody who's more familiar with the manufacturing  
11 process?

12 MR. MALASHEVICH: Bruce Malashevich. I'm not  
13 more familiar with the manufacturing process, but I just  
14 want to suggest to you that in addition to the current  
15 rankings Mr. Ostrowski's gone to, you might ask him to  
16 address the LWC, lightweight coated. That's really part of  
17 the continuum we're talking about today.

18 MR. CASSISE: We'll get there. What you're  
19 saying is that even at the beginning, like we discussed this  
20 morning with the U.S. producer panel it really starts with  
21 the recipe that you're putting in at the beginning of the  
22 paper-making process. You could tweak the percentage of  
23 mechanical versus craft pulp. You can tweak the fillers,  
24 all of that can go to what grade you ultimately are  
25 receiving as your end product.

1 MR. OSTROWSKI: Mike Ostrowski.

2 Yes, that is correct. Different mills have  
3 different pulping systems that might allow them to get  
4 higher brightness levels through the pulping process, so you  
5 know that's where it all starts. You have to make good pulp  
6 and the quality of your groundwood pulp affects how much of  
7 a percentage of your craft pulp you have to put in for  
8 strength to make the overall product that you're offering.  
9 And the amount of craft pulp that you put in the sheet is a  
10 pretty significant cost factor. And our pulping process  
11 that we have at Port Hawkesbury Paper is extremely good,  
12 extremely efficient, and allows us to minimize the percent  
13 of craft pulp that we put into our mix to make our SC  
14 papers.

15 MR. CASSISE: Right. And just back up, and I'm  
16 sure you've said this, but PHP makes all these grades, the  
17 SC Plus/Plus, SCA Plus, SCA, and SCB.

18 MR. OSTROWSKI: Yes, sir. That is correct.

19 MR. CASSISE: Okay. Do you make any of the lower  
20 grades? I suppose, Mr. Mosher, we're going to bring the  
21 products that you mentioned into this continuum since you  
22 are making an argument that this is a continuum, you know,  
23 lightweight coated groundwood and the high bright and the  
24 newsprint, I believe, were the products that you had  
25 mentioned in this continuum. Does PHP also produce those

1 products, the lightweight coated and the high bright and the  
2 newsprint?

3 MR. OSTROWSKI: We do not. As mentioned earlier,  
4 you have to have a separate coating section and a coating  
5 kitchen in order to apply latex coating to your sheet that  
6 comes off the paper machine and we do not have that  
7 equipment?

8 MR. CASSISE: Is it fair to say, though, your SC  
9 Plus/Plus grade, the Artisan brand that it is a brightness  
10 and a smoothness increase over the SCA Plus. I mean this is  
11 not just a marketing buzz word. There are physical  
12 characteristics that are different than from the SCA Plus?

13 MR. OSTROWSKI: Mike Ostrowski.

14 Yes, the primary difference is brightness, and  
15 the human eye can see, I think, normally between two points  
16 of brightness between sheets. So, this has a four-point  
17 brightness minimally between SCA and SCA Plus. The gloss is  
18 probably a little bit higher, but probably -- I don't have  
19 the numbers in front of me, but not significantly higher  
20 than the gloss levels on a regular SCA Plus grade, primary  
21 brightness difference.

22 MR. CASSISE: And when you do market that  
23 product, is the sales pitch that this will give you a  
24 crisper, glossier, more attractive end product than the SCA  
25 Plus?

1           MR. OSTROWSKI: We do talk about that, but in  
2           general, with the higher brightness level kind of allows us  
3           to move up the chain on the coated products to go up against  
4           some of those products that are little bit brighter than the  
5           traditional coated groundwood grade, which is called the #5  
6           grade, and that is normally right in the 72 brightness  
7           level.

8           MR. CASSISE: Does that grade give you  
9           opportunities in different end use markets than you'd  
10          otherwise have?

11          MR. OSTROWSKI: It does. One big, end use market  
12          for us is commercial printing. And commercial printing is  
13          just, you know, a type of printer that goes out, sells jobs,  
14          and prints them as they get them for things like Pizza Hut,  
15          McDonald's, things like that. And so, at times, they can  
16          substitute a 76-bright SCA Plus/Plus sheet for a higher end  
17          coated groundwood sheet.

18          MR. CASSISE: So, is it fair to say that that was  
19          the primary reason why the grade was developed in order to  
20          open up new end use markets?

21          MR. OSTROWSKI: That is correct. Also, some  
22          magazines do use higher end than #5, 71, 72-brightness  
23          sheets, so part of the market target was to try to get those  
24          magazines that were slightly above a normal type magazine.

25          MR. CASSISE: You had made one statement, and you

1 said that you could make all the grades on the same machine  
2 and that you would provide more detail on that and how that  
3 was done if you were given the opportunity. Here's the  
4 opportunity.

5 MR. OSTROWSKI: Mike Ostrowski again.

6 Again, it all starts in the pulping process. And  
7 our pulping process is ultramodern and able to make a  
8 quality of pulp that ranges from what is suitable for an SCB  
9 quality level all the way up to the Artisan level. And the  
10 other item, the important item that allows us to make the  
11 different grades is that we have significant storage  
12 capacity at the mill to store pulp once it's made. And by  
13 being able to do that, you can make SCB quality pulp, put it  
14 in a silo, if you will, and then go and make some higher  
15 quality pulp and then schedule your machine accordingly to  
16 the type of grades that you have in your order book and what  
17 you need to produce and ship on time.

18 So, again, it's the quality of the groundwood  
19 pulp that really allows us to make four different grades of  
20 products on that machine and do it cost effectively.

21 MR. CASSISE: That was also related to another  
22 comment that you'd made. I'm sure you recall the  
23 conversation we had earlier this morning with the U.S.  
24 industry about stopping and restarting machines. It  
25 appeared from your testimony that you may not agree entirely

1 with the testimony that was given earlier and that you said  
2 that -- I think you said that PHP actually uses shutdowns as  
3 kind of a way to control costs and what'd you say, a cost  
4 containment strategy, especially to manage things like  
5 seasonality.

6 I just want to give you an opportunity to expand  
7 on that answer and maybe explain why your answer might be  
8 different from the U.S. industry this morning.

9 MR. OSTROWSKI: Mike Ostrowski.

10 I would say that the age of our machine and the  
11 technology that's built into that machine allows us to start  
12 and stop that machine perhaps more efficiently than some of  
13 the older machines that exist in this industry. I think  
14 that's the primary reason, but when we look at the amount of  
15 down time that we've taken for high electricity costs and  
16 then we look at our production, it tells us that we could  
17 manage that and still be cost efficient when we have to shut  
18 the machine down and start it back up that we can do it in a  
19 very efficient manner.

