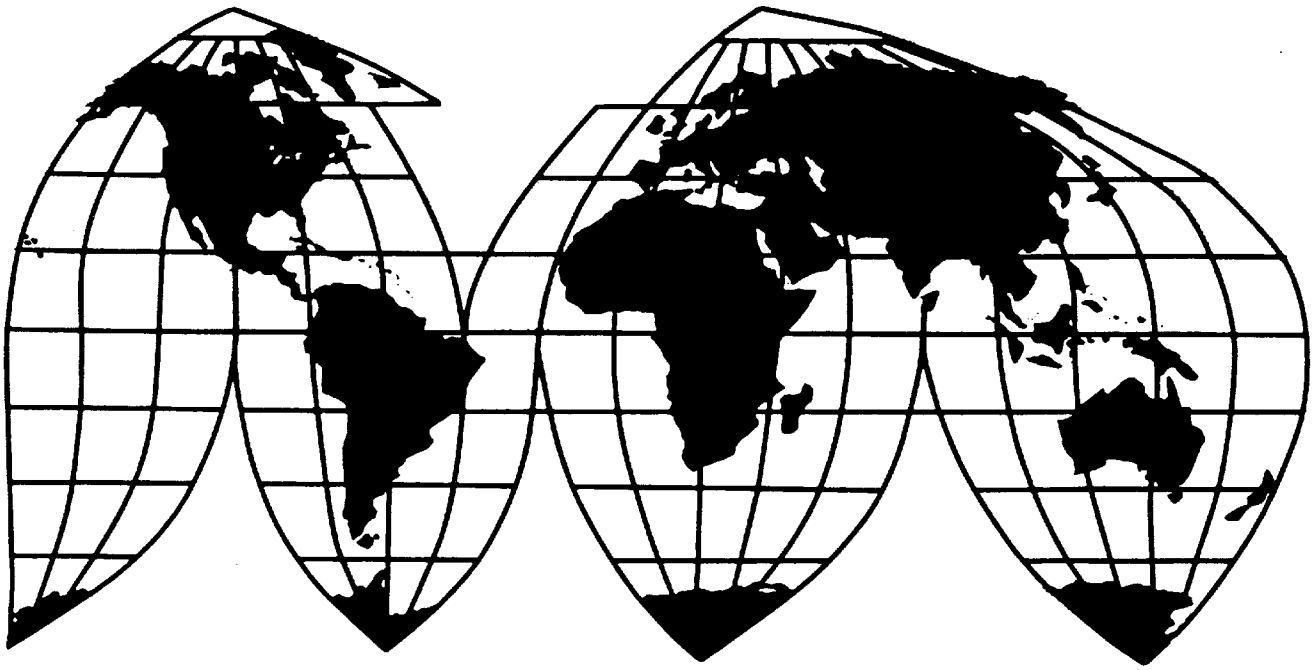
Coated Free Sheet Paper From China, Indonesia, and Korea

Investigation Nos. 701-TA-444-446 (Preliminary)
and 731-TA-1107-1109 (Preliminary)

Publication 3900 **December 2006**

U.S. International Trade Commission



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Appendices

Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation Nos. 701-TA-444-446 (Preliminary) and 731-TA-1107-1109 (Preliminary)

COATED FREE SHEET PAPER FROM CHINA, INDONESIA, AND KOREA

DETERMINATIONS

On the basis of the record[1] developed in the subject investigations, the United States International Trade Commission (Commission) determines, pursuant to sections 703(a) and 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a) and 1673b(a)) (the Act), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China, Indonesia, or Korea of coated free sheet paper,[2] provided for in subheadings 4810.13.19, 4810.13.20, 4810.13.50, 4810.13.70, 4810.14.19, 4810.14.20, 4810.14.50, 4810.14.70, 4810.19.19, and 4810.19.20 of the Harmonized Tariff Schedule of the United States, that are alleged to be subsidized or sold in the United States at less than fair value (LTFV).

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigations. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission's rules, upon notice from the Department of Commerce (Commerce) of affirmative preliminary determinations in the investigations under sections 703(b) and 733(b) of the Act, or, if the preliminary determinations are negative, upon notice of affirmative final determinations in those investigations under sections 705(a) and 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigations need not enter a separate appearance for the final phase of the investigations. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigations.

BACKGROUND

On October 31, 2006, a petition was filed with the Commission and Commerce by New Page Corp., Dayton, OH, alleging that an industry in the United States is materially injured or threatened with material injury by reason of subsidized and LTFV imports of coated free sheet paper from China, Indonesia, and Korea. Accordingly, effective October 31, 2006, the Commission instituted countervailing duty investigations Nos. 701-TA-444-446 (Preliminary) and antidumping duty investigations Nos. 731-TA-1107-1109 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of November 6, 2006 (71 FR 64983). The conference was held in Washington, DC, on November 21, 2006, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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[1] The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).

[2] Chairman Daniel R. Pearson dissenting. Commissioner Jennifer A. Hillman did not participate in these investigations.

VIEWS OF THE COMMISSION

Based on the record in the preliminary phase of these investigations, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of coated free sheet paper ("CFSP") imported from China, Indonesia, and Korea that is allegedly subsidized and sold in the United States at less than fair value ("LTFV").[1]

I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.[2] In applying this standard, the Commission weighs the evidence before it and determines whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation."[3]

II. BACKGROUND

CFSP is a type of graphic paper (i.e., paper or paperboard intended for writing, printing, or other graphic purposes). CFSP contains no more than 10 percent by weight mechanical pulp; that is, it is made from a minimum of 90 percent chemical pulp.[4] (Chemical pulp is produced by cooking wood chips in a chemical solution, while mechanical pulp is obtained through mechanical means, by grinding wood).[5] The coating on CFSP usually consists of kaolin, although a variety of other substances may also be used.[6] CFSP typically is used to print materials with high-gloss pages, for example, annual reports, high-end catalogues and magazines, high-impact direct mail, posters, signage, playing cards, and packaging.[7] CFSP is sold in two principal forms: web rolls and sheets (the latter encompasses sheeter rolls).[8]

The petition in these investigations was filed on October 31, 2006, by New Page Corporation of Dayton, Ohio ("Petitioner" or "New Page"), a domestic producer of CFSP.[9] The following respondents participated in the staff conference and filed briefs in the preliminary phase of these investigations: (1) a

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[1] Chairman Pearson dissents from these determinations but joins in Sections I through VI.A. of these views. Commissioner Hillman did not participate in these determinations.

[2] 19 U.S.C. §§ 1671b(a), 1673b(a) (2000); see also Am. Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); Aristech Chem. Corp. v. United States, 20 CIT 353, 354-55 (1996). No party argued that the establishment of an industry is materially retarded by reason of the allegedly unfairly traded imports.

[3] Am. Lamb Co., 785 F.2d at 1001; see also Tex. Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

[4] Transcript of Staff Conference ("Transcript") at 19-21 (Tyrone, New Page).

[5] Confidential Report ("CR") at I-10 and I-14 n.37, Public Report ("PR") at I-8 and I-10 n.37.

[6] CR at I-11, PR at I-8-9.

[7] CR at I-17 and II-1, PR at I-12 and II-1.

[8] CR at II-1, PR at II-12.

[9] In addition to New Page, the domestic industry consists of nine other producers of CFSP that operate plants in ten states. CR/PR at Table III-1

group of producers and exporters of subject merchandise from Korea ("Korean Respondents");[10] (2) two producers and exporters of subject merchandise from Indonesia ("Indonesian Respondents");[11] and (3) a group of producers and exporters of subject merchandise from China, and an importer, Unisource Worldwide, Inc. ("Chinese Respondents").[12] In addition, the trade association Printing Industries of America, Inc. ("PIA") and an importer, Ekman & Co., Inc. ("Ekman") filed postconference submissions, but did not participate in the staff conference.

III. DOMESTIC LIKE PRODUCT

A. In General

To determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the "domestic like product" and the "industry."[13] Section 771(4)(A) of the Tariff Act of 1930, as amended ("the Act"), defines the relevant domestic industry as the "producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[14] In turn, the Act defines "domestic like product" as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation."[15]

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis.[16] No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.[17] The Commission looks for clear dividing lines among possible like products, and disregards minor variations.[18] Although the Commission must accept the determination of the U.S. Department of

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[10] Korean Respondents are the Korea Paper Manufacturers' Association and its members EN Paper; Hankuk Paper Mfg. Co., Ltd.; Hansol Paper Co., Ltd.; Hongwon Paper Mfg. Co., Ltd.; Kyesung Paper Co., Ltd.; Moorim Paper Co., Ltd.; and Namhan Paper Co., Ltd.

[11] Indonesian Respondents are PT. Pindo Deli Pulp and Paper Mills, and PT. Pabrik Kertas Tjimi Kimia Tbk.

[12] Chinese Respondents are Gold East Paper (Jiangsu) Co., Ltd.; Gold Huasheng Paper (Suzhou Industry Park) Co., Ltd.; Shandong Chenming Paper Holdings Ltd.; and Shandong Sun Paper Industry Joint Stock Co.

[13] 19 U.S.C. § 1677(4)(A).

[14] Id.

[15] 19 U.S.C. § 1677(10).

[16] See, e.g., NEC Corp. v. Dep't of Commerce, 36 F. Supp.2d 380, 383 (Ct. Int'l Trade 1998); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Torrington Co. v. United States, 747 F. Supp. 744, 749 n.3 (Ct. Int'l Trade 1990), aff'd, 938 F.2d 1278 (Fed. Cir. 1991) ("every like product determination 'must be made on the particular record at issue' and the 'unique facts of each case'"). The Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) consumer and producer perceptions of the products; (5) common manufacturing facilities, production processes and production employees; and where appropriate, (6) price. See Nippon Steel Corp., 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int'l Trade 1996).

[17] See, e.g., S. Rep. No. 249, 96th Cong., 1st Sess., at 90-91 (1979).

[18] Nippon Steel Corp., 19 CIT at 455; Torrington Co., 747 F. Supp. at 748-49; see also S. Rep. No. 249 at 90-91 (Congress has indicated that the domestic like product standard should not be interpreted in "such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent

(continued...)

Commerce ("Commerce") as to the scope of the imported merchandise allegedly subsidized or sold at less than fair value, the Commission determines what domestic product is like the imported articles Commerce has identified.[19] The Commission must base its domestic like product determination on the record in these investigations. The Commission is not bound by prior determinations, even those pertaining to the same imported products, but may draw upon previous determinations in addressing pertinent like product issues.[20]

B. Product Description

In its notice of initiation, Commerce defined the imported merchandise within the scope of these investigations as:

> *coated free sheet paper and paperboard of a kind used for writing, printing or other graphic purposes. Coated free sheet paper is produced from not-more-than 10 percent by weight mechanical or combined chemical/mechanical fibers. Coated free sheet paper is coated with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating. Coated free sheet paper may be surface-colored, surface-decorated, printed (except as described below), embossed, or perforated. The subject merchandise includes single- and double-side-coated free sheet paper; coated free sheet paper in both sheet or roll form; and is inclusive of all weights, brightness levels, and finishes. The terms "wood free" or "art" paper may also be used to describe the imported product.*
>
> *Excluded from the scope are: (1) coated free sheet paper that is imported printed with final content printed text or graphics; (2) base paper to be sensitized for use in photography; and (3) paper containing by weight 25 percent or more cotton fiber.*

Commerce stated that subject merchandise is imported under subheadings 4810.13.1900, 4810.13.2010, 4810.13.2090, 4810.13.5000, 4810.13.7040, 4810.14.1900, 4810.14.2010, 4810.14.2090, 4810.14.5000, 4810.14.7040, 4810.19.1900, 4810.19.2010, and 4810.19.2090 of the Harmonized Tariff Schedule of the United States ("HTSUS").[21] [22]

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[18] (...continued)
consideration of an industry adversely affected by the imports under consideration.")

[19] Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find a single domestic like product corresponding to several different classes or kinds defined by Commerce); Torrington Co., 747 F. Supp. at 748-52 (affirming Commission's determination of six domestic like products in investigations where Commerce found five classes or kinds).

[20] Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp. 2d 1298, 1304-05 (Ct. Int'l Trade 2000); Nippon Steel Corp. v. United States, 19 CIT at 455; Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n.5 (Ct. Int'l Trade 1988) (particularly addressing like product determination); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int'l Trade 1988).

[21] 71 Fed. Reg. 68537, 68538 (Nov. 27, 2006) (initiation of antidumping duty investigations); 71 Fed. Reg. 68546 (Nov. 27, 2006) (initiation of countervailing duty investigations).

[22] Subject product was also apparently imported from China under the HTSUS subheadings 4811.59.2000 and 4811.90.8000.

C. Domestic Like Product

Petitioner advocates defining the domestic like product as coextensive with the scope of these investigations,[23] and no respondent has argued that it should be defined differently. We define the domestic like product as coextensive with the scope of these investigations, for the following reasons.