20 MR. CASSISE: All right, so it would be fair to  
21 say that your machines may have a little bit more up-to-date  
22 technology that would allow a little bit more efficiency in  
23 shutting down and turning them back on, but you still  
24 wouldn't describe the machines as able to turn and off at a  
25 whim?

1                   MR. OSTROWSKI: No, not at all. I mean we -- you  
2 know these are big, capital investment pieces of equipment,  
3 so the idea is to try to run them as much as you can. But I  
4 think in today's day and age, and looking at market  
5 conditions our industry needs to find a way that they can  
6 shut down and start up at times and do so in a very  
7 efficient way because you have to manage capacity to your  
8 demand.

9                   MR. CASSISE: And this is another question that  
10 I'd asked the panel this morning about shifting production  
11 to different products. Now, I know that PHP makes this  
12 product on a dedicated line, but could you explain what  
13 would it entail for PHP to shift production to another, say,  
14 uncoated product, commercial product, the time and resources  
15 necessary to do that?

16                   MR. OSTROWSKI: Yes, I would need to answer that  
17 later because, again, not being a manufacturing person I'd  
18 need to talk to some other people.

19                   MR. CASSISE: Is it fair to say that that would  
20 not be an easy process?

21                   MR. OSTROWSKI: That would not be a viable option  
22 the way I see it.

23                   MR. CASSISE: Okay.

24                   Bruce, you had mentioned that U.S. imports from  
25 Canada may have just replaced U.S. imports from the EU. Are

1 you aware of any other significant players in the market  
2 that may be importing from non-subject countries? I mean  
3 what other non-subject countries may we expect to find, or  
4 is it you're up in Canada?

5 MR. MALASHEVICH: I think that's it. One reason  
6 why I focused on the exchange rate as I did is -- Mr.  
7 Ostrowski, please correct me if I'm wrong. I'm Bruce  
8 Malashevich, by the way.

9 But if you take into account both the Euro and  
10 the Canadian dollar versus the U.S. dollar, I believe you  
11 are covering practically 100 percent of all imports of  
12 supercal in the United States from anywhere.

13 Mr. Ostrowski, do you have something to add to  
14 that in terms of non-European countries?

15 MR. OSTROWSKI: I think there's very little, if  
16 any. There might be some other countries that play a little  
17 bit in exporting paper to North America, but the primary  
18 players are from Finland, Sweden and Norway.

19 MR. HORLICK: Gary Horlick. Norway would be the  
20 other one then.

21 MR. CASSISE: Thank you.

22 Mr. Mosher, we have a lot to talk about. You've  
23 raised a lot of issues in your testimony, and I want to make  
24 sure that I get those arguments -- make sure I understand  
25 which arguments you are making.

1           And Mr. Connelly, I'm sure you can help out with  
2           some of this as well. I heard a like product argument made  
3           in there, but I want to make sure I understand what the like  
4           product argument was. Is it just that the lightweight  
5           coated groundwood paper is potentially a domestic-like  
6           product expansion?

7           Mr. Connelly, I see Mr. Mosher is looking at you,  
8           and so you can handle this one; but is it just the  
9           lightweight coated groundwood that you'd like to see the  
10          like product expanded to or is there these other high bright  
11          and newsprint? Basically, could you tell me what you would  
12          like like-product to be expanded to?

13          MR. CONNELLY: Warren Connelly.

14          Okay, first of all, we think there's a clear  
15          dividing line between SCB and SCA and up in the SC paper  
16          limitation only, okay.

17          MR. CASSISE: The way I understood your  
18          testimony, that was attenuate the competition argument.

19          MR. CONNELLY: It's both.

20          MR. CASSISE: All right, keep going.

21          MR. CONNELLY: So, if we consider that the like  
22          product is only SC paper -- let me start over. If we  
23          consider that the scope of the investigation is SC paper  
24          only we are contending that there are two like products, SCB  
25          on the one hand, and SCA, SCA Plus, and SCA Plus/Plus on the

1 other.

2 Now, we are also contending that in the SCB like  
3 product definition you should include high bright and  
4 newsprint. And the SCA and up definition you should include  
5 coated groundwood #5. The reason for this is because the  
6 distinctions between let's say SCA and coated groundwood on  
7 the one hand are really about the same, are not materially  
8 different from the distinction between SCA and SCB. At a  
9 minimum, of course, it's a highly relevant condition of  
10 competition.

11 Let me go back to the issue of SCA versus SCB and  
12 why that's important. If there're two like products and SCB  
13 is a separate like-product, we do not believe the record, as  
14 it stands, indicates there is domestic production of SCB.  
15 That is something we would like the staff to look at very  
16 closely.

17 Now, we know that Verso on its website says it  
18 doesn't make -- well, it doesn't say that it makes SCB on  
19 its website, so that leaves Madison. Now, they say they sell  
20 SCB, but where and how they produce it we don't know. We  
21 don't know if it's in their mill in Maine or somewhere else  
22 and we don't know the extent of it, but the legal  
23 consequence if there are two like products is that SCB our  
24 view is that there is either no domestic production or  
25 minimal domestic production.

1           MR. CASSISE: I just throw this off the top of my  
2 head. If there is no domestic production, then can there be  
3 a domestic-like product? Is this something that you might  
4 want to go to Commerce and tell them there's no domestic  
5 production of this? It doesn't belong in the scope, or  
6 maybe that is what you've already done, but I'm trying to --  
7 legally, I'm trying to see how the argument would go. It's  
8 just something to think about.

9           The other thing to think about is, is this kind  
10 of a two-tiered thing? Like does the Commission have to  
11 agree to split out the two domestic-like products before  
12 they expand the two subsets; is that what you're asking for?

13           MR. CONNELLY: Warren Connelly.

14           No, if SC paper is one like product, then we are  
15 saying you should still expand it to included coated  
16 groundwood on one end and newsprint and high bright on the  
17 low end. Now, we understand that there's not enough data in  
18 the record in the preliminary phase for the Commission to  
19 get there because you don't have the questionnaire responses  
20 from those domestic producers. We know you can't get there,  
21 but obviously, we hope we're never going to be back here for  
22 a final; but in the event it happens, then that's something  
23 we would like pursued.

24           MR. CASSISE: Okay.

25           This is for anyone who'd like to comment. And I

1 think, Mr. Mosher, I think you had mentioned that the  
2 Canadian retailers had had a -- well, most of the Canadian  
3 retailers had their circulars printed in the United States  
4 so that even -- you know even things that you'd think would  
5 be in the Canadian home market are really done here in the  
6 United States. Are there other reasons why the Canadian  
7 home market is so small relative to the U.S. market besides  
8 just the relative economic sizes? I mean you stated one  
9 reason, is there any other reason?