Physical Characteristics and Uses. There are five basic forms of graphic paper. These are (in descending order of quality): (i) CFSP, (ii) uncoated freesheet paper, (iii) coated groundwood paper, (iv) uncoated groundwood paper, and (v) newsprint.[24] The key physical characteristics of CFSP, as compared to other forms of graphic paper, are, first, the limitation on the amount of mechanical pulp used to make the paper, and, second, the coating of the paper. The mechanical pulp content in CFSP is limited because significant mechanical pulp content causes paper to discolor with age.[25] The coating on CFSP gives it a better printing surface – in terms of brightness, smoothness, and gloss – than uncoated paper.[26] The coating on CFSP generally consists of kaolin clay, but may also include other substances.[27] CFSP is used principally in the printing of corporate annual reports, high-end catalogues, and magazines and in other "prestige" applications.[28]

CFSP is sold in two basic forms: in web rolls that are used in web-fed presses, and in sheets or sheeter rolls (referred to collectively as "sheet") that are used in sheet-fed presses. Web-fed presses tend to be used for larger commercial printing runs, while sheet-fed presses tend to be used for smaller, higher-quality printing jobs.[29] There appear to be some differences in physical characteristics between CFSP in web rolls and sheets, in that web rolls have a higher moisture content and different coating formulations to withstand the heat-set web printing process.[30] CFSP in sheet form commands a price premium over the web-roll form of the product.[31]

Interchangeability. Because of their unique printing characteristics, the various types of graphic paper, including CFSP, are reportedly rarely substituted for each other.[32] CFSP is rarely used in traditional coated groundwood paper applications where weight (and therefore postage cost) is important, because it is heavier than groundwood paper; and CFSP is preferred in some applications because groundwood paper yellows relatively quickly.[33]

Channels of Distribution. CFSP and other types of graphic paper are all sold in two channels of distribution, to distributors and to end users. However, the relative importance of each channel may differ

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[23] Petitioner's Postconference Brief at 6.

[24] CR at I-8, PR at I-6-7.

[25] CR at I-14, PR at I-10.

[26] CR at I-16, PR at I-11.

[27] CR at I-11, PR at I-8-9.

[28] CR at I-17, PR at I-12.

[29] CR at II-10, PR at II-6.

[30] CR at I-13, PR at I-9.

[31] E.g., Transcript at 103 (Anderson, Paperlinx North America) (price difference between domestic web rolls and domestic sheets can be as high as 20 percent).

[32] CR at I-17, PR at I-12.

[33] CR at I-14, PR at I-10.

according to the type of graphic paper. For example, coated groundwood paper is more likely than CFSP to be sold directly to end users.[34]

Common Manufacturing Facilities, Production Processes, and Production Employees. Although the same paper machine can be used to make either CFSP or coated groundwood paper, few producers reported the capacity to produce both products.[35] Machines used to make CFSP are occasionally used to make uncoated freesheet paper.[36] The production processes for CFSP and coated groundwood paper are similar, but different types of pulp are used.

Customer and Producer Perceptions. Customers and producers generally view CFSP as distinct from other graphic paper products. For example, customers regard CFSP as more suited than coated groundwood paper to prestige applications, such as annual reports and high-end catalogues.[37]

Price. CFSP is generally more expensive than other types of graphic papers. The price of CFSP is reported to be approximately 10 percent higher than that of coated groundwood paper, and 20-40 percent higher than the price of uncoated free sheet paper.[38]

Conclusion. No party in these preliminary phase investigations has advocated defining the domestic like product other than as a single like product coextensive with the scope. There appear to be clear dividing lines – primarily in terms of physical characteristics and uses, interchangeability, customer and producer perceptions, and price – that distinguish CFSP as a domestic like product separate from other forms of graphic papers. Accordingly, we find that there is a single domestic like product coextensive with the scope of these investigations.

IV. DOMESTIC INDUSTRY

The domestic industry is defined as the "producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[39] In defining the domestic industry, the Commission's general practice has been to include in the industry all domestic production of the domestic like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.[40] Based on our finding that the domestic like product is CFSP, for purposes of these preliminary determinations, we find that the domestic industry consists of all known domestic producers of this product.

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to 19 U.S.C. § 1677(4)(B), which allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers. Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.

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[34] CR at I-20, PR at I-13.

[35] CR at I-15-16, PR at I-11.

[36] CR at I-16, PR at I-11.

[37] CR at I-17-19, PR at I-12-13.

[38] CR at I-21, PR at I-14.

[39] 19 U.S.C. § 1677(4)(A).

[40] United States Steel Group v. United States, 873 F. Supp. 673, 681-84 (Ct. Int'l Trade 1994), aff'd, 96 F.3d 1352 (Fed. Cir. 1996).

Three U.S. producers, ***, reported that they imported the subject merchandise during the period of investigation ("POI").[41] Thus, they qualify as "related parties" under 19 U.S.C. § 1677(4)(B).

*** accounted for a relatively small share – *** percent – of domestic CFSP production in 2005.[42] It imported subject merchandise from Korea throughout the POI.[43] The ratio of these imports to *** production ranged from *** percent in 2005 to *** percent in 2003.[44] The reason that it gave for importing this subject merchandise was that ***.[45] *** the petition.[46] We do not exclude *** from the domestic industry as a related party because it is a relatively small producer, the ratio of its imports to its production is relatively small, and there is no evidence that it derived a significant overall financial benefit from these imports.[47]

*** accounted for a very small share – *** percent – of domestic CFSP production in 2005.[48] It imported subject merchandise from Korea throughout the POI.[49] The ratio of these imports to *** production ranged from *** percent in 2004 to *** percent during the January-September 2006 ("interim 2006") period.[50] The jump in this ratio in interim 2006 occurred because of a sharp drop in the company's domestic production in interim 2006, and not because of an increase in imports.[51] (***.)[52] The reason that it gave for importing this subject merchandise was that ***."[53] *** the petition.[54] We do not exclude *** from the domestic industry as a related party as it is *** that does not appear to have been shielded from any injury that might be caused by subject imports by virtue of its importing activity, at least until ***, when ***. For most of the POI, *** imports were ***, and thus it is not likely that it derived a significant overall financial benefit from these imports.[55]

*** accounted for a very small share – *** percent – of domestic CFSP production in 2005.[56] It reported that it began to import CFSP from Korea in 2006, but it could not provide data on the value of these imports.[57] The reason that it gave for importing this subject merchandise was that ***.[58] *** the petition.[59] Its financial results in interim 2006 were ***.[60] We do not exclude *** from the domestic industry because it accounts for a very small portion of U.S. production and we have no information as to

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[41] CR/PR at Table III-2.

[42] CR/PR at Table III-1.

[43] CR/PR at Table III-2.

[44] Id.

[45] CR/PR at Note to Table III-2.

[46] CR/PR at Table III-1.

[47] *** financial performance was ***. See CR at Table VI-2.

[48] CR/PR at Table III-1.

[49] CR/PR at Table III-2.

[50] Id.

[51] Id.

[52] CR at VI-1 n. 3, PR at VI-1 n.3.

[53] CR/PR at Note to Table III-2.

[54] CR/PR at Table III-1.

[55] In light of the ***, we intend to revisit the question of whether appropriate circumstances exist to exclude this producer from the domestic industry as a related party in any final phase of these investigations.

[56] CR/PR at Table III-1.

[57] CR/PR at Note to Table III-2.

[58] CR/PR at Note to Table III-2.

[59] CR/PR at Table III-1.

[60] CR/PR at Table VI-2.

the magnitude of its imports of subject merchandise in interim 2006. However, we intend to seek this information in any final phase of these investigations and to revisit this issue.

There are no other related party issues in these preliminary phase investigations. No party in these preliminary phase investigations has argued for the exclusion of any related party from the domestic industry. We find that it is not appropriate to exclude the three related parties from the domestic industry,[61] and we find that the domestic industry consists of all known domestic producers of CFSP.

V. NEGLIGIBLE IMPORTS

A. In General

Pursuant to Section 771(24) of the Act, imports from a subject country of merchandise corresponding to a domestic like product that account for less than 3 percent of all such merchandise imported into the United States during the most recent 12 months for which data are available preceding the filing of the petition shall be deemed negligible.[62] Imports that are individually negligible may not be negligible if the aggregate volumes of imports from several countries with negligible imports exceeds 7 percent of all such merchandise imported into the United States in the statutory period for assessing negligibility referenced above.[63] In countervailing duty investigations involving developing countries, the statute further provides that the negligibility thresholds are 4 percent and 9 percent, rather than 3 percent and 7 percent.[64] The statute defines "developing country" as any country so designated by the U.S. Trade Representative ("USTR").[65] Of the three subject countries with allegedly subsidized imports, Indonesia has been designated by the USTR as a developing country.[66]

By operation of law, a finding of negligibility terminates the Commission's investigation with respect to such imports.[67] The Commission is authorized to make "reasonable estimates on the basis of available statistics" of pertinent import levels for purposes of deciding negligibility.[68]

B. Negligibility for Purposes of the Three Antidumping Duty Investigations and the Countervailing Duty Investigations Concerning Subject Imports From China and Korea

Allegedly LTFV subject imports from China, Indonesia, and Korea are not negligible under 19 U.S.C. § 1677(24)(A)(i) because imports from each country accounted for more than 3 percent of the volume of CFSP imported into the United States in the most recent 12-month period for which data are available preceding the filing of the petition. In the period from October 1, 2005, through September 30,

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[61] In any final phase of these investigations we intend to consider whether the domestic producer Stora Enso North America Corp. is a related party on account of its ownership by a third party that also controls a CFSP producer in China, and, if so, whether appropriate circumstances exist to exclude Stora Enso from the domestic industry.

[62] 19 U.S.C. §§ 1671b(a), 1673b(a), 1677(24)(A)(I)(I).

[63] 19 U.S.C. § 1677(24)(A)(i)-(ii).

[64] 19 U.S.C. § 1677(24)(B).

[65] 19 U.S.C. § 1677(36)(A).

[66] 15 C.F.R. § 2013.1 (2005).

[67] 19 U.S.C. §§ 1671b(a)(1), 1673b(a)(1).

[68] 19 U.S.C. § 1677(24)(C); see also The Uruguay Round Agreements Act, Statement of Administrative Action, H.R. Doc. No. 103-316, Vol. 1 at 186 (1994) ("SAA").

2006, subject imports as a percentage of total imports of CFSP by quantity were *** percent for China, *** percent for Korea, and at least 3.2 percent (but probably more, as discussed below) for Indonesia.[69]

In the case of the countervailing duty investigations, it is clear that imports from China and Korea are not negligible, because, as noted above, they exceed the applicable 3 percent threshold. We next consider whether imports from Indonesia exceeded the 4 percent threshold that is applicable to the countervailing duty investigation for subject imports from Indonesia.

C. Negligibility for Purposes of the Material Injury Analysis in the Countervailing Duty Investigation Concerning Subject Imports From Indonesia

Because Indonesia is a developing country as defined by the USTR, the applicable negligibility threshold for the countervailing duty investigation is 4 percent. Official import statistics show imports from Indonesia in the applicable period as being 3.2 percent of the volume of total imports.[70] However, there are a number of indications in the record that the official import statistics undercount subject imports from Indonesia. Most significantly, data on exports of the subject product from Indonesia to the United States, reported to the Commission by Indonesian producers, show that these subject export amounts were significantly higher than the amounts reflected in official import statistics for 2005, interim 2005, and (to a lesser extent) interim 2006.[71] Accordingly, for purposes of these preliminary determinations, we have determined that the most accurate way to measure Indonesian subject imports in the applicable period is to use monthly export data provided to the Commission by counsel to the Indonesian Respondents. These monthly export data show that subject merchandise from Indonesia accounted for 4.1 percent of total U.S. imports of the product in the 12 months preceding the filing of the petition.[72] Accordingly, for purposes of these preliminary determinations we determine that subject imports from Indonesia were not negligible for purposes of the material injury analysis in the countervailing duty investigation concerning subject imports from Indonesia. We intend to further examine this issue in any final investigation.[73]

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[69] CR/PR at Table IV-4.

[70] CR/PR at Table IV-4.

[71] CR at IV-7, PR at IV-3. There are two other indications in the record that the official import statistics undercount subject imports from Indonesia. First, it appears that some imports of subject merchandise from Indonesia could have been misclassified and entered under tariff subheadings that are not among the ones listed in Commerce's initiation notices. CR at IV-5, PR at IV-2. If this is the case, the official import statistics might undercount the relative percentage of imports from Indonesia. Second, we note that data from importer questionnaires show import levels that are substantially higher than official import statistics in all parts of the POI except interim 2006. CR at IV-7, PR at IV-3. We understand that the aggregate data from importer questionnaires may include some double-counting. See CR/PR at Table IV-1 n.2. Nonetheless, in light of the discrepancy between the Indonesian export data and the official import statistics, it appears to be unlikely that the discrepancy in the aggregate importer questionnaire data can be solely attributed to double-counting. CR at IV-5, PR at IV-2.

[72] CR/PR at Table IV-4. We note that export data would show that subject merchandise from Indonesia accounted for the same percentage of total imports, 4.1 percent, if the data were lagged by one month to account for shipping time (i.e., for the period September 2005 through August 2006). CR/PR at Table IV-4 n.1.

[73] The Indonesian Respondents argue that Section 771(24)(A)(iv) does not apply to developing countries in CVD investigations. That provision states that the Commission shall not treat imports as negligible if it determines that there is a potential that imports will imminently account for more than 3 percent of the volume of all such merchandise imported into the United States. The Indonesian Respondents base their argument on a textual analysis of the negligibility provisions of the statute and on the legislative history of these provisions. We disagree with the position of Indonesian Respondents. The focus of Indonesian Respondents' argument is that Section 771(B) of the Act sets out a separate and distinct test of negligibility for developing countries in countervailing duty investigations,

(continued...)

VI. CUMULATION

A. In General

For purposes of evaluating the volume and price effects for a determination of material injury by reason of the subject imports, section 771(7)(G)(i) of the Act requires the Commission to cumulate subject imports from all countries as to which petitions were filed and/or investigations self-initiated by Commerce on the same day, if such imports compete with each other and with domestic like products in the U.S. market.[74] In assessing whether subject imports compete with each other and with the domestic like product, the Commission has generally considered four factors, including:

(1) the degree of fungibility between the subject imports from different countries and between imports and the domestic like product, including consideration of specific customer requirements and other quality related questions;
(2) the presence of sales or offers to sell in the same geographic markets of subject imports from different countries and the domestic like product;
(3) the existence of common or similar channels of distribution for subject imports from different countries and the domestic like product; and
(4) whether the subject imports are simultaneously present in the market.[75]

While no single factor is necessarily determinative, and the list of factors is not exclusive, these factors are intended to provide the Commission with a framework for determining whether the subject imports compete with each other and with the domestic like product.[76] Only a "reasonable overlap" of competition is required.[77]

B. Analysis

Petitioner argues that, under the facts in this record, the Commission is required to cumulate imports from the three subject countries. No respondent has argued, that for purposes of our present injury analysis, imports from the three subject countries should not be cumulated.

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[73] (...continued)
such that Section 771(24)(A)(iv) does not apply to such negligibility determinations at all. There is no evidence in the statute or legislative history to support such an interpretation. On the contrary, Section 771(B) speaks of *applying* subparagraph (A) to imports of subject merchandise from developing countries. If subparagraph (A) is *applied*, then this would include clause (iv) of that subparagraph. As Petitioner notes, Section 771(24)(A)(iv) incorporates the 4 percent threshold that is made applicable to Section 771(24)(A)(i) by Section 771(24)(B). The legislative history also supports the conclusion that Congress did not intend to exempt developing countries from the "potential to imminently exceed" analysis in threat investigations. See SAA at 856.

[74] 19 U.S.C. § 1677(7)(G)(i).

[75] See Certain Cast-Iron Pipe Fittings from Brazil, the Republic of Korea, and Taiwan, Inv. Nos. 731-TA-278-280 (Final), USITC Pub. 1845 (May 1986), aff'd, Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898 (Ct. Int'l Trade), aff'd, 859 F.2d 915 (Fed. Cir. 1988).

[76] See, e.g., Wieland Werke, AG v. United States, 718 F. Supp. 50 (Ct. Int'l Trade 1989).

[77] The SAA (at 848) expressly states that "the new section will not affect current Commission practice under which the statutory requirement is satisfied if there is a reasonable overlap of competition." SAA at 848 (citing Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898, 902 (Ct. Int'l Trade 1988)), aff'd 859 F.2d 915 (Fed. Cir. 1988). See Goss Graphic Sys., Inc. v. United States, 33 F. Supp. 2d 1082,1087 (Ct. Int'l Trade 1998) ("cumulation does not require two products to be highly fungible"); Wieland Werke, AG, 718 F. Supp. at 52 ("Completely overlapping markets are not required.").

The threshold requirement for cumulation is satisfied because Petitioner filed a petition with respect to each of the three subject countries on the same day. None of the statutory exceptions to cumulation is applicable.[78] We next examine the four factors that the Commission customarily considers in determining whether there is a reasonable overlap of competition.

1. Fungibility

Domestically produced CFSP and the subject imports in the same form (i.e., web rolls or sheets) from all three countries are substitutable. Subject imports are generally used for the same purpose as the domestic product, that is, for high-end printing applications. The majority of responding U.S. producers reported that the subject imports and the domestic product are always comparable, and the majority of responding importers reported that the subject imports and the domestic product are always comparable.[79]

U.S. producers concentrate on the production of CFSP in web-roll form. Subject imports, on the other hand, consist almost entirely of CFSP in sheet form.[80] The two types of CFSP are used in different kinds of printing presses, and the record generally shows that they are not interchangeable for a particular kind of press.[81] Despite the different focus of the subject imports and the domestic producers, we find that the degree of overlap of competition (the approximately 25 percent of domestic production on a volume basis, and somewhat more on a value basis, devoted to sheet[82]) is sufficient to support finding a reasonable overlap of competition.

2. Same Geographical Markets

U.S. producers of CFSP are mostly located to the east of the Rocky Mountains, although one producer is in Oregon.[83] While the respondents suggested that domestic producers are sometimes reluctant to ship west of the Rocky Mountains,[84] eight of the nine responding U.S. producers reported that they sell nationally.[85] Most of the responding importers (six of nine importers from China, four of seven importers from Indonesia, and six of 12 importers from Korea) reported that they sold nationally.[86] Although imports from each of the subject countries tended to be concentrated in the western region of the United States, throughout the POI there were significant imports from each of these countries in each of the other three regions of the United States.[87] The foregoing data show that subject imports and the domestic like product are sold in the same geographic markets.

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[78] See 19 U.S.C. § 1677(7)(G) (ii).

[79] CR at II-9, PR at II-6.

[80] CR/PR at Table I-3.

[81] Transcript at 67-68 (Tyrone, New Page).

[82] See CR/PR at Table I-3.

[83] CR/PR at Table III-1.

[84] CR at II-2, PR at II-1.

[85] Id.

[86] Id.

[87] CR/PR at Table IV-3.

3. Simultaneous Presence

Imports from each of the subject countries have been present in the U.S. market in each year of the POI and during the interim 2006 period.[88]

4. Channels of Distribution

The domestic like product and subject imports are sold through common channels of distribution, that is, through distributors (known as "merchants") and to end users. Both the domestic like product and subject imports are sold predominantly through merchants. Approximately *** percent of sales of the domestic like product, and an estimated *** percent of subject imports, are made through this channel.[89]

5. Conclusion

Based on our consideration of the four criteria discussed above, we find that there is a reasonable overlap of competition among the subject imports and the domestic like product, and we cumulate subject imports from China, Indonesia, and Korea for purposes of our present material injury analysis.

VI. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF ALLEGEDLY SUBSIDIZED AND LESS THAN FAIR VALUE IMPORTS FROM CHINA, INDONESIA, AND KOREA

In the preliminary phase of antidumping or countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured by reason of the imports under investigation.[90] In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.[91] The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."[92] In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.[93] No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[94]

For the reasons stated below, we determine that there is a reasonable indication that the domestic industry producing CFSP is materially injured by reason of subject imports from China, Indonesia, and Korea.

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[88] CR/PR at Table IV-2.

[89] CR at II-1, PR at II-1.

[90] 19 U.S.C. §§ 1671b(a) and 1673b(a).

[91] 19 U.S.C. § 1677(7)(B)(i). The Commission "may consider such other economic factors as are relevant to the determination" but shall "identify each [such] factor . . . [a]nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B); see also, e.g., Angus Chem. Co. v. United States, 140 F.3d 1478 (Fed. Cir. 1998).

[92] 19 U.S.C. § 1677(7)(A).

[93] 19 U.S.C. § 1677(7)(C)(iii).

[94] 19 U.S.C. § 1677(7)(C)(iii).

A. Conditions of Competition and the Business Cycle

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

1. Demand Conditions

Apparent U.S. consumption of CFSP increased over the POI, rising by *** percent from 2003 to 2005.[95] Demand for CFSP is cyclical and follows general economic conditions.[96] Demand for the product also is somewhat seasonal, with increased demand in the third and possibly in the fourth calendar quarters, as CFSP users anticipate printing books and catalogues for the end-of-year holidays.[97] Short-term contracts or spot sales are the predominant basis on which the subject imports and the domestic like product are sold.[98]

2. Supply Conditions

In 2005, 10 U.S. firms accounted for virtually all U.S. production of CFSP.[99] Of these, two producers, New Page and Sappi Fine Paper NA accounted for *** percent of domestic production.[100] Domestic producers were the principal suppliers of CFSP in the U.S. market throughout the POI, with a market share on a quantity basis that ranged from *** percent to *** percent in the 2003-2005 period.[101] The next largest share of the U.S. market was supplied by producers in nonsubject countries, and the remaining share of the U.S. market was supplied by subject imports.[102] The domestic industry's capacity to produce CFSP rose slightly in the 2003-2005 period, and also was higher in the interim 2006 period than in the interim 2005 period.[103]

The domestic industry saw a number of changes to its organization and production operations during the POI, including the shutdown of several paper machines (the equivalent of closing one production line in a multiline plant) and the closure of one plant.[104]

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[95] Apparent U.S. consumption rose from *** short tons in 2003 to *** short tons in 2004, and then declined slightly to *** short tons in 2005. Apparent U.S. consumption was higher in interim 2006 (*** short tons) than in interim 2005 (*** short tons). CR/PR at Table IV-5.

[96] CR at II-7, PR at II-5.

[97] CR at V-6, PR at V-5. We recognize that, because demand for CFSP is somewhat seasonal, full-year data may merit greater weight than partial-year data. In any final phase of these investigations, we intend to consider the extent to which seasonality affects the reliability of partial-year import and consumption data.

[98] CR at V-3, PR at V-3.

[99] CR at III-1, PR at III-1.

[100] Id.

[101] CR/PR at Table IV-5.

[102] Id.

[103] The domestic industry's capacity was 4.741 million short tons in 2003, 4.855 million short tons in 2004, and 4.834 million short tons in 2005. It was 3.627 million short tons in interim 2005, and 3.897 million short tons in interim 2006. CR/PR at Table III-3.

[104] CR at III-4, PR at III-3.

3. Other Considerations

Domestically produced CFSP and the subject imports tended to be sold on a different basis; while most domestically produced product is sold from the mill or a nearby warehouse on a just-in-time basis, most of the subject imports were produced to order.[105]

As noted above, CFSP is sold in two principal forms: web rolls and sheets (including sheeter rolls).[106] Virtually all subject imports during the POI consisted of CFSP in sheet form,[107] while most domestically produced CFSP is in web-roll form.[108]

Chinese Respondents, Korean Respondents, and Ekman argue that because almost all subject imports are in sheet form (including sheeter rolls), the domestic industry does not face competition from subject imports in the substantial segment of the CFSP market that is devoted to CFSP in web-roll form. They argue that there are substantial differences in physical characteristics and end uses between the two forms of CFSP, and that the two products are not interchangeable because the printing presses for each type of CFSP cannot use the other type. Chinese Respondents and Korean Respondents also argue that the producers in the subject countries are not competitive with U.S. producers in the web-roll segment of the market, that they are unlikely to become so, and that it is uneconomical to transport web rolls to the United States.[109]

Chinese Respondents identify several other factors that, they claim, serve to attenuate competition between subject imports and the domestic like product. These are: shorter lead times for domestic producers; the greater stiffness of the domestic product, which makes it more efficient to use; the ability of domestic producers to offer a full range of CFSP products; and the ability of domestic producers to provide better technical support to customers.[110] Respondents also allege that product branding serves to attenuate competition somewhat between subject imports and the domestic product.[111]

Petitioner contests Respondents' argument that competition between subject imports and the domestic like product is attenuated. First, it argues that even if subject imports are concentrated solely in the sheet part of the market, subject imports (with a 14 percent market share in interim 2006) control almost 50 percent of this portion of the market. Petitioner also notes that, because sheet is a higher-priced product than web rolls, sales of sheet account for a larger part of the overall CFSP market on a value basis (*** percent) than on a volume basis (***). Petitioner takes issue with Respondents' assertion that there is market segmentation between sheet and web-roll product. Petitioner maintains that there are no significant differences in the physical characteristics and applications of the two products. It notes that while some U.S. printers have only sheet-fed or web-fed presses, other printers have both types of presses in their operations. Petitioner contends that Respondents produce web-roll CFSP and that they could participate in the web-roll part of the U.S. market if they wished to do so. Petitioner speculates that the reason that Respondents do not ship significant amounts of web rolls is that respondents have first targeted the higher end of the CFSP market (the market for sheet product). Finally, Petitioner points to

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[105] Compare CR at III-16, PR at III-10 with Transcript at 117 (Hunley, Global Paper Solutions) and 200-201 (Morgan).

[106] CR/PR at II-1.

[107] CR at I-22, PR at I-15.

[108] CFSP in web-roll form is estimated to account for 70-75 percent of domestic CFSP consumption on a volume basis, and somewhat less on a value basis. CR/PR at Table I-3.

[109] Chinese Respondents' Postconference Brief at 3-12; Korean Respondents' Postconference Brief at 8-11; Ekman Postconference Brief at 6-8.

[110] Chinese Respondents' Postconference Brief at 10-12.

[111] CR at II-12-13, PR at II-7.

testimony from one of its witnesses at the staff conference that the price effects of subject imports of sheet are also felt in the web-roll sector of the market.[112]

We intend to more fully examine the question of attentuated competition between the subject imports and the domestic like product in any final phase of these investigations.

B. Volume of Subject Imports

Section 771(7)(C)(i) of the Act provides that the "Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant."[113]

The absolute volume of cumulated subject imports rose throughout the POI. The largest single-year increase was between 2003 and 2004, when the volume of subject imports rose from *** short tons to *** short tons. Volume rose again to *** tons in 2005. In interim 2006, the volume of cumulated subject imports reached *** short tons, which was higher than the volume in either interim or full-year 2005.[114]

During the POI, cumulated subject imports also rose relative to production and consumption in the United States. Subject imports' share of U.S. apparent consumption rose from *** percent in 2003 to *** percent in 2005, and was *** percent in interim 2006, compared with *** percent in interim

[112] Petitioner's Postconference Brief at 37-41 and Responses to Questions at the Commission's Staff Conference at 21-37.

[113] 19 U.S.C. § 1677(7)(C)(i).

[114] CR/PR at Table IV-2.