10 MR. MOSHER: Well, I would just speculate I guess  
11 that certainly many of the large retailers and catalogers  
12 and publishers are becoming multinational. And of course,  
13 there's economy of scale and producing and manufacturing and  
14 distributing flyers and inserts, so it only makes sense to  
15 only concentrate those into much larger volumes. So, as I  
16 said, when Target moved into the Canadian market, 100  
17 percent of their inserts, flyers came from U.S. printers.

18 MR. CASSISE: Okay.

19 Mr. Feldman, I asked this just because I'm  
20 curious to see what your answer will be, but can the  
21 Commission make a separate injury determination for Resolute  
22 without declaring Quebec a separate, sovereign nation?

23 MR. FELDMAN: First, before I answer your  
24 question, I understand I misspoke. I confused in my remarks  
25 chemical and mechanical pulp. So, just for the record,

1 we're making this product from mechanical pulp and adding a  
2 tiny little bit of chemical pulp, so just that correction.

3 So, your question has more than one part, so I  
4 have to unpack it a little bit. Can the Commission do a  
5 separate injury determination for Resolute? No, there's no  
6 provision in the statute to deal with companies separately.

7 Can it arrive at a separate determination for  
8 Quebec? Yes. Does it have to declare Quebec sovereign?  
9 No. The distinction simply is in the language of the  
10 statute. And as I tried to explain, the statute has a  
11 reason. The statute defines country as a country or a  
12 political subdivision. Before the WTO, in the GATT, it  
13 defined it as a foreign country or a state, province or a  
14 political subdivision thereof. The state and province  
15 language has been removed, but we're still talking about  
16 political subdivisions.

17 And the reason that it is still there, going back  
18 to 1948, is because otherwise subsidies from non-central  
19 governments couldn't be captured in countervailing duty  
20 proceedings, but the converse of that proposition is that if  
21 there are no subsidies you're still a country. You've been  
22 defined as a country in 1677(3), and therefore, the  
23 Commission is expected to reach a determination about each  
24 country.

25 The twist is that in an injury determination you

1 are obliged to cumulate. So, I'm advancing to you the  
2 proposition, very narrowly, that were we to be here and were  
3 Resolute still to be in the case, were Quebec still to be in  
4 the case and you reach not an injury determination, but a  
5 threat determination then the Commission has discretion not  
6 to cumulate because we, Quebec, and pursuant to my argument,  
7 New Brunswick, British Columbia, and Nova Scotia each here  
8 is a separate country under the statute with the elegance  
9 that all of the production from each of these countries is  
10 to be found discretely in each of the provinces and  
11 therefore each of the countries.

12 So, this may be a unique case, but it's  
13 peculiarly susceptible to the proper application of the  
14 statute.

15 MR. CASSISE: I have no further questions at this  
16 time. Thank you.

17 MR. MCCLURE: Next questioner will be Vince  
18 Honnold.

19 MR. HONNOLD: Thank you. This is Vincent Honnold  
20 from the Office of Industries.

21 I have just a couple of questions. This question  
22 is for each of the Canadian producers, except Port  
23 Hawkesbury. How did the Port Hawkesbury mill coming back  
24 online in 2012 affect your operations?

25 MR. CONNELLY: Warren Connelly.

1                   We're going to answer that in the post-conference  
2                   brief. That's confidential.

3                   MR. WEINER: This is Richard Weiner on behalf of  
4                   Catalyst.

5                   We'd like to respond to that in the post-hearing  
6                   brief as well. Thank you.

7                   MR. FELDMAN: Elliot Feldman for Resolute.

8                   We'll be happy to respond here. We've been very  
9                   much on the public record that the reopening of the Port  
10                  Hawkesbury mill with its celebrated and superior  
11                  capabilities has had an extremely serious impact on  
12                  Resolute's operations. We see it as the proximate cause for  
13                  the closure of the Laurentide mill. We see it as lowering  
14                  our prices and disrupting our competitive position because  
15                  of some of the things that have been suggested in the  
16                  hearing so far today.

17                  We have seen a migration, and in some respects a  
18                  wave of substitution by grade and therefore our lower  
19                  quality product can't compete effectively with the higher  
20                  quality product that comes from Port Hawkesbury. And Port  
21                  Hawkesbury's higher quality product competing at the same  
22                  price or often lower prices drives our prices down. So it  
23                  has had an impact on our price. It's had an impact on 275  
24                  jobs in Quebec that are gone because of the closure of the  
25                  Laurentide mill.

1                   We don't hesitate to say any of that. One could  
2                   make the case that Port Hawkesbury has done a wonderful  
3                   thing for the industry in raising its quality and  
4                   introducing new techniques and becoming more efficient. And  
5                   all of that may be true, but conditions and circumstances  
6                   under which all of that happened have had a very damaging  
7                   impact on Resolute Forest Products.

8                   MR. HONNOLD: Okay. Thank you.

9                   This is another question for all Canadian  
10                  producers, except Port Hawkesbury. I like Port Hawkesbury,  
11                  but the Petitioners this morning suggested that you've got  
12                  to run the mills pretty much flat out or your costs are  
13                  going to go up. Port Hawkesbury suggests -- I think Mr.  
14                  Ostrowski testified that they run on average about 91  
15                  percent of capacity utilization.

16                 He suggests that that doesn't necessarily lead to  
17                 a big increase in your costs. I'd like to have each of the  
18                 Canadian producers give your thoughts on that either here or  
19                 in a post-conference brief, or are you somewhere in between  
20                 the two extremes?

21                 MR. FELDMAN: If we run at that rate, it's very  
22                 costly to us. We can't afford to run at that rate.

23                 MR. HONNOLD: Which rate?

24                 MR. FELDMAN: At the 91 percent. That 91 percent  
25                 may be efficient and effective for Port Hawkesbury. I have

1 no reason to doubt it. That 91 percent would be very  
2 harmful to Resolute's operations.

3 MR. HONNOLD: So, you would tend to run more  
4 towards 24/7?

5 MR. FELDMAN: 24/7 is what we need to run with  
6 occasional down time, and the specific numbers I think are  
7 in the questionnaire responses.

8 MR. MCCLURE: For the court reporter, that was  
9 Elliot Feldman responding.

10 MR. FELDMAN: Thank you, Mr. McClure.

11 MR. MOSHER: Mark Mosher.

12 Irving paper runs virtually at 100 percent  
13 capacity utilization. The only shutdowns that we take are  
14 maintenance shutdowns that have been discussed. Every  
15 couple of weeks we'll shut our machines down for 18 hours as  
16 well for maintenance, other than that we run 7/24.