2005.[115] [116] During the 2003-2005 period, subject imports' gain in market share came largely at the expense of non-subject imports, the market share of which declined from *** percent in 2003 to *** percent in 2005.[117] In interim 2006, however, subject imports' continued gain in market share was directly at the expense of the domestic industry, the market share of which was *** percent in interim 2006 compared with *** percent in interim 2005, while non-subject imports' market share declined only slightly.[118] In addition, the ratio of subject imports to domestic CFSP production rose over the POI.[119]

For the foregoing reasons, we find, for purposes of the preliminary phase of these investigations, that the volume of subject imports is significant, both in absolute terms and relative to consumption and production in the United States.

C. Price Effects of the Subject Imports

> Section 771(C)(ii) of the Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether – (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses

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[115] CR/PR at Table IV-5. In any final phase investigations, we will seek information on the role of nonsubject imports of CFSP in the U.S. market. We invite parties to comment in any final phase investigations on whether the recent decision by the U.S. Court of Appeals for the Federal Circuit, Bratsk Aluminum Smelter v. United States, 444 F.3d 1369 (Fed. Cir. 2006), is applicable to the facts of these investigations. The Commission also invites parties to comment on what additional information the Commission should collect to address the issues raised by the Court and how that information should be collected, and to identify which of the various non-subject sources should be the focus of additional information gathering by the Commission in any final phase investigations.

[116] Commissioner Okun does not join the preceding footnote. The U.S. Court of Appeals for the Federal Circuit did not address the application of its mandate in Bratsk Aluminum Smelter v. United States, 444 F.3d 1369 (Fed. Cir. 2006), to preliminary investigations. In that case the Court indicated that, in cases involving commodity products in which imports from non-subject countries are price-competitive and are a significant factor in the U.S. market, in order to establish a causal link between subject imports and material injury the Commission must evaluate whether the non-subject imports would replace subject imports and thereby eliminate the benefit to the domestic industry of an antidumping or countervailing duty order.

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury by reason of the allegedly unfairly traded imports. 19 U.S.C. §§ 1671b(a), 1673b(a) (2000). Thus, she concludes that she must conduct a Bratsk analysis as she would any other type of causation analysis in a preliminary investigation. Based on the information available in these preliminary investigations, Commissioner Okun finds that non-subject imports would not replace subject imports from China, Indonesia and Korea and eliminate the benefit to the domestic industry of an antidumping duty or countervailing duty order on imports from the subject producers. See Separate and Additional Views of Commissioner Deanna Tanner Okun Concerning Bratsk Aluminum v. United States. Commissioner Okun intends to explore this further in any final phase investigations, and invites parties to comment on what additional information the Commission should collect to address the issues raised by the Court and how that information should be collected, and to identify which of the various nonsubject sources should be the focus of additional information gathering by the Commission.

[117] CR/PR at Table IV-5.

[118] CR/PR at Table IV-5. We recognize that, because demand for CFSP is somewhat seasonal, full-year data may merit greater weight than partial-year data. In any final phase of these investigations, we intend to consider the extent to which seasonality affects the reliability of partial-year import and consumption data.

[119] The ratio of subject imports to domestic production increased from *** percent in 2003, to *** percent in 2004, and remained at *** percent in 2005. It was *** percent of domestic production in interim 2005, and *** percent in interim 2006. CR/PR at Table IV-6.

prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.[120]

As explained in the discussions of cumulation, domestically produced CFSP and the subject imports in the same form (i.e., web rolls or sheets) are substitutable.[121] We find that there were significant underselling and significant price depressing effects by the subject imports, for purposes of these preliminary determinations.

In these investigations, the Commission sought quarterly pricing data for three types of CFSP: (i) two-side coated sheets, text weight,70-100 pounds basis weight, brightness levels 87 and above (Product 1); (ii) two-side coated rolls, text weight,70-100 pounds basis weight, brightness levels 87 and above (Product 2); and (iii) one-side coated sheets, text weight,70-100 pounds basis weight, brightness levels 83 and above (Product 3).[122] The Commission sought separate quarterly pricing data for these products for sales to merchants and for sales to end users.

The Commission received usable pricing data from eight U.S. producers and 20 importers. This reported pricing data accounted for *** percent of U.S. producers' U.S. shipments of CFSP, *** percent of U.S. shipments of subject imports from China, *** percent of U.S. shipments of subject imports from Indonesia, and *** percent of U.S. shipments of subject imports from Korea from January 2002 to June 2005.[123]

The prices for U.S.-produced Product 1 declined over the POI. For sales to merchants, these prices fell by *** percent from the first quarter of 2003 to the ***, and for sales to end users, they fell by *** percent over the entire period.[124] For sales of Product 1 in both channels of distribution, the subject imports undersold the domestic product in 54 out of 57 price comparisons at margins ranging from 2.1 percent to 37.2 percent.[125]

The prices for U.S.-produced Product 2 increased over the POI. For sales to merchants, these prices rose by *** percent from the first quarter of 2003 to the third quarter of 2006, and for sales to end users, they rose by *** percent over the same period.[126] For sales of Product 2 in both channels of distribution, the subject imports undersold the domestic product in seven out of 45 price comparisons at margins ranging from 1.0 percent to 4.9 percent.[127]

The prices for U.S.-produced Product 3 increased for sales to merchants, but fell for sales to end users, over the POI. For sales to merchants, these prices rose by *** percent from the first quarter of 2003 to the third quarter of 2006, with most of this increase occurring in one quarter, from the first quarter of 2003 to the second quarter of that year; for sales to end users, they fell by *** percent from the second quarter of 2003 to the third quarter of 2006.[128] For sales of Product 3 to merchants (there were no

[120] 19 U.S.C. § 1677(7)(C)(ii).

[121] CR/PR at Table II-1.

[122] The Commission notes that it is possible that these product descriptions were overly broad and that individual descriptions captured CFSP products of varying quality. The Commission will revisit the pricing product descriptions in any final phase investigations, and will request that the parties provide input in their written comments on the draft questionnaires pursuant to 19 C.F.R. §207.20(b).

[123] CR at V-5-6, PR at V-4-5.

[124] CR at V-6-7, PR at V-5.

[125] CR/PR at Table V-9.

[126] CR/PR at V-7.

[127] CR/PR at Table V-9.

[128] CR at V-8, PR at V-6.

sales of imports of this product to end users), the subject imports undersold the domestic product in 29 out of 30 price comparisons at margins ranging from 1.9 percent to 29.3 percent.[129]

On the basis of these data, we find significant price underselling by the subject imports and find that these imports have depressed prices to a significant degree. In reaching this conclusion, we are relying principally on the data for Product 1, because the bulk of the pricing data for subject imports were for this product.[130] We recognize that the data for Product 2 show mostly overselling by subject imports, and rising domestic prices. However, we deem the pricing data for Product 2 to be less reliable because it appears that it may involve a comparison of imported sheeter rolls with sales of domestically produced web rolls.[131] As noted above, CFSP in sheeter-roll form generally commands a premium over CFSP in web-roll form. We also give less weight to the price comparison data for Product 3, which, as explained above, shows widespread underselling by subject imports but also rising prices for the domestically produced product because of the relatively small quantities of subject imports involved.[132]

In sum, we find for purposes of the preliminary phase of these investigations that the subject imports have had significant adverse price effects on the price of the domestic like product.

D. Impact of the Subject Imports[133]

Section 771(7)(C)(iii) provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry."[134] These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[135]

We have examined performance indicators in trade and financial data for the domestic industry. The trade data are somewhat mixed, but are generally positive over the POI. The industry's financial data, however, show a marked decline in the 2003-2004 period, and continued weakness into 2005.[136]

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[129] CR/PR at Table V-9.

[130] Compare CR/PR at Tables V-1 and V-2 with Tables V-3 through V-5.

[131] ***. CR/PR at Table V-3 notes 2 and 3. We do not have specific information on whether sales of domestically produced Product 2 consisted of sheeter rolls or web rolls, but given the concentration of domestic production in web rolls, it is reasonable to assume that at least a significant portion of the data for domestically produced Product 2 consisted of web rolls.

[132] Compare CR/PR at Tables V-1 and V2 with Table V-5.

[133] In its notice of initiation of the antidumping duty investigations, Commerce estimated the following dumping margins for imports from the three subject countries: 99.65 percent for China; from 99.14 percent for Indonesia; and 71.81 percent for Korea. 71 Fed. Reg. 68537, 68541 (Nov. 27, 2006).

[134] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.") SAA at 885.

[135] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 at 25 n.148 (Feb. 1999).

[136] We recognize that, because demand for CFSP is somewhat seasonal, full-year financial data may merit greater weight than partial-year data. In any final phase of these investigations, we intend to consider the extent to which seasonality affects the reliability of partial-year financial data.

U.S. producers' production and shipments of CFSP increased in each year of the POI, and were higher in interim 2006 as compared with interim 2005.[137] [138] Overall industry capacity rose from 2003 to 2004, and then declined slightly in 2005 but remained higher than in 2003. Capacity was higher in interim 2006 than in interim 2005.[139] Capacity utilization fell slightly from 2003 to 2004, and then rose in 2005. Capacity utilization was lower in interim 2006 than in interim 2005.[140] The average number of production-related workers and hours worked fell from 2003 to 2004, rose in 2005, and was lower in interim 2006 than in interim 2005.[141] Wages paid declined from 2003 to 2005, and were lower in interim 2006 than in interim 2005.[142] Productivity increased throughout the POI.[143]

Operating income fell sharply from 2003 to 2004, and then recovered somewhat in 2005, and also was higher in interim 2006 as compared with interim 2005.[144] The domestic industry's ratio of operating income to sales followed a similar pattern.[145] Cost of goods sold ("COGS") as a ratio to sales increased from 2003 to 2004, and declined in 2005, and also was lower in interim 2006 than in interim 2005.[146]

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[137] Production increased from 4.272 million short tons in 2003 to 4.360 million short tons in 2004 and to 4.598 million short tons in 2005. Production was higher in interim 2006 (3.503 million short tons) than in interim 2005 (3.416 million short tons). CR/PR at Table C-1.

[138] U.S. shipments increased from 3.925 million short tons in 2003 to 4.171 million short tons in 2004, and to 4.265 million short tons in 2005. U.S. shipments were higher (3.319 million short tons) in interim 2006 than in interim 2005 (3.159 million short tons). CR/PR at Table C-1.

[139] Domestic production capacity increased from 4.742 million short tons in 2003 to 4.855 million short tons in 2004, and declined to 4.834 million short tons in 2005. Capacity was higher (3.897 million short tons) in interim 2006 than in interim 2005 (3.416 million short tons). CR/PR at Table C-1.

[140] Capacity utilization fell from 90.1 percent in 2003 to 89.8 percent in 2004, and then rose to 95.1 percent in 2005. Capacity utilization was lower in interim 2006 (89.9 percent) than in interim 2005 (94.2 percent). CR/PR at Table C-1.

[141] The average number of production workers decreased from 7,390 in 2003 to 7,112 in 2004, and rose to 7,464 in 2005. The average number of workers was lower in interim 2006 (7,095) than in interim 2005 (7,382). Hours worked decreased from 16.3 million in 2003 to 15.9 million in 2004, and increased to 16.7 million in 2005. Hours worked were lower in interim 2006 (12.3 million) than in interim 2005 (12.7 million). CR/PR at Table C-1.

[142] Wages paid were $428.4 million in 2003, $425.5 million in 2004, $423.7 million in 2005. Wages paid during the interim periods were $323.3 million in interim 2005 and $315.8 million in interim 2006. CR/PR at Table C-1.

[143] Productivity increased from 261.4 tons/1,000 hours in 2003 to 272.2 tons/1,000 hours in 2004, and to 273.7 tons/1,000 hours in 2004. Productivity was higher in interim 2006 (268.8 tons/1,000 hours worked) than in interim 2005 (284.3 tons/1,000 hours worked). CR/PR at Table C-1.

End-of-period inventories declined from 676,439 short tons in 2003, to 600,337 short tons in 2004, and rose to 656,751 short tons in 2005. End-of-period inventories were 661,641 short tons in interim 2005 and 621,468 short tons in interim 2006. CR/PR at Table C-1.

[144] Operating income decreased from $19.3 million in 2003 to a loss of $127.2 million in 2004, then rose to $2.8 million in 2005. Operating income was higher in interim 2006 (124.0 million) than in interim 2005 (a loss of $920,000). CR/PR at Table C-1.

[145] Operating margins declined from 0.5 percent in 2003 to a negative 3.5 percent in 2004, and then rose to 0.1 percent in 2005. In interim 2006, operating margins were 3.9 percent, as compared with 0.0 percent in interim 2005. CR/PR at Table C-1.

[146] COGS was 91.7 percent of sales in 2003, 96.6 percent of sales in 2004, and 93.6 percent of sales in 2005. The ratio of COGS to sales was lower in interim 2006 (89.6 percent) than in interim 2005 (93.6 percent). CR/PR at Table C-1.

Capital expenditures rose from 2003 to 2004, and then fell in 2005, but were higher in interim 2006 than in interim 2005. Research and development expenditures increased from 2003 to 2005, and were higher in interim 2006 than in interim 2005.[147]

The sharp decline in the domestic industry's financial performance from 2003 to 2004, and the declining employment indicators in that period, coincide with the largest annual increase in the volume and market share of subject imports over the POI. At the same time, there was significant underselling by subject imports, often by large margins, and a decline in domestic prices. Although the domestic industry's financial performance recovered somewhat in 2005, it continued to be poor in that year, as subject imports further increased their presence in the U.S. market. Accordingly, for purposes of these preliminary determinations, we conclude that subject imports had an adverse impact on the condition of the domestic industry during the POI.

CONCLUSION

For the reasons stated above, we determine that there is a reasonable indication that an industry in the United States is materially injured by reason of subject imports of CFSP from China, Indonesia, and Korea that are allegedly subsidized and sold in the United States at less than fair value.

[147] Capital expenditures were $209.3 million in 2003, $263.7 million in 2004, $172.8 million in 2005, $118.9 million in interim 2005, and $129.3 million in interim 2006. Research and development expenditures were $14.1 million in 2003, $14.2 million in 2005, and $18.7 million in 2005, and were $14.0 million in interim 2005, and $14.3 million in interim 2006. CR/PR at Table VI-5.

DISSENTING VIEWS OF CHAIRMAN DANIEL R. PEARSON

Based on the record in these preliminary investigations, I find that there is no reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of coated free sheet paper ("CFSP") from China, Indonesia, and Korea that are allegedly subsidized and sold in the United States at less than fair value ("LTFV").

I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determinations, whether there is a reasonable indication that a domestic industry is materially injured by or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.[1] In applying this standard, the Commission weighs the evidence before it and determines whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation."[2]

II. NO REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF THE SUBJECT IMPORTS[3]

In the preliminary phase of antidumping or countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured by reason of the imports under investigation.[4] In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.[5] The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."[6] In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.[7] No single factor is dispositive, and all relevant factors are

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[1] 19 U.S.C. § 1673b(a); see also American Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed Cir. 1986); Ranchers-Cattlemen Action Legal Foundation v. United States, 74 F.Supp.2d 1353, 1368-69 (CIT 1999); Aristech Chemical Corp. v. United States, 20 CIT 353, 354-55 (1996).

[2] American Lamb, 785 F.2d at 1001; see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

[3] I adopt as my own the discussion of domestic like product, domestic industry, related parties, negligibility, cumulation, and conditions of competition as laid out in sections I–VI.A of the Views of the majority. 19 U.S.C. § 1677(24)(A)(I)(I).

[4] 19 U.S.C. §§ 1671b(a) and 1673b(a).

[5] 19 U.S.C. § 1677(7)(B)(i). The Commission "may consider such other economic factors as are relevant to the determination" but shall "identify each [such] factor . . . [a]nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B). See also Angus Chemical Co. v. United States, 140 F.3d 1478 (Fed. Cir. 1998).

[6] 19 U.S.C. § 1677(7)(A).

[7] 19 U.S.C. § 1677(7)(C)(iii).

considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[8]

For the reasons discussed below, I find that there is not a reasonable indication that the domestic industry producing CFSP is materially injured by reason of subject imports from China, Indonesia, and Korea.

A. Volume of Subject Imports

Section 771(7)(C)(i) of the Act provides that the "Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant."[9]

The volume of cumulated subject imports increased by *** percent between 2003 and 2005, well above the growth rate in apparent U.S. consumption, which increased by *** percent between 2003 and 2005. The volume of subject imports increased from *** short tons in 2003 to *** short tons in 2005. Subject import volume in interim 2006 was *** percent higher than in interim 2005, while overall apparent U.S. consumption rose by only *** percent.[10]

In relative terms, however, the increases in the volume of subject imports were more modest. In 2003, subject imports accounted for *** percent of apparent U.S. consumption. In 2005, subject imports accounted for *** percent of apparent U.S. consumption, an increase of less than *** percentage points. Furthermore, that modest increase came at the expense of other imports. Nonsubject imports accounted for *** percent of apparent U.S. consumption in 2005, down from *** percent in 2003. The market share of the domestic like product was, in 2005, essentially unchanged from 2003, *** percent to *** percent. In interim 2006, subject imports were *** percent, up from *** percent in interim 2005. But shipments of the domestic product in interim 2006 still accounted for *** percent of the market, while nonsubject imports accounted for *** percent.[11]

The volume data alone present a mixed picture, with absolute increases but rather modest shifts in market share. In addition, the record indicates a notable attenuation of competition between subject imports and the domestic like product. As noted, web rolls account for a significant majority of apparent U.S. consumption. Similarly, domestic production is heavily concentrated on the web roll sector.[12] Subject imports, however, are heavily concentrated in sheets and, to a lesser extent, sheeter rolls. Of the nearly *** short tons of subject CFSP imported between 2003 and 2005, less than *** short tons were web rolls.[13] The record does not provide an indication why web rolls did not account for a more significant share of subject imports, as web rolls are produced in each of the subject countries.[14] Respondents claim that shipping difficulties make web rolls an unprofitable and difficult item to ship, but the record indicates that respondents did ship modest volumes of sheeter rolls, which suggests that the shipping of rolls can be done profitably.[15] Whatever the reason, subject imports were essentially absent

[8] 19 U.S.C. § 1677(7)(C)(iii).

[9] 19 U.S.C. § 1677(7)(C)(i).

[10] CR/PR at Table C-1.

[11] CR/PR at Table C-1.

[12] CR at I-24 and Table I-3, PR at I-15 and Table I-3.

[13] CR/PR at Tables I-3 and IV-2.

[14] CR/PR at Tables VII-5, VII-8, and VII-11.

[15] CR/PR at Table I-3.

from the product segment that accounts for approximately 70 percent of apparent U.S. consumption, and this absence was consistent over the POI.[16]

Web rolls are designed for use in rotary web presses and are intended for high-volume printing through high-speed presses at high temperatures. Sheet CFSP, on the other hand, is intended to be used in sheet-fed presses, for shorter runs, with higher-grade finishes. The record provides no indication that these products are interchangeable in the market.

Thus, the record indicates that subject imports increased modestly relative to overall apparent domestic consumption. The market share of subject imports increased between 2003 and 2005, but that increase came at the expense of nonsubject imports rather than the domestic industry, and only in interim 2006 did the market share of the domestic industry decline modestly. The record indicates that subject imports were absent from a significant segment of the domestic market. For these reasons, I find that the volume of subject imports is not significant.

C. Price Effects of the Subject Imports

> Section 771(C)(ii) of the Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether – (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.[17]

Product-specific pricing data were gathered on three CFSP products, and pricing data were segmented by sales to paper merchants and sales to end users. This product-specific data covered a significant portion of both domestic shipments and shipments of subject imports.[18]

For product 1 sales to paper merchants, subject imports consistently undersold the domestic like product and typically by double-digit margins. The volume of domestic sales rose over the POI and was significantly higher in each of the three quarters of 2006 than in the corresponding quarters of 2003. But the prices received by the domestic industry were lower in 2006 than in 2003.[19] Commission staff were also able to verify some *** made by petitioner.[20]

But sales of product 1 to paper merchants was the only product/channel combination suggesting that subject imports influenced prices for the domestic like product. Sales of subject imported product 1 to end users were modest in volume, and despite fairly consistent underselling by subject imports, prices received for the domestic like product rose in both 2005 and 2006.[21] The volume of reported sales of subject imported product 3 to paper merchants rose over the POI. But sales of the domestic like product

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[16] Both petitioner and counsel for Korean respondents concurred that about 70 percent of the U.S. market is web roll CFSP. Tr. at 89 (Mr. Tyrone) and 13 (Mr. Cameron). According to Korean respondents, subject imports of CFSP have been in the U.S. market for approximately 20 years without ever gaining a foothold in the web roll market. Tr. at 107 (Mr. Cho).

[17] 19 U.S.C. § 1677(7)(C)(ii).

[18] CR at V-5-V-6, PR at V-4.

[19] CR/PR at Table V-1.

[20] CR at V-25 and Table V-11, PR at V-11 and Table V-11.

[21] CR/PR at Table V-2.

also increased significantly, and prices received for the domestic like product rose over the POI, despite the presence of underselling subject imports.[22]

Pricing data gathered for CFSP roll products suggest that subject imports did not influence the price received for domestic web roll products. Sales of domestically produced product 2 to paper merchants rose significantly throughout the POI.[23] Sales in the third quarter of 2006 were at the highest level recorded in the POI, up *** percent from the third quarter of 2003. Prices received for the domestically produced web product also peaked in the third quarter of 2006, nearly *** percent higher than prices received in the third quarter of 2003.[24] Trends for sales volume and prices for product 2 sales to end users followed similar trends, rising through the POI and peaking in the third quarter of 2006.[25]

The record suggests that subject imports of some sheet products consistently undersold the domestic like product over the POI and may have contributed to suppressing or depressing the prices received for those products. However, these effects were not noticeable in all sales of sheet products; domestic sales and prices received for product 3 sales to paper merchants rose over the POI, despite underselling by subject imports; no sales of subject imported product 3 to end users were noted, yet prices received for the domestic product stagnated.[26] These data suggest that the pricing effects of subject imported sheet products were limited to specific channel/product combinations. Furthermore, subject imports themselves were limited to a minority segment of the market. The pricing data gathered in this investigation do not suggest that subject imports of sheet products had any influence on the prices received for domestic web products. Rather, the web roll pricing data suggest that volume and pricing increased at very similar levels over the POI. In light of these findings and the attenuation of competition, I do not find underselling to be significant, and I do not find that subject imports significantly suppressed or depressed prices received for the domestic like product.

D. Impact of the Subject Imports[27]

Section 771(7)(C)(iii) provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry."[28] These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all

[22] CR/PR at Table V-5.

[23] Subject import pricing data for product 2 ***. CR/PR at Table V-3. For that reason I have not relied on the apparent overselling by subject imports, as ***. However, I find the trends for sales and pricing of the domestic product reported in tables V-3 and V-4 to be reasonable indicators for domestic web rolls.

[24] CR/PR at Table V-3.

[25] CR/PR at Table V-4.

[26] CR/PR at Tables V-5 and V-6.

[27] In its notice of initiation, Commerce estimated the following dumping margins: China, 99.95 percent; Indonesia, 99.14 percent; and Korea, 71.81 percent. 71 Fed. Reg. 68537 (November 27, 2006).

[28] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.") SAA at 885.

relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[29]

Production criteria suggest that the industry performed well over the POI. Capacity was marginally higher in 2005 than in 2003, and capacity was 7.4 percent higher in interim 2006 than in interim 2005. Capacity utilization was around 90 percent or higher throughout the POI. Production rose by 7.6 percent between 2003 and 2005, and production in interim 2006 was 2.6 percent higher than in interim 2005. Domestic shipments were 8.6 percent higher in 2005 than in 2003 and 5.0 percent higher in interim 2006 than in interim 2005. The value of domestic shipments rose by 11.8 percent between 2003 and 2005 and by 7.5 percent between interim 2005 and interim 2006. Export shipments rose by 27.4 percent between 2003 and 2005, and the value of those export shipments rose by 34.6 percent. As noted earlier, the domestic industry's market share in terms of quantity was 72.9 percent in 2005, virtually unchanged from the 2003 level of 72.5 percent; the industry's market share was modestly lower in interim 2006 than in interim 2005. The net value of the industry's sales was 12.1 percent higher in 2005 than in 2003, and the net value of sales in interim 2006 was 7.7 percent higher than in interim 2005.[30]

Despite these many positive indicators, the industry's financial performance was, at best, anemic between 2003 and 2005. Operating income as a percentage of sales was 0.5 percent in 2003; the industry recorded a loss in 2004, and operating income was 0.1 percent of sales in 2005. The industry recorded its best performance in interim 2006. Despite a slight decline in its market share, the domestic industry's production and shipments increased, as did prices, while interim 2006 costs declined compared to interim 2005. Operating income in interim 2006 was 3.9 percent of sales.[31]

It is difficult to conclude that the industry's middling performance in 2003-2005 was related to the presence of subject imports. The industry's market share in 2005 was essentially the same as in 2003, with higher production, shipments, and prices, yet operating income was 85 percent lower. Conversely, in interim 2006, the domestic industry's market share dropped to *** percent, but production was higher, shipments were higher, prices were higher, and operating income was significantly higher compared to interim 2005.

As noted above, subject imports had little effect on the domestic industry's market share during most of the POI. Nor does this record indicate that subject imports had significant effects on the prices received for the domestic like product. The record also suggests no reasonable connection between the presence, volume, or pricing of subject imports and the domestic industry's financial performance. The industry did register operating losses in 2004, and several domestic producers recorded significant losses throughout much of the POI.[32] But the record suggests these losses were prompted not by competition with subject imports but primarily by producers closing older production capacity and rationalizing overall production. Evidence on the record suggests this was a worldwide, industry-wide phenomenon, with similar closures occurring in Europe and in Canada as well in the U.S. market.[33] Despite these recorded losses, the industry was able to make significant capital expenditures over the POI and its R&D expenditures increased over the POI.[34] And in interim 2006, with subject import volume at the highest recorded levels overall, the industry recorded lower costs and its first solid profit of the POI.

Therefore, I find no reasonable indication that subject imports had a significant impact on the domestic industry.

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[29] 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 at 25 n.148 (Feb. 1999).

[30] CR/PR at Table C-1.

[31] CR/PR at Table C-1.

[32] CR/PR at Table VI-2.

[33] Korean respondents' postconference brief at 15 and 17 n.75; Tr. at 105 (Mr. Anderson).

[34] CR/PR at Table VI-5.