17 MR. WEINER: This is Richard Weiner on behalf of  
18 Catalyst.

19 Our specific capacity utilization numbers are, of  
20 course, in the questionnaire response, but we'd be happy to  
21 supplement those in terms of some of the qualitative aspects  
22 to your question, supplement those in our post-hearing  
23 submission. Thank you.

24 MR. HONNOLD: Thank you.

25 MR. OSTROWSKI: Mike Ostrowski.

1           One clarification, the 91 percent that I talked  
2           about was an industry operating rate, not specific to Port  
3           Hawkesbury.

4           MR. HONNOLD:   What industry would that be?

5           MR. OSTROWSKI:   That would be the high gloss,  
6           which includes all SC.   So, I'm just saying that that an  
7           industry average for everyone.

8           MR. HONNOLD:   For the Canadian industry?

9           MR. OSTROWSKI:   No, for North America.

10          MR. HONNOLD:   Okay.

11          The last question is for Mr. Ostrowski.   You  
12          noted in your testimony in the U.S. market supercalendered  
13          paper is displacing lightweight coated groundwood paper.  
14          How is this switch to supercalendered paper affecting  
15          overall demand for supercalendered paper in the U.S. during  
16          the POI?

17          MR. OSTROWSKI:   During the POI, it has increased  
18          the demand for SC paper.   You can see it in all the  
19          statistics that we follow, so it has definitely increased  
20          the usage of SC paper in our market.

21          MR. MALASHEVICH:   Mr. Honnold, may I add that it  
22          touches on something I didn't have a chance to address.   And  
23          I talked about the supply shock -- Bruce Malashevich.   Yes.  
24          Thank you.

25          Anyway, I talked about supply shock from the

1 explosion and the fire at Sartell, but there was a demand  
2 shock right in the middle of the POI, which Mr. Ostrowski  
3 alluded to in his testimony, but I'd like to make the  
4 connection.

5           It was by a large number of major advertisers,  
6 big box types, big chains that do a lot -- consume a lot of  
7 paper. And I've been informed that the folks that are  
8 buyers there routinely monitor the price spread between  
9 supercal and coated groundwood, although, historically,  
10 there've been a strong preference for coated groundwood at  
11 those establishments. But roughly in the middle of the POI,  
12 a major player decided to sort of switch sides, as it were,  
13 and move out of groundwood and in favor of coated paper, and  
14 their competing entities, be they big box or chains or  
15 whatever, ended up doing the same at the same time. And  
16 that was another unanticipated event in that case by the  
17 producers because although they need there was always a  
18 threat of the switch they had no idea what the timing would  
19 be.

20           And in interviewing Mr. Ostrowski earlier in this  
21 investigation you know he mentioned that during that period  
22 their facility at Port Hawkesbury was actually refusing to  
23 take orders because they were overwhelmed with the sharp,  
24 unexpected increase in demand from these very big purchasers  
25 in the market. So, that's a very important factor to take

1 into account in analyzing the creation of new demand in the  
2 marketplace that didn't previously exist that favored SC.

3 MR. HONNOLD: Thank you. That's all for me.

4 MR. MCCLURE: The next questioner will be Michael  
5 Haldenstein from the General Counsel's Office.

6 MR. HALDENSTEIN: Thank you. Good afternoon.  
7 Just a few questions.

8 Can anyone address how much of the paper market  
9 is SC paper?

10 MR. OSTROWSKI: Mike Ostrowski.

11 I mentioned it before, 2014 statistics show that  
12 the total demand for high gloss, which includes all SC  
13 paper, was 1,800,000 short tons.

14 MR. HALDENSTEIN: For all paper.

15 MR. OSTROWSKI: For 2014.

16 MR. HALDENSTEIN: Okay. Thank you.

17 MR. OSTROWSKI: Mike Ostrowski.

18 It's called high gloss is the category that the  
19 Pulp and Paper Products Council reports on and the section  
20 is called high gloss and that includes SCA Plus, SCA, and  
21 then SCB and also SNC.

22 MR HALDENSTEIN: And how large is that relative  
23 to the coated paper?

24 MR. OSTROWSKI: I would say in my estimate that  
25 it's about half the size of the coated market. The coated

1 #5 market or groundwood market is approximately twice the  
2 size of the SC market.

3 MR. HALDENSTEIN: Thank you.

4 This question is for Mr. Elliot -- Mr. Feldman.  
5 In the Softwood Lumber case, I haven't looked at that case  
6 in a while, but I don't recall that the Commission accepted  
7 the argument that it should do a separate injury  
8 determination. Is this essentially the same argument that  
9 you made there?

10 MR. FELDMAN: No. You're right. The Commission  
11 didn't. The Bi-National Panel agreed that probably that is  
12 what the statute requires, but not in an aggregate case.  
13 So, it's not quite the same because this is not an aggregate  
14 case. Won't be an aggregate case. There won't be a  
15 countrywide rate. There are only four companies here.

16 It's certainly, practicable in the language of  
17 the, statute for the Commerce Department to examine each of  
18 the companies that are allegedly subsidized in this case, as  
19 a consequence and because, as I indicated, there is the  
20 peculiar elegance of all of the production from each of the  
21 companies being within the boundaries of each separate  
22 province that the statute can apply.

23 That factual pattern, those conditions did not  
24 apply in the Softwood Lumber case.

25 MR. HALDENSTEIN: And with respect to

1 de-cumulation for purposes of threat, would that mean that  
2 you're arguing that it can look at, you know, Quebec as a  
3 separate country for that purpose?

4 MR. FELDMAN: Yes, absolutely. And it's not  
5 unprecedented for the Commission to exercise its discretion  
6 and not cumulate everybody in a threat case.

7 MR. HALDENSTEIN: I'm not familiar with a case  
8 where it's done so for a separate province.

9 MR. FELDMAN: Separate province, no, because it's  
10 never reasoned in this manner, which is why I'm suggesting  
11 to you that in this case you shouldn't probably be  
12 particularly nervous about precedent either. The factual  
13 pattern may be unique to this case.

14 MR. HALDENSTEIN: Okay. Thank you.

15 And just another question about your point about  
16 Resolute being injured by the sales from the other Canadian  
17 producer, is that something that occurred for sales within  
18 the U.S. or in Canada? How did that come about?

19 MR. FELDMAN: I'm sorry. I didn't understand the  
20 question.

21 MR. HALDENSTEIN: You're saying that Resolute was  
22 injured by the other producer. I'm just curious. Does that  
23 involve sales in the United States that you're referring to?

24 MR. FELDMAN: I'm referring to injury -- it's  
25 Elliot Feldman for Mr. McClure's benefit.

1 I'm referring to injury to the U.S. industry.

2 MR. HALDENSTEIN: So, you don't dispute the  
3 injury allegations.

4 MR. FELDMAN: I'm not taking a position on the  
5 injury allegations. We do produce in the United States, and  
6 I think I've made a fairly unambiguous statement about the  
7 impact of Port Hawkesbury on our operations in both Canada  
8 and the United States.

9 MR. HALDENSTEIN: Okay. Thank you. That's all  
10 the questions I have.

11 MR. MCCLURE: Our next questioner will be Amy  
12 Larsen from the Office of Economics.

13 MS. LARSEN: Good afternoon.

14 So, my first question -- I want to go back to  
15 channels of distribution. And this first one might be best  
16 addressed in the post-conference brief, but I'm curious to  
17 see from the importer side what share of end users sales end  
18 users are going to retailers versus imports going directly  
19 to the printers and publishers. If anyone would like to  
20 answer that now that would be great.

21 MR. OSTROWSKI: Yes, each mill obviously -- or  
22 each company has their own breakout and it is proprietary  
23 information, so we can answer that afterwards.

24 MS. LARSEN: That would be great. Thank you.

25 I'm also curious if for the retailers if they are

1 importing directly or if they are more likely going and  
2 having someone purchase it on their behalf.

3 MR. OSTROWSKI: Mike Ostrowski.

4 It differs by company. I would say the larger  
5 retailers usually have their own staff and they buy directly  
6 from you, but the mid to small retailers will allow the  
7 printer to do it because they don't have their own staff to  
8 really monitor everything as well as they should. So, it  
9 really is a mixture.

10 MS. LARSEN: Moving onto transportation and  
11 delivery of the goods, for importers how is SC paper  
12 particularly transported? Is that only rail, or is it also  
13 a mixture?

14 MR. OSTROWSKI: Again, it differs by mill. In  
15 Port Hawkesbury, I can say that normally north of 70 percent  
16 is shipped by rail and the balance is shipped by truck.

17 MS. LARSEN: Okay.

18 MR. MOSHER: Mark Mosher. Similar, the product  
19 really doesn't unless the printing location is very close  
20 freight costs really dictate. This is a very rail heavy  
21 delivery mechanism, and ours would be north of 80 percent  
22 rail.

23 MS. LARSEN: Thank you.

24 So, prices are quoted on a delivery basis. My  
25 question is, is transportation costs for the foreign

1 producers simply a function of distance, or is there an  
2 additional cost for crossing the international border? Is  
3 there any kind offloading or other fees that you have to  
4 pay?

5 MR. MOSHER: Mark Mosher.

6 There is no cross-border fees specifically. All  
7 of our products are freight included final destination, but  
8 occasionally the product will go directly to a printer. It  
9 will go to a distribution center for said printers, but  
10 pretty much that's it.

11 MS. LARSEN: And in your experience -- sorry.

12 MR. OSTROWSKI: Mike Ostrowski. I agree.

13 MS. LARSEN: Thank you.

14 In your experience, when you are selling to the  
15 brokers or distributor, does that actual delivery go to a  
16 printer or publisher, or is there a warehousing -- other  
17 people that have inventories for distribution purposes? Do  
18 they hold actual inventories of this product?

19 MR. MOSHER: Mark Mosher.

20 Very little inventory held in the system, most of  
21 our products -- well, all of our products are made-to-order  
22 and delivered -- a majority of it is just in time, delivery  
23 to the printer as organizations try to reduce working  
24 capital costs and so forth.

25 MS. LARSEN: Okay.

1 MR. OSTROWSKI: Mike Ostrowski.

2 We sell a large percentage of our business  
3 through brokers. It's just a decided way to do it, but all  
4 of shipments or all sales that go through brokers get  
5 shipped directly to the printers.

6 MS. LARSEN: Okay.

7 Mr. Ostrowski, do you agree with Mr. Mosher that  
8 geographic locations of the mills make it difficult to  
9 compete in certain locations?

10 MR. OSTROWSKI: I would say that the challenge is  
11 when customers need to give you enough lead time because,  
12 obviously, it takes time to schedule an order a machine and  
13 then you factor in transit time. So again, we're shipping  
14 north of 70 percent rail and there are stated delivery times  
15 by destination, so we factor that in; but we find for the  
16 most part that we are able to accommodate a customer request  
17 and still ship by rail.

18 MS. LARSEN: I'm still trying to formulate this  
19 question in my head, and it most likely is proprietary, but  
20 how are you able to compete, price-wise, if it's so price  
21 sensitive and transportation costs makes a significant  
22 portion of the price? How are you able to transport goods  
23 all the way across the United States?

24 MR. OSTROWSKI: Mike Ostrowski.

25 We'll answer it afterwards, but it all starts

1 with the paper maker operation. And when you have a large,  
2 wide machine that runs very quickly your costs per unit it  
3 starts out there, but as far as freight is concerned the  
4 rail rates are dictated by the companies. There's not a lot  
5 we can do. We can try to negotiate by destination, but the  
6 railroads are not real easy to do that with.

7 MS. LARSEN: All right, I have a follow-up  
8 question, Mr. Mosher, regarding what -- I'm not sure if I  
9 understood you correctly. Were you saying that retailers  
10 frequently mix between the different grades of SC paper?

11 MR. MOSHER: Mark Mosher.

12 Yes, retailers and publishers on both ends of the  
13 extreme frequently do, and we can provide in our  
14 post-conference brief many, many customers that have moved  
15 back and forth between high bright SCB, SCA, and on the  
16 upper end A plus lightweight coated and go back and forth,  
17 depending on the marketing conditions at the time. There is  
18 a significant amount of changeability at both ends of the  
19 spectrum.

20 MS. LARSEN: Okay, if that's the case then why  
21 would it be important that some U.S. producer did not  
22 produce SCB or a certain grade if they are so  
23 interchangeable does it really almost matter to the  
24 producer?

25 MR. MOSHER: Mark Mosher.

1                   Can you expand on that question?

2                   MS. LARSEN: Sure. If you're saying that they're  
3 highly interchangeable, I'm not following this attenuated  
4 competition argument very well. Why would it matter -- if  
5 the purchasers are looking at price and they can go back and  
6 forth between SCA or SCB, why would it matter -- if one firm  
7 is producing SCA at a price and you offer both, why would it  
8 necessarily matter to the producer as long as there's an SC  
9 paper in a price range that they find acceptable?

10                  MR. MOSHER: Mike Mosher.

11                  I'd like to start that. I mean, ultimately, the  
12 final consumer would like to have the highest grade of paper  
13 they can get for the lowest possible price. So, in any  
14 particular market, depending on market prices at the time,  
15 marketing budgets are generally set before the year. And if  
16 the price of paper changes, they will generally adjust what  
17 grades they do in between to maintain their current  
18 marketing budget.