III. NO REASONABLE INDICATION OF THREAT OF MATERIAL INJURY BY REASON OF THE SUBJECT IMPORTS

A. Cumulation

The record suggests some significant differences between the industries in China, Indonesia, and Korea. The industry in Indonesia is significantly smaller than those in China or Korea. The industry in China is less dependent on exports than are the industries in Indonesia and Korea.[35] Subject imports from Korea entered the U.S. market in significantly greater volumes, but remained relatively stable over the POI, while subject import volumes from China and Indonesia were both significantly higher in 2005 than in 2003.[36] Given these circumstances, it would be reasonable to not cumulate the effects of subject imports. However, for purposes of these preliminary determinations, I exercise my discretion and consider the cumulative effects of subject imports.

B. Statutory factors

Combined production capacity in China, Indonesia, and Korea is slated to increase in both 2006 and 2007. However, industries in all three countries operated at very high rates of capacity utilization during the POI and are projected to do so in the near future as well. Inventories on hand with foreign producers are modest relative to overall shipments.[37] The record indicates that, despite some underselling, subject imports did not have a significant effect on domestic prices, and nothing in the record indicates this is likely to change in the near future. Most importantly, nothing in the record indicates that subject imports will not continue to be concentrated in sheet products. Nothing in the record indicates that demand in the U.S. market will not continue to be concentrated in web products. Therefore the record does not indicate that subject imports will be able to influence volume or prices in most of the U.S. market, which has been and likely will be dominated by the domestic industry. I therefore determine there is no reasonable indication that the domestic industry is threatened with material injury by reason of subject imports.

IV. CONCLUSION

For the reasons stated above, I do not find a reasonable indication that the domestic industry producing CFSP is materially injured or threatened with material injury by reason of subject imports from China, Indonesia, and Korea.

[35] CR/PR at Tables VII-3, VII-6, and VII-9

[36] CR/PR at Table C-1.

[37] CR/PR at Table VII-13.

SEPARATE AND ADDITIONAL VIEWS OF COMMISSIONER DEANNA TANNER OKUN CONCERNING BRATSK ALUMINUM V. UNITED STATES

I. Legal Issues Concerning Bratsk Aluminum Smelter v. United States

In the recent case of Bratsk Aluminum Smelter et al. v. United States, 444 F.3d 1369 (Fed. Cir. 2006) ("Bratsk"), the Court of Appeals for the Federal Circuit reaffirmed that the requisite causal link to subject imports is not demonstrated if such imports contributed only "'minimally or tangentially to the material harm.'"[1] [2] Applying that standard to an investigation involving a commodity product, i.e., silicon metal, and the significant presence of non-subject imports, the Court held that the Commission had not sufficiently explained whether non-subject imports simply would have replaced subject imports during the period of investigation had an antidumping order been in place and continued to cause injury to the domestic industry.[3]

As a threshold matter, it is not immediately clear how the Commission should interpret the Bratsk opinion in terms of its effect on our analysis of causation in Title VII investigations. At a minimum, I can discern at least two possible interpretations which differ substantially: (1) that Bratsk mandates application of an additional test apparently not contemplated by the statute (the so-called "replacement/benefit test"), and (2) that Bratsk is a further development of the causation approach prescribed by Gerald Metals.

A. Separate Causation Analysis – Replacement/Benefit Test

The statute sets forth specific factors for the Commission to consider in analyzing the volume, price effects and impact of subject imports. 19 U.S.C. § 1677(7). The Uruguay Round Agreements Act Statement of Administrative Action ("SAA") explains further that in analyzing causation the Commission must examine factors other than subject imports to ensure that it is not attributing injury from these sources to the subject imports, but is not required to isolate the injury caused by other factors from injury caused by unfair imports.[4] Beyond this, the statute does not provide any further limitations on how the Commission's causation analysis shall be conducted.

The Court's decision, however, states that the Commission must perform an additional "specific" causation analysis in the form of a replacement/benefit test. Using somewhat varying phrasing, the Court stated that the Commission must determine "whether non-subject imports would have replaced subject imports without any beneficial effect on domestic producers," must "explain why the elimination of subject imports would benefit the domestic industry instead of resulting in the non-subject imports' replacement of the subject imports' market share without any beneficial impact on domestic producers," and must explain "why the non-subject imports would not replace the subject imports and continue to cause injury to the domestic industry."[5]

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[1] No. 05-1213 (Fed. Cir. Apr. 10, 2006), Slip Op. at 6, quoting Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997). The Commission filed a petition for rehearing en banc, which the Court denied on July 24, 2006. The Court's mandate was issued on August 7, 2006.

[2] Commissioner Okun did not participate in the underlying investigation nor the subsequent litigation.

[3] Slip Op. at 2, 9-11.

[4] H.R. Doc. No. 103-316, Vol. I (1994) at 851-52 ("SAA"); Taiwan Semiconductor Industry Ass'n v. United States, 266 F.3d at 1339, 1345 (Fed. Cir. 2001).

[5] Slip op. at 9, 12.

Such a "replacement/benefit" test is not among the statutory factors Congress has required the Commission to consider. The statutory scheme contemplates that subject imports may remain in the U.S. market after an order is imposed and even that the industry afterward may continue to suffer material injury.[6] Thus, the decision in Bratsk misconstrues the purpose of the antidumping and countervailing duty laws, which is not to bar subject imports from the U.S. market or award subject import market share to U.S. producers, but instead to "level[] competitive conditions" by imposing a duty on subject imports at a level to offset the amount of dumping or subsidization and thus enabling the industry to compete against fairly traded imports.[7] It is not uncommon for subject imports to remain in the U.S. market in significant quantities even after the issuance of an antidumping or countervailing duty order, as shown by the hundreds of millions of dollars in antidumping and countervailing duties collected every year.

Bratsk, therefore, appears to require that the Commission apply an extra-statutory causation test with respect to non-subject imports and to determine that the domestic industry will benefit from the antidumping duty or countervailing duty order. I respectfully disagree with the Court that such a causation analysis is legally required.[8] However, given that the Federal Circuit's mandate has now been issued and the decision has become binding precedent, I discuss infra my interpretation of the Bratsk standard and perform the analysis based on the record in these preliminary investigations.[9]

B. Gerald Metals Causation Analysis

Alternatively, I also find support for interpreting the Bratsk decision to be reminding the Commission of its obligation under Gerald Metals that the Commission may not satisfy the "by reason of" causation requirement by showing that subject imports contributed only "minimally or tangentially to the material harm."[10]

This may be a reasonable interpretation of the Bratsk decision as the Court noted that the "sole point of contention in this appeal is whether the Commission established that the injury to the domestic industry was 'by reason of' the subject imports."[11] In explaining its conclusion, the Court emphasized

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[6] SAA at 851-52, 885, 889-90. The Commission has indicated that the possibility that an order might not be effective does not preclude a finding of present material injury. The Commission also has concluded that the statute does not provide for the Commission to perform an additional injury test to predict the future effectiveness of import relief:

> {W}e note that nothing in the statute or case law requires (or allows) us to consider the likely effectiveness of a dumping order in making our injury determination. The possibility that non-subject imports will increase in the future after an antidumping order is imposed is . . . not relevant to our analysis of whether subject imports are currently materially injuring the industry.

Wooden Bedroom Furniture From China, Inv. No. 731-TA-1058 (Final), USITC Pub. 3743, n.222 (Dec. 2004).

[7] Huaiyin Foreign Trade Corp. v. United States, 322 F.3d 1369, 1380 (Fed. Cir. 2003).

[8] The Commission set out in detail its objections to the Court's decision in its petition for rehearing to the Federal Circuit. See Petition for Rehearing en Banc (May 25, 2006), Bratsk Aluminum Smelter et al. v. United States, 444 F.3d 1369 (Fed. Cir. 2006)(No. 05-1213) (petition denied July 24, 2006). As noted above, I did not participate in that proceeding.

[9] While it is not an issue in these investigations, it is unclear whether the Court intended its approach to apply to analyses of threat of material injury, or only to analyses of present material injury. Given that one of the Court's formulations of the standard is framed in terms of likely future events, I have interpreted the Court's decision as applying both to the context of present injury and threat of injury.

[10] Gerald Metals, 132 F.3d at 722.

[11] Slip op. at 5.

that the Commission had "dismissed" Gerald Metals as being factually distinguishable,[12] extensively explained its holdings in Gerald Metals and Taiwan Semiconductor,[13] and noted that the underlying investigation in Bratsk "revealed the same conditions that triggered the additional causation inquiry in Gerald Metals and Taiwan Semiconductor."[14] Further, the Court noted that

> Gerald Metals thus requires the Commission to explain why – notwithstanding the presence and significance of the non-subject imports – it concluded that the subject imports caused material injury to the domestic industry. While there may be support for the Commission's ultimate determination of material injury in the record here, we find that the Commission did not sufficiently explain its decision in this regard.[15]

Therefore, the Court may not have been creating a new extra-statutory causation test, but rather was simply reminding the Commission of its existing obligation under Federal Circuit precedent. In other words, the Bratsk Court's relatively short discussion of the underlying determination may not have established a new and rigid replacement/benefit test. Rather, the Court may have discussed the triggering factors (i.e., commodity product and price-competitive non-subject imports) and the replacement/benefit factors (i.e., whether non-subject imports would have replaced the subject imports without any beneficial effect on domestic producers)[16] as a reminder that the Commission, before it makes an affirmative determination, must satisfy itself that it has not attributed material injury to factors other than subject imports.

The statute requires the Commission to determine whether the domestic industry is "materially injured by reason of" the unfairly traded imports.[17] Thus, the Commission must evaluate the effects of the unfairly traded imports on the domestic industry in order to determine if those imports are causing material injury. In most investigations, there are other economic factors that also may be causing injury to the domestic industry. The statute's legislative history states that the Commission "will consider information which indicates that harm is caused by factors other than less-than-fair-value imports."[18] While the statute is clear that the Commission is not to weigh or prioritize the factors that are independently causing material injury,[19] the Commission cannot assign the cause of material injury to factors other than subject imports. Under this interpretation, the reference in Bratsk to "whether non-subject imports would have replaced subject imports without any beneficial effect on domestic producers" could be asking the Commission to interpret "benefit" to mean that if the subject imports are indeed causing harm, then the removal of the unfairly traded imports should "benefit" the domestic industry, but if the removal of the unfairly traded imports would not benefit the domestic industry, the injury must be attributable to other factors. Thus, the Commission must analyze the effects of the unfairly traded imports in a way that enables the Commission to conclude that it has not attributed the effects of other factors to the subject imports.

If this interpretation of Bratsk is correct, then I concur with the Federal Circuit that the Commission is required to identify and assess the competitive effects of subject imports to ensure that they contribute more than "minimally or tangentially to the material harm" of the domestic industry. To

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[12] Slip op. at 5.

[13] Slip op. at 6-9.

[14] Slip op. at 9.

[15] Slip op. at 10.

[16] Slip op. at 9.

[17] 19 U.S.C. § 1673d(b).

[18] S. Rep. No. 249, 96th Cong., 1st Sess. 46-47 (1979).

[19] S. Rep. No. 249, 96th Cong., 1st Sess. 74 (1979); H.R. Rep. No. 317, 96th Cong., 1st Sess. 46-47.

the extent that we had the relevant information, this analysis was included in the Commission's causation analysis. I will re-examine this in any final phase of these investigations once the Commission has collected further relevant information (e.g., information about the market from purchasers).

II. Under the Bratsk Replacement/Benefit Test, Non-subject Imports Likely Would Not Negate the Beneficial Effect of an Order on Subject Imports from China

Having found that there is a reasonable basis to determine that an industry in the United States is materially injured by reason of subject imports from China, Indonesia, and Korea I now must assess whether the facts of these investigations trigger a Bratsk analysis under the "replacement/benefit test" interpretation of Bratsk. Based on the record, I conclude that Bratsk is triggered, but that non-subject imports likely would not negate the beneficial effect of the orders on subject imports from China, Korea, and Indonesia.

A. Bratsk Replacement/Benefit Test

The exact formulation of the Bratsk Court's test is not clear. According to one part of the opinion:

> {U}nder Gerald Metals, the Commission is required to make a specific causation determination and in that connection to directly address whether non-subject imports would have replaced the subject imports without any beneficial effect on domestic producers.[20]

Stated this way, the test would require the Commission to analyze replacement/benefit during the period of investigation, i.e., backward looking. The Court also has stated a different formulation that would require the Commission to analyze replacement/benefit in the future, i.e., forward looking:

> {T}he Commission has to explain, in a meaningful way, why the non-subject imports would not replace the subject imports and continue to cause injury to the domestic industry.[21]

It therefore is unclear whether the Court intended to state the same test in different ways, or whether it contemplated that it was establishing two separate criteria.

Based upon my reading of Bratsk, I conclude that I now must assess the likely effectiveness of any import relief vis-a-vis non-subject imports to determine whether non-subject imports would eliminate the beneficial effect of the order on subject imports, in this case orders on China, Indonesia, and Korea.

1. Triggering Factors

Bratsk requires a two-step analysis. First, the Commission must determine whether Bratsk is triggered based on the facts of the investigation. Second, if it is triggered, then the Commission must consider whether the non-subject imports would have replaced the subject imports and continue to cause injury to the domestic industry.

The Bratsk Court states that "{T}he obligation under Gerald Metals is triggered whenever the antidumping investigation is centered on a commodity product, and price competitive non-subject imports

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[20] Slip op. at 9.

[21] Slip op. at 12.

are a significant factor in the market."[22] Thus, the Bratsk test purportedly is not required in every case, only in cases involving a "commodity product" and where "price competitive non-subject imports are a significant factor in the market."

The Bratsk Court refers to a "commodity product" as "meaning that it is generally interchangeable regardless of its source."[23] Thus, the Court's definition of "commodity product" is broad. The second trigger for the Bratsk replacement/benefit test is that price competitive non-subject imports are a significant factor in the U.S. market. On the issue of whether the non-subject imports are "price competitive," the Bratsk Court refers to the fact that in Gerald Metals the non-subject imports had undersold the domestic product just as the subject imports had.[24]

2. Replacement/Benefit Factors

If the Commission determines that Bratsk is triggered, the second step in the analysis, assessment of replacement of subject imports by non-subject imports that negates the benefit to the domestic industry, also has two components. First, the non-subject imports must be able to replace the subject imports. In assessing replacement, the Commission should consider not only interchangeability, but the non-subject producers' capacity to fill any void left by subject imports and whether there exists an incentive to do so.

The second step requires that the non-subject imports must negate the benefit of the order to the domestic industry. In assessing benefit, the Court indicated that the price of non-subject imports would be an important consideration in this analysis as non-subject imports may not be priced low enough to negate the benefit to the domestic industry (i.e., "the price of the non-subject imports may be sufficiently above the subject imports such that the elimination of the subject imports would have benefitted the domestic industry").[25] The Court's decision does not specify how complete the replacement of subject imports by non-subject imports must be, or how much of the benefit to the domestic industry must be negated, to require a negative determination.

B. Analysis

1. Triggering Factors

The petitioner asserts that CFSP is a commodity product for purposes of Bratsk analysis.[26] While respondents assert that CFSP may not be a commodity, subject imports, non-subject imports, and the domestic like product are broadly interchangeable within each product type, e.g. sheets.[27] Further, questionnaire responses from both producers and importers indicate that the domestic like product, subject imports, and non-subject imports are always or frequently interchangeable.[28] Thus, based on the information available in these preliminary investigations, I find that the domestic like product, subject imports, and non-subject imports of CFSP are generally commodity products.

With respect to the second factor, whether price competitive non-subject imports are a significant factor in the U.S. market, the record in these preliminary investigations indicates that non-subject imports

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[22] Slip op. at 11.

[23] Slip op. at 2.

[24] Slip op. at 7.

[25] Slip op. at 12.

[26] Petitioners' postconference brief, exhibit 1 at 8.

[27] Korean respondents' postconference brief, exhibit A at 8, and Chinese respondents postconference brief responses to questions from Commission staff at 3.

[28] CR/PR at Table II-1.

were present throughout the period of investigation. Non-subject import volume was 989,659 short tons in 2003, 1,076,558 short tons in 2004, and 944,088 short tons in 2005.[29] Non-subject imports accounted for *** percent of total imports in 2003, *** percent in 2004, and *** percent in 2005.[30] Thus, the volume of non-subject imports exceeded the volume of subject imports in each year of the period examined. Thus, for purposes of these preliminary determinations, I find that non-subject imports of CFSP are at significant levels and are a "significant factor" in the U.S. market.

As to whether non-subject imports are price competitive, the Commission requested product-specific price data from non-subject countries in its importers' questionnaires. The Commission received a limited amount of price data for non-subject imports from Germany and Japan. Based on these data the prices for Product 1, sold to merchants/distributors, of non-subject imports from Germany were generally higher than the prices for subject imports but below the prices for the domestic like product.[31] [32] These data for non-subject imports from Japan show that prices for Product 1, sold to merchants/distributors, were much higher than the comparable prices for subject imports and were generally higher than the prices for the domestic like product. [33] The average unit value of non-subject imports exceeded the average unit value of subject imports in each year of the period of investigation.[34] The average unit value of all non-subject imports were somewhat higher than the average unit value of U.S. shipments.[35] However, the average unit value of non-subject imports from Finland and Canada, the two largest non-subject import sources, were generally lower than, or comparable too, the average unit value of U.S. shipments. The average unit value of non-subject imports from Canada were higher than the average unit value of subject imports, while the average unit value of non-subject imports from Finland were lower than the average unit value of subject imports.[36] Thus, for purposes of these preliminary determinations, I determinate that non-subject imports of CFSP are price-competitive.

2. Replacement/Benefit Factors

Having determined that the Bratsk test is triggered, I now analyze whether non-subject imports are likely to replace subject imports and continue to cause injury to the domestic industry. The record in these preliminary investigations indicates that subject imports took market share from non-subject imports. Subject import market share increased from *** percent in 2003 to *** percent in 2005.[37] Non-subject import market share declined from *** percent to *** percent over the same period.[38] However, the data available in these preliminary investigations indicates that the product mix of non-subject imports may differ from that of subject imports. Between 42.6 and 48.4 percent of non-subject imports were classified as sheets from 2003 to 2005. By comparison, between 79.4 and 81.4 percent of subject imports

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[29] CR/PR at Table IV-2.

[30] CR/PR at Table IV-2.

[31] Compare Appendix Table G-1 to Table V-1.

[32] Consistent with the Commission's analysis of the price effects of subject imports, I place more weight on the price data for Product 1 sold to merchants/distributors because this product/channel combination accounts for the largest share of domestic and subject import shipments.

[33] Compare Appendix Table G-1 to Table V-1.

[34] CR/PR at Table IV-2

[35] Compare CR/PR at Table III-5 to Table IV-2.

[36] Imports from Finland accounted for *** percent of total imports and imports from Canada accounted for *** percent of total imports in 2005. CR/PR at Table IV-2 and CR/PR at Table III-5.

[37] CR/PR at Table IV-5.

[38] CR/PR at Table IV-5.

were classified as sheets over the same period.[39] The petitioner has reported that the most significant competition from imports is in the market for sheets.[40]

Both the petitioner and respondents agree that production capacity in non-subject countries has declined, particularly in Canada, the largest source of non-subject imports.[41] The data available in these preliminary investigations on production capacity in Canada shows that capacity declined from *** metric tons in 2003 to *** metric tons in 2004 and then increased to *** in 2005.[42] These same data show that production capacity in Western Europe increased steadily from *** metric tons in 2003 to *** metric tons in 2005.[43] However, the exact methodology by which these capacity figures are calculated is unclear. Therefore, based on the data available in these preliminary investigations, I determine that non-subject imports do not have sufficient capacity to replace subject imports if the orders were to be imposed.

In light of the fact that the prices and average unit values of non-subject imports were generally higher than those of subject imports and because I determine that non-subject imports lack the capacity to replace subject imports sufficiently, for purposes of these preliminary determinations I determine that non-subject imports would not negate the benefit fo the orders on subject imports.

[39] CR/PR at Appendix Table E-6 and Appendix Table E-7.

[40] Transcript at 85 (Mr. Tyrone).

[41] Transcript at 84-85 (Mr. Tyrone); 105 (Mr. Anderson); 132 (Mr. Klett) and 151 (Mr. Dragone).

[42] Petitioners' response to Department of Commerce's Nov. 3, 2005 request for clarification submitted on Nov. 14, 2006, exhibit 1.

[43] Petitioners' response to Department of Commerce's Nov. 3, 2005 request for clarification submitted on Nov. 14, 2006, exhibit 1.

PART I: INTRODUCTION

BACKGROUND

These investigations result from a petition filed by New Page Corp. ("New Page"), Dayton, OH,[1] on October 31, 2006, alleging that an industry in the United States is materially injured and threatened with material injury by reason of subsidized and less-than-fair-value ("LTFV") imports of coated free sheet ("CFS") paper[2] from China, Indonesia, and Korea. Information relating to the background of the investigations is provided below.[3]

Effective date	Action
October 31, 2006	Petition filed with Commerce and the Commission; institution of Commission investigations (71 FR 64983, November 6, 2006)
November 21, 2006	Commission's conference
November 27, 2006	Commerce's notices of initiation of the countervailing duty and antidumping investigations (71 FR 68546 and 71 FR 68537, respectively)
December 15, 2006	Commission's vote and determinations transmitted to Commerce
December 22, 2006	Commission's views transmitted to Commerce

[1] A list of witnesses appearing at the conference is presented in app. B.

ORGANIZATION OF THE REPORT

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

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

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any

[1] New Page began operating as an independent company on May 2, 2005. Its operations consist of the former Printing and Writing Papers Business of MeadWestvaco Corp. Petition, p. 2, n. 1.

[2] A complete description of the imported products subject to these investigations is presented in the *Subject Product* section of this part of the report.

[3] *Federal Register* notices cited in the tabulation are presented in app. A.

increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.

. . .

In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether . . . (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.

. . .

In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to . . . (I) actual and potential declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.

Information on the subject merchandise, alleged margins of dumping and subsidies, and domestic like product is presented in *Part I*. Information on conditions of competition and other relevant economic factors is presented in *Part II*. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. The volume and pricing of imports of the subject merchandise are presented in *Parts IV and V*, respectively. *Part VI* presents information on the financial experience of U.S. producers. The statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury are presented in *Part VII*.

THE U.S. COATED FREE SHEET PAPER MARKET

Petitioner NewPage is one of several producers of CFS paper in the United States. CFS paper represents *** percent of NewPage's annual sales in the facilities where it manufactures CFS paper. The subject merchandise is imported by a number of mill agents, independent brokers, and paper merchants. Some of the importers (mill agents, in particular) are related to subject manufacturers of CFS paper.

Approximately *** producers manufacture CFS in China, although the majority do not export subject merchandise to the United States. The Indonesian industry, in comparison, is much smaller, consisting of only two producers of substantial size. Several companies manufacture CFS paper in Korea; *** reported exporting subject merchandise to the United States during the period examined.

Most sales of both domestically produced and imported CFS paper are made to paper merchants. Paper merchants, in turn, typically sell directly to end users, a substantial portion of which are commercial printers. Other leading markets are direct mail, catalogues, books, magazines, and labels and wraps.

SUMMARY DATA

A summary of data collected in these investigations for the U.S. CFS paper market is presented in appendix C. The period of investigation is January 2003 through September 2006. U.S. industry data are based on questionnaire responses of 10 firms that accounted for over 95 percent of U.S. production of CFS paper during 2005.

PREVIOUS AND RELATED INVESTIGATIONS

The Commission has not previously conducted an import injury investigation concerning CFS paper. During 1991, the Commission conducted antidumping duty investigations on coated groundwood paper[4] from Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom (Inv. Nos. 731-TA-486-494). The Commission determined that the subject imports did not injure the domestic coated groundwood paper industry.[5]

NATURE AND EXTENT OF ALLEGED SUBSIDIES AND SALES AT LTFV

Commerce has initiated antidumping duty investigations based on petitioner's allegations of LTFV sales of CFS paper from China, Indonesia, and Korea. The dumping margins (in percent *ad valorem*) as alleged by petitioner and revised by Commerce, range from 71.81 percent to 99.65 percent.[6]

Country	Initiated antidumping margins (*percent ad valorem*)
China	99.65
Indonesia	99.14
Korea	71.81

Commerce has initiated countervailing duty investigations to determine whether manufacturers, producers, or exporters of CFS paper from China, Indonesia, and Korea receive subsidies from their respective governments as follows: China–14 programs; Indonesia–4 programs; and Korea–17 programs.[7]

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[4] The product subject to investigation was defined by Commerce as "paper coated on both sides with kaolin (China clay) or other inorganic substances (e.g., calcium carbonate), of which more than ten percent by weight of the total fiber content consists of fibers obtained by mechanical process, regardless of (1) basis weight (e.g., pounds per ream or grams per one square meter sheet); (2) GE brightness; or (3) the form in which it is sold (*e.g.*, reels, sheets, or other forms)." Paperboard was excluded from the scope of investigation. *See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Coated Groundwood Paper from Germany*, 56 FR 56385, November 4, 1991.

[5] *Coated Groundwood Paper from Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom (Inv. Nos. 731-TA-486-494 (Preliminary))*, USITC Publication 2359, February 1991, p. 3; and *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom (Inv. Nos. 731-TA-487-490 and 494 (Final))*, USITC Publication 2467, December 1991, p. 3.

[6] *Initiation of Antidumping Duty Investigations: Coated Free Sheet Paper from Indonesia, the People's Republic of China, and the Republic of Korea* , 71 FR 68537, November 27, 2006. The notice provides a description of Commerce's adjustments that resulted in the alleged margins.

[7] See *Notice of Initiation of Countervailing Duty Investigations: Coated Free Sheet Paper from the People's Republic of China, Indonesia, and the Republic of Korea* 71 FR 68546, November 27, 2006, for an itemization of the (continued...)

THE SUBJECT PRODUCT

Commerce has defined the imported merchandise subject to investigation as:[8]

> *The merchandise covered by each of these investigations includes coated free sheet paper and paperboard of a kind used for writing, printing or other graphic purposes. Coated free sheet paper is produced from not-more-than 10 percent by weight mechanical or combined chemical/mechanical fibers. Coated free sheet paper is coated with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating. Coated free sheet paper may be surface-colored, surface-decorated, printed (except as described below), embossed, or perforated. The subject merchandise includes single- and double-side-coated free sheet paper; coated free sheet paper in both sheet or roll form; and is inclusive of all weights, brightness levels, and finishes. The terms "wood free"[9] or "art"[10] paper may also be used to describe the imported product.*
>
> *Excluded from the scope are: (1) coated free sheet paper that is imported printed with final content printed text or graphics; (2) base paper to be sensitized for use in photography; and (3) paper containing by weight 25 percent or more cotton fiber.*

U.S. Tariff Treatment

CFS paper is generally imported under the Harmonized Tariff Schedule of the United States ("HTS") statistical reporting numbers 4810.13.1900, 4810.13.2010, 4810.13.2090, 4810.13.5000, 4810.13.7040, 4810.14.1900, 4810.14.2010, 4810.14.2090, 4810.14.5000, 4810.14.7040, 4810.19.1900, 4810.19.2010, and 4810.19.2090, and is free of duty under the general duty rate.[11] Table I-1 shows how CFS paper is classified in the HTS. These categories require that the merchandise be "paper and paperboard of a kind used for writing, printing or other graphic purposes." Because such end use

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[7] (...continued)
programs that Commerce is including in its investigations and a list of the programs that Commerce is not including in its investigations.