19                  So, for that particular case, there is  
20 significant amount. I guess what we are saying is that in  
21 the petition where they've singled out solely SCB, SNC, and  
22 SCA that if that is only going to be determined as a like  
23 product then you need to separate those two. If not, you  
24 need to expand it to a much greater range.

25                  MR. CONNELLY: Warren Connelly.

1           I just want to add one little bit to this. The  
2           attenuated competition argument is an argument that there is  
3           very little U.S. production of SCB. And so, the argument  
4           is, is that there is attenuated competition between the  
5           Canadian producers, including Irving Paper, which has one  
6           machine and half of its capacity is SCB. So, there is  
7           attenuated competition between SCB, Canadian origin, and  
8           U.S. SCB if, indeed, there is any produced.

9           MR. TRENDL: This is Tom Trendl.

10           I'll note that Bruce's exhibits touch on that a  
11           little bit and graphically sort of described that. And if  
12           it's all right, I'd like to move that they be included as  
13           part of the record.

14           MS. LARSEN: That'll be helpful. Thank you.

15           All right, just a few more. Well, just to get  
16           the importer foreign producer side, what factors do  
17           purchasers consider, from your perspective, when purchasing  
18           SC paper? What qualities are important besides the price  
19           element, what other qualities are purchasers looking for?

20           MR. MOSHER: Mark Mosher.

21           Well, I think it was stated earlier the different  
22           quality aspects, but ultimately it depends on the final end  
23           use application. Again, purchasers would always like to  
24           have the highest quality product they could get. If price  
25           were no object, everybody would be on the highest grade of

1 paper that they could get and advertise because obviously  
2 there is a quality implication, but barring that, generally,  
3 it's application specific. And a lot of times, depending on  
4 what the final customer's advertising -- if it's high  
5 fashion, obviously, it's going to be a much higher grade.  
6 If it's, you know, drugstore or pharmaceutical grade paper  
7 it will certainly be much lower.

8 MS. LARSEN: I mean in addition to quality are  
9 there other services that a producer might offer -- shorter  
10 lead times that are geographic -- other things besides the  
11 quality and price?

12 MR. MOSHER: Mark Mosher.

13 Yes, absolutely. As we talked about flexibility  
14 of delivery and flexibility of supply based on as  
15 advertisers get closer to individual product runs if they  
16 want to add an increase in the number of pages of their  
17 advertisement, so customers frequently look for flexibility  
18 in supply.

19 They look for innovation for the suppliers to  
20 come in and work with them to help them reduce their  
21 manufacturing costs and the amount of ink and the  
22 distribution network.

23 So, yes, price is a significant determining  
24 factor, but there is a lot of other factors that customers  
25 request of the suppliers.

1 MS. LARSEN: Thank you.

2 MR. OSTROWSKI: Mike Ostrowski.

3 There are a whole host of other items that come  
4 into play. The first that comes to mind is excellent  
5 customer service. If we're easy to do business with,  
6 customers are going to call us right away. So, that is just  
7 an extremely important part of it.

8 The other is relationships. If people call us  
9 and they have an immediate need and they need us to turn on  
10 a dime, as I say, and there's the trust level that we will  
11 do things like that they call us and say, hey, Mike, I know  
12 you're making your regular SCA, but I need some Plus and I  
13 need it within a week to 10 days. So, it's responding to  
14 requests like that with the customers. It's having the  
15 trust level. It's excellent customer service.

16 And another important factor is that your paper  
17 is easy to deal with by the printers. Okay, the printers if  
18 they're not controlling the substrate that they're running  
19 through their presses you'd better make sure that your paper  
20 runs well and it prints well. And that is just extremely  
21 important in our business, and our customers know that the  
22 large printers, the medium printers, the small printers all  
23 run our paper very well and get excellent printer results.

24 MS. LARSEN: That makes a lot of sense. So, then  
25 how often are printers involved -- are they offering their

1 sources as sort of a bid negotiator to help firms that want  
2 to make circulation products pick out which producer will be  
3 giving the best paper?

4 MR. MOSHER: I think the end users have that  
5 conversation with their printers, and certain printers have  
6 a rating, if you will, for certain suppliers. It's common  
7 knowledge that Quad Graphics, one of the largest printers  
8 does that. And there's an A, B, C, maybe even D rating.  
9 And depending where your rating is, there are higher and  
10 higher up charges for waste ink consumption, things like  
11 that.

12 So, you need to be in that "A" rating, if you  
13 will, to really service your customers well and not have an  
14 issue on press. And the printers obviously build up their  
15 knowledge over time and they know what papers print well and  
16 don't print well, so the conversation does take place  
17 between the end user and the printer as to which stock will  
18 work best and which stock might cause the end user to have  
19 an up charge.

20 MS. LARSEN: Thank you.

21 And then final question for the post-conference  
22 brief, can you specifically mention who is the retailer that  
23 caused this demand shrink that was mentioned previously?

24 MR. OSTROWSKI: Yeah. It was actually a  
25 publisher, but we will note it.

1 MS. LARSEN: Great, thank you.

2 MR. McCLURE: The next questioner is David  
3 Boyland.

4 MR. BOYLAND: Good afternoon. Thank you for  
5 your testimony. One question I had is sort of a general  
6 question about a point Mr. Ostrowski made about storage  
7 capacity for pulp, and he sort of indicated that he, the  
8 production process at PHP, has more flexibility as a result  
9 of that, as I interpreted it.

10 The other companies indicated 100 percent  
11 capacity utilization, we don't have much flexibility. I  
12 sort of took that to mean perhaps the storage capacity is an  
13 issue. Is that oversimplifying it? I mean do the companies  
14 that have to run at a higher utilization rate have less  
15 capacity to storage pulp?

16 MR. MOSHER: Mark Mosher. I'll speak for  
17 Irving Paper. I think the question was really regarding  
18 capability of shutting down and starting back up again.  
19 Most mills are mills similar to Port Hawkesbury, would have  
20 a fairly significant amount of internal storage capacity.  
21 So that is is not -- does not really play into our capacity  
22 utilization at all.

23 MR. BOYLAND: Okay. Is that true for the  
24 other companies?

25 MR. FELDMAN: I think it's true for us as

1 well, and we make our own pulp. So we control that process.

2

3 MR. BOYLAND: So that's not a constraint, you  
4 know, just simply having to use what you've produced because  
5 of storage capacity?

6 MR. FELDMAN: No, no.

7 MR. BOYLAND: Okay. That's fair enough. I  
8 just wanted to make sure I didn't misunderstand that. One  
9 question I had regarding PHP after it re-emerged.  
10 Operationally, how had it changed, I mean in terms of  
11 production. Was it a completely new plant in terms of  
12 machinery, equipment, layout? I mean if you could just sort  
13 of describe what, how it had changed?

14 MR. LEWIS: Sure. Shawn Lewis, Pacific West.  
15 I think some items are better dealt with in the  
16 post-conference brief. But at a very high level, we had one  
17 year to restructure this, through a court-supervised  
18 restructuring process that New Page put the company into,  
19 not to have the mill liquidated, but to have the mill  
20 restructured and sold.

21 And the marketing documents that were  
22 presented to us by New Page's intermediary when they tried  
23 to interest us in buying the mill, identified certain  
24 opportunities, such as enhanced product offering,  
25 opportunities for certain types of cost savings, the type of

1 things that could be more achievable in the context of a  
2 court-supervised restructuring.

3 So we took that year to look at all aspects of  
4 the company's operation, and to figure out how we could  
5 operate more efficiently, more leanly, which is I think one  
6 of the hallmarks of our ownership.

7 Two changes worth noting, and these are both I  
8 think on the public record. One is this mill used to run a  
9 newsprint machine. The newsprint machine was closed in  
10 September 2011. It has never restarted. So now the mill  
11 just produces supercalendar paper. It used to produce  
12 pre-CC Double A supercalendar paper and newsprint.

13 I think one other big difference is the mill  
14 used to be operated solely as a cost center, just as a  
15 production center. Sales and marketing was centralized at  
16 corporate. Head office, centralized, and we've approached  
17 that differently.

18 We don't have the same large, centralized  
19 organization that the predecessor did, and we've had to have  
20 a sales and marketing team and a head office and  
21 restructured more as a stand-alone P&L, which we think has  
22 certain real benefits for the operations.

23 MR. BOYLAND: Thank you. I have no further  
24 questions.

25 MR. McCLURE: Okay. I want to thank everybody

1 for coming, especially those who traveled from far away.  
2 Mr. Mosher gets a gold star on this panel. Mr. Malashevich  
3 probably needs to spend a couple of minutes in the penalty  
4 box with Dr. Kaplan. That said, let's take, I don't know.  
5 Gil, are you ready to go with your closing, or would you  
6 like five, ten minutes? Okay. Let's take a ten minute  
7 break and Mr. Kaplan will do his closing remarks.

8 (Whereupon, a short recess was taken.)

9 MR. McCLURE: I feel compelled to do this.  
10 Jim McClure, Office of Investigations. Before we start with  
11 the closing remarks, I just -- I'm putting the King and  
12 Spalding handout, the handouts from Mr. Conley and the  
13 handouts from Mr. Malashevich on the record. Now we're  
14 ready to go. Ms. Byers?

15 CLOSING REMARKS OF BONNIE B. BYERS, ESQ.

16 MS. BYERS: Thank you very much, Mr. McClure.  
17 Bonnie Byers for the Petitioner. First, I want to thank the  
18 staff for all your hard work compiling the record for this  
19 investigation, covering supercalendered paper from Canada  
20 and Quebec, and for all your questions here today.

21 We believe that when the record is complete in  
22 this case, you will have strong support for an affirmative  
23 determination. Mr. Trendl said that at first blush, this  
24 looks like a strong and classic case. That's because it is.  
25 The evidence developed thus far in this investigation

1 demonstrates that U.S. producers of supercalendered paper  
2 are materially injured as a result of subject imports, based  
3 on the three-part test used by the Commission.

4 First as a threshold matter, there is no  
5 question but that the volume of subject imports in this case  
6 has increased absolutely and relative to both production and  
7 consumption over the period of investigation. The volume of  
8 imports and the increase in the volume of the subject  
9 imports is significant.

10 Second, the increased volume of subject  
11 imports has caused negative price effects in the U.S.  
12 market. As you've heard from U.S. producers, this is a  
13 product that sells almost entirely on the basis of price.  
14 In fact, there were a lot of Respondents that agreed with  
15 that too, and U.S. producers have to lower prices in order  
16 to maintain their sales volumes.

17 The record demonstrates both price depression  
18 and price suppression, and there's also evidence of a  
19 cost-price squeeze, further evidence of price suppression.

20 Petitioner witnesses have testified here today  
21 that the import surge from Canada created severe downward  
22 pressure on prices, and that they had to drop their own  
23 prices in order to maintain volume. The pricing data  
24 gathered thus far by the Commission has changed almost daily  
25 since responses were filed, but I think you're aware of that

1 and are looking into that situation.

2 Nonetheless, as basic economics and common  
3 sense would tell you, the introduction of 400,000 tons of SC  
4 volume into the very mature U.S. market would invariably  
5 result in falling prices, and that's exactly what happened.  
6 It's important to remember that without the subsidies to  
7 Port Hawkesbury, that mill would have closed and that volume  
8 would have been gone from the market permanently.

9 The subsidies provided to Port Hawkesbury are  
10 really a double whammy for U.S. producers. First, the  
11 government provided subsidies, attracting a new buyer to  
12 reopen the mill. But then to make matters worse, ongoing  
13 input subsidies reduced Port Hawkesbury's marginal cost,  
14 allowing them to drop prices without the pain faced by  
15 unsubsidized competitors.

16 These subsidies to Port Hawkesbury are  
17 particularly insidious, because they are made to a company  
18 that can only make one product, has to run its mill flat  
19 out, which only has one market, the United States, and which  
20 as they themselves admit, they're very anxious to fill their  
21 order books.

22 Third, subject imports have had an adverse  
23 effect on the domestic industry's financial results for SC  
24 paper, including on sales revenue, profits, operating  
25 margin, return on investment and cash flow. Finally,

1 increased imports and consequent price suppression has  
2 resulted in both permanent and temporary capacity closures.  
3 We'll have more to say about that in our post-hearing brief.

4 Deteriorating profits have hampered domestic  
5 producers' ability to invest in plant and equipment. This  
6 is unsustainable and is a predicate to further shrinkage on  
7 the industry. The record also shows significant head to  
8 head competition between subject imports and U.S. producers.

9  
10 The record shows that there are end users,  
11 that end users can and do switch between suppliers on a  
12 regular basis, and users also can and do switch between  
13 different grades of SC paper, based on the relative pricing  
14 differentials between those grades, which means that  
15 competition in one grade of paper has a ripple effect on all  
16 the other grades.

17 Respondents have argued that there is  
18 attenuated competition in certain grades of paper. They say  
19 that they produce paper which is of a better quality than  
20 the grade made by U.S. producers, and that this grade  
21 competes primarily with coated ground wood paper, which is  
22 not the subject of this investigation and not within the  
23 scope.

24 But if that is really the case, why have  
25 supercalendered paper prices fallen? Why does the domestic

1 industry face a cost price squeeze? The answer is plain.  
2 Subject imports and the domestic-like product do compete,  
3 and the reasons are just as plain. First, I would point out  
4 that only two of the Canadian producers even make this  
5 higher grade product.