[8] *Initiation of Antidumping Duty Investigations: Coated Free Sheet Paper from Indonesia, the People's Republic of China, and the Republic of Korea* , 71 FR 68537, November 27, 2006; and *Notice of Initiation of Countervailing Duty Investigations: Coated Free Sheet Paper from the People's Republic of China, Indonesia, and the Republic of Korea* 71 FR 68546, November 27, 2006.

[9] The term, wood free, which is used in other countries such as Canada, is synonymous with free sheet and denotes a paper that has been made principally from chemical pulp.

[10] In this context, art paper is a highly finished coated paper designed to be printed with halftones. Halftones are photo-engraved printing plates that typically are reproductions of photographs or other objects having a gradation of tones. *The Dictionary of Paper*, 4th ed. s.vv. "art paper," "halftone."

[11] Although the Harmonized Tariff Schedule of the United States ("HTS") subheadings are provided for convenience and customs purposes, the written description of the scope of these investigations is dispositive.

Table I-1
Coated free sheet paper: Tariff rates, 2006

		General[1]	Special	Column[2]
HTS provision	**Article description**	**Rates *(percent ad valorem)***		
4810	Paper and paperboard, coated on one or both sides with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-colored, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size:			
	Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibers obtained by a mechanical or chemi-mechanical process or of which not more than 10 percent by weight of the total fiber content consists of such fibers:			
4810.13	In rolls:			
	Of a width exceeding 15 cm:			
	Weighing not more than 150 g/m^2:			
. . . .				
4810.13.19.00	Other	Free		37%
4810.13.20	Weighing more than 150 g/m^2	Free		42%
4810.13.20.10	Coated on one side only			
4810.13.20.90	Other			
	Other:			
4810.13.50.00	Printed, embossed or perforated	Free		30%
. . . .				
4810.13.70	Other	Free		30%
. . . .				
4810.13.70.40	Other			
4810.14	In sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state:			
	With one side exceeding 360 mm and the other side exceeding 150 mm in the unfolded state:			
	Weighing not more than 150 g/m^2			
. . . .				
4810.14.19.00	Other	Free		37%
4810.14.20	Weighing more than 150 g/m^2	Free		42%
4810.14.20.10	Coated on one side only			
4810.14.20.90	Other			
	Other			
4810.14.50.00	Printed, embossed or perforated	Free		30%
	Other			
. . . .				
4810.14.70	Other	Free		30%
. . . .				
4810.14.70.40	Other			
4810.19	Other:			
	Weighing not more than 150 g/m^2:			
. . . .				
4810.19.19.00	Other	Free		37%
4810.19.20	Weighing more than 150 g/m^2	Free		42%
4810.19.20.10	Coated on one side only			
4810.19.20.90	Other			

[1] Normal trade relations, formerly known as the most-favored-nation duty rate.
[2] Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.

Source: Harmonized Tariff Schedule of the United States (2006).

descriptions may cause confusion for some users, some subject imports may be entered under other HTS subheadings (*e.g.*, 4810.31, 4810.32).[12]

THE DOMESTIC LIKE PRODUCT

The Commission's determination regarding the appropriate domestic product that is "like" the subject imported product is based on a number of factors, including (1) physical characteristics and uses; (2) common manufacturing facilities and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and, where appropriate, (6) price.

Petitioner contends that the domestic like product is co-extensive with the scope of the subject merchandise as defined by Commerce, which includes both single-side coated (or C1S) and double-side-coated (or C2S) CFS in "both sheet and roll form" regardless of the weight, brightness level, and/or finish.[13] Respondents stated at the Commission's conference that they do not contest the definition of the domestic like product for the purpose of the Commission's preliminary investigations.[14]

General

Earlier investigations by the Commission found paper to be a "highly ubiquitous commodity with many applications and nearly as many varieties."[15] As noted in the scope, the specific import subject to these investigations is paper or paperboard of a kind intended for writing, printing, or other graphic purposes. According to the report of the earlier investigations, graphic papers are differentiated by the surface characteristics of the paper and the processes by which their wood fibers are obtained, and the industry segments graphic papers based on these characteristics.[16] This fundamental hierarchy for graphic papers, which is shown below, remains unchanged.

> Coated freesheet– clay coated paper predominately composed of chemically obtained fibers (90 percent or more by weight), used primarily for permanent and higher priced publications such as premium magazines, gift books, and art reproductions.
>
> Uncoated freesheet– similar in composition to coated freesheet but without coating and used primarily for xerographic paper, printing, drawing, and writing paper (e.g., letterhead, stationary).
>
> Coated groundwood– clay coated paper made with substantial proportions of mechanically derived pulp, generally used for multi-colored publications that remain in use from several days to a month – primarily magazines, merchandising catalogues, and better quality newspaper inserts.

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[12] The National Import Specialist ("NIS") for paper products at U.S. Customs and Border Protection ("Customs") in New York, noted that even when there were duties in chapter 48, the distinction between papers for "writing, printing or graphic purposes" and for other purposes was always "nebulous." Staff telephone interview with ***, Paper NIS, Customs, October, 25, 2006.

[13] Petitioner's postconference brief, p. 6.

[14] Conference transcript, pp. 185-186 (Morgan and Cameron).

[15] *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 (Final)*, USITC Publication 2467, December 1991, p. A-4.

[16] *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 (Final)*, USITC Publication 2467, December 1991, p. A-4.

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

Newsprint– a low quality uncoated groundwood paper designed exclusively for newspapers and similar publications commonly disposed of within a day.[17]

CFS paper is still the highest quality segment of the five major types of graphic paper. All coated paper, whether groundwood or free sheet, is used for printing purposes as the clay coating provides an exceptionally smooth, bright surface for printing. Smoothness, opacity, brightness, printability, and finish[18] are important performance specifications for CFS paper. End-use products/markets for CFS paper reportedly include the following:

End use	Shares (*percent*)
Commercial printing	***
Catalogues	***
Books	***
Magazines	***
Labels and wraps	***
Other[1]	***

[1] Includes annual and other financial reports; color copy paper; base stock for gift wrap and greeting cards; other advertising materials (inserts, flyers, coupons); other business products; and some comic books.

Source: ***, as presented in petitioner's postconference brief, exh. 1, p. 20.

CFS paper is manufactured in basis weights ranging from *** (25" x 38" 500 sheets) or *** grams per square meter.[19] Reportedly, the minimum basis weight for CFS paper is about 45 pounds because below that weight CFS paper would lack the necessary opacity.[20] The weight of the coating adds at least 6.5 pounds per side and typically 8 to 9 pounds per side to a sheet of CFS paper, and the total coating weight can be as much as 30 to 40 pounds for premium C2S products.[21]

The principle upstream product of CFS paper is wood pulp. Hardwood pulp is the predominant component of CFS paper[22] as the shorter hardwood fibers are necessary for adequate smoothness.

[17] *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 (Final)*, USITC Publication 2467, December 1991, p. A-6.

[18] ***.

[19] Basis weight is a traditional measure of the weight of paper, expressed as the weight in pounds of a ream of paper (traditionally 500 sheets) of a given size (the basis). ***. Metric paper weights are always expressed in terms of grams per square meter. ***.

[20] ***.

[21] ***.

[22] ***.

However, some softwood fiber, which is generally longer than hardwood fiber, is necessary to maintain the strength of the sheet during production.[23]

In a typical operation, pulpwood, once debarked, enters a chipper which chips it into uniformly sized chips.[24] Next, digesters cook the wood chips in a chemical solution, which separates the cellulose fibers from lignin and other non-cellulosic substances.[25] The resulting wood pulp is then washed, bleached, and refined in preparation for papermaking operations.

CFS paper is typically made on conventional fourdrinier paper machines.[26] A highly diluted solution of wood pulp is pumped through the machine's headbox[27] and onto the wire. Water drains by gravity through the wire and/or by suction from the top as the wire advances, forming a web or sheet on the wire. At the end of the wire, the web is picked off the wire by revolving nylon felts, which deliver it to the press section. The press section consists of as many as four sets of closely spaced steel rollers which press water out of the web as it passes through the nip between each set of rollers. Upon exiting the press, the web of paper, which is now able to support itself, enters the dryer section.[28] The steam-heated cylinders of the dryer remove the remaining moisture from the paper as it laps over and under successive cylinders.

At this stage, the paper is ready to be coated and, if necessary, calendered.[29] Coating equipment may be installed in line with the paper machine (i.e., on-machine) or completely separate from the paper machine (i.e., off-machine). If on-machine equipment is used, the paper enters the coating equipment as it exits the dryer section. If not, the paper is wound onto large reels as it comes out of the dryers on the paper machine and is subsequently delivered to off-machine coaters. In either case, the essential elements of the coating and calendering processes are the same. The principle component of the coating is often kaolin clay, but other elements such as different clays, calcium carbonate, titanium dioxide, latex, starches, dyes, lubricants, thickners, plastic pigments, cast release agents, rheological control agents, pH control agents, optical brightners, and biocides may be included.[30] Coatings are mixed in coating preparation equipment in a mill's coating "kitchen" and pumped directly to the appropriate paper machine or off-machine coater.

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[23] *Industry & Trade Summary – Wood Pulp and Waste Paper*, USITC Publication 3490, 2002, p. 4.

[24] ***.

[25] The term, "kraft," denotes the chemical process by which the wood fiber is pulped in a solution of caustic soda and sodium sulfide. Because the kraft (a.k.a. sulfate) process produces a very strong pulp, it is the most important chemical pulping process. It is noted for its high quality and strength and is a primary component of many grades of paper.

[26] Named for the French man who helped popularize the design, all Fourdriniers have a continuous loop of bronze mesh screen, the "wire." Typically, the wire is oriented horizontally and looped around rollers at both ends. As the wire revolves, a diluted solution of pulp is spread across the surface of the wire at one end. Water drains through the wire as it advances, thereby forming the sheet. In this fashion, a continuous sheet of paper can be formed.

[27] The head box extends across the wire and delivers the pulp to the wire through many small openings, orifices, or nozzles.

[28] Conventional dryers consist of a number of steam-heated cylinders (30 to 60 inches in diameter) arranged in two or more tiers. The wet paper typically passes over and under successive cylinders.

[29] A calender is a set or "stack" of hardened rolls typically resting one on the other in a vertical stack. Paper is passed between some or all of the rolls to increase the smoothness and gloss of its surface. *The Dictionary of Paper*, 4th ed. s.v. "calender."

[30] Actual coating formulations may be closely guarded proprietary trade secrets. ***, *** response to the producers' questionnaire, p. 7, and *** response, p. 6.

Next, as the web of paper advances through the coater, a thin even coat is applied to one side,[31] after which the web continues through a large gas-fired convection dryer to dry the coating. If a C2S product is being made, the sheet continues looping is such a manner as to position the other side of the paper for coating in a second coater in all respects to the first. For C1S products, the web of paper is simply routed to bypass the second coater. Exiting the coater, the paper is rewound on large reels.

Once coated, CFS paper may be calendered with the amount of calendering used dependent on the requirements of the product being made. Gloss grades are calendered the most, satin grades are calendered some, and matte grades are not calendered at all. The calenders, which are stacked, alternating hard (steel) and soft (plastic) rollers are used to increase the density, smoothness, and gloss of the paper. The combination of coating formulation and calendering regimen control the finish of the final sheet of paper.[32]

After coating and calendering, the reels of CFS paper are hoisted by large, overhead cranes to a rewinder which unwinds each reel, slits the web to the appropriate widths, and rewinds the resulting narrow webs onto paperboard cores. Rolls are produced in a wide range of widths depending on the width of the presses for which the paper is intended.[33] In the U.S. market, CFS paper is sold both in sheet form and roll form, because commercial printers use both sheet-fed and web-fed offset lithographic presses.[34] If the CFS paper is to be sold in roll form, the rolls are delivered from the rewinder to the roll finishing area where they are wrapped and labeled for transport.

If the CFS paper is to be sold in sheet form, production entails one additional step. CFS rolls from the rewinder are delivered to a sheeter, which converts the paper from rolls to sheets. A CFS roll is mounted on a roll stand at the upstream end of the sheeter. As the roll advances through the sheeter, rotary knives cut the roll at regular intervals perpendicular to the direction of travel, thereby creating sheets. Large (i.e., wide) sheeters may also slit the roll longitudinally in addition to the perpendicular cuts being made by the rotary knives. The output from a sheeter is automatically stacked and counted in ream quantities on pallets. It is estimated that approximately 25 to 30 percent of the U.S. CFS market is for sheet-fed presses.[35] CFS paper intended for sale to commercial printers using web-fed presses is reportedly somewhat different than that intended for sheet-fed presses.

Rolls for the web offset market have higher moisture content and different coating formulations in order to withstand the heat-set web printing process typically used for high-speed, web-fed presses.[36]

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[31] ***; *** response to the producers' questionnaire, p. 7; and *The Dictionary of Paper