6 Second, petitioning companies would tell you  
7 that their sales of SC-A+ and SC-A papers have been impacted  
8 by the competition from the so-called SC-A++. Third, these  
9 arguments ignore the fact that the companies that produce  
10 SC-A++ also make the full array of other grades of SC paper,  
11 whose sales volumes are significant.

12 In essence, you can't just inject 400,000 tons  
13 of product into a market suffering from a long-term secular  
14 decline without causing havoc, and that is just what  
15 subsidized imports have caused. I would also note that  
16 Madison and Verso both produce SCB paper. I guess there was  
17 some question about that in the minds of some of the  
18 Respondents, and we will provide you some additional details  
19 about that in our post-hearing brief.

20 Moreover, I think it's absolutely critical to  
21 point out that SCA, SC, SCA+ and SCB all compete with each  
22 other. There's no question about that.

23 Finally, you don't have to rely on the  
24 testimony of U.S. producers. Resolute, which has the  
25 largest capacity of any of the Canadian producers, has

1 squarely put the blame for their Laurentide closure on Port  
2 Hawkesbury. I would suggest that if you scratch the  
3 surface further with some of the other Canadian producers,  
4 they would tell you they feel the same way. Thank you very  
5 much.

6 MR. McCLURE: Thank you. Now to present  
7 closing remarks for the Respondents are Mr. Trendl and  
8 Mister -- you alone.

9 CLOSING REMARKS OF THOMAS TRENDL, ESQ.

10 MR. TRENDL: This is Tom Trendl. Me alone.

11 MR. McCLURE: You alone.

12 MR. TRENDL: I will start out this rebuttal by  
13 saying I completely agree with Bonnie, with respect to  
14 thanking the staff for their hard work, because this is a  
15 lot. Prelims are always hard. There's a lot going on here.  
16 There's a lot of cases going on. So we do appreciate it,  
17 and it's not easy to figure out a new industry. So I do  
18 appreciate that.

19 And given the long day, I'm going to do my  
20 best to use as little time of this ten minutes as possible.  
21 I want to start out by hitting three points that I just want  
22 to correct, because we've just heard them in Ms. Byers'  
23 rebuttal.

24 Our flooding the market or whatever she said  
25 of 400,000 tons is significantly exaggerated both -- and I

1 think the record will demonstrate that. Secondly, during  
2 testimony by the Petitioners, it was claimed that their  
3 decision after the fire, which we had nothing to do with for  
4 the record, and destroyed a mill, that somehow, you know,  
5 that was PHP's fault that that didn't come back.

6 Well the reality is, and we will deal with  
7 this in post-hearing brief, it's impossible. We didn't buy  
8 it by the time they made their decision not to reopen. We  
9 had walked away from, in fact, that whole transaction, after  
10 they made their decision not to reopen, and we'll go through  
11 that in detail.

12 And last but not least, there's been numbers  
13 thrown around about the subsidies allegedly received by PHP.  
14 They're wholly misstated and exaggerated. Now to the  
15 rebuttal in chief here.

16 Let's think about what an injury case should  
17 prove, and the fact that there are only two petitioning  
18 companies, although one other small apparently U.S.  
19 producer, limits what I can say publicly. But based on what  
20 we heard today, I'll go through some of the factors that I  
21 would typically think should be here if there's going to be  
22 an injury finding.

23 I submit that when contrasted against the  
24 evidence in this investigation, it remains as empty as Al  
25 Capone's secret room. Obviously, this case is not about

1 dumping. There's no dumping. Typically an injury  
2 determination might find that there's been a decrease in  
3 U.S. production volume, a decrease in capacity utilization,  
4 a decrease in U.S. shipment volume, a decrease in U.S.  
5 shipment value, a reduction in the number of workers, a  
6 decrease in the levels of capital expenditures and R&D  
7 funding.

8 I think when you look at this, the record does  
9 not support those things. In fact, there's an absence of  
10 volume effects and signs of robust production and  
11 continuing investment in that production. Well, what else  
12 would we see if we -- if allegedly subsidized imports caused  
13 material injury?

14 Would we see pricing comparisons demonstrating  
15 overwhelming underselling by Canadian Respondents? It's not  
16 there. Would we see Petitioners' financial awash in red  
17 ink? It's not there. When these data are properly  
18 examined, and we will deal with this, the answer remains no.

19  
20 So and what of the claims of lost sales and  
21 lost revenue? As you heard today, PHP and certainly other  
22 Respondents have lost sales and lost revenue to Petitioners  
23 as well. This is the nature of the business, and this is  
24 somewhat that has been felt by PHP as well. Moreover, we  
25 encourage you to contrast Petitioners' claims of lost sales

1 and lost revenue to their volume and value data, because we  
2 believe that the claims don't match reality.

3 Finally, instead of confronting the major  
4 factors of the SC paper market, such as widespread price  
5 declines for all paper products, which you heard a lot about  
6 today, competition from non-subject merchandise such as  
7 coated ground wood, and an exchange rate that declined over  
8 the period and continues to decline, Petitioners would have  
9 you blame respondent companies, and mostly specifically PHP,  
10 which has been only in the market for two years of this POI.

11 Respectfully, the record in this preliminary  
12 investigation does not support an affirmative determination.  
13 I thank you very much for your time on this long morning.

14 MR. McCLURE: Thank you, Mr. Trendl. On  
15 behalf of the Commission and staff, I would like to thank  
16 the witnesses who came here today, as well as counsel for  
17 helping us gain a better understanding of the product and  
18 conditions of competition in the supercalendered paper  
19 industry.

20 Before concluding, let me mention a few dates  
21 to keep in mind. The deadline for submission of corrections  
22 to the transcript and for submission of post-conference  
23 briefs is Tuesday, March 24. If briefs contain business  
24 proprietary information, a public version is due on  
25 Wednesday, March 25.

1                   The Commission has tentatively scheduled its  
2                   vote on these investigations for Friday, April 10, and it  
3                   will report its determination to the Secretary of the  
4                   Department of Commerce on Monday, April 13. Commissioners'  
5                   opinions will be issued on Monday, April 20.

6                   Thanks to everybody for coming. Go get in  
7                   front of a TV and watch some basketball. This conference is  
8                   adjourned.

9                   (Whereupon, at 2:58 p.m., the hearing was  
10                  adjourned.)

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## CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Supercalendered Paper from Canada

INVESTIGATION NO.: 701-TA-530 (Preliminary)

HEARING DATE: 03-19-2015

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 03-19-2015

SIGNED: Mark A. Jagan

Signature of the Contractor or the  
Authorized Contractor's Representative

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I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings 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 proceedings.

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I hereby certify that I reported the above-referenced proceedings 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 proceedings.

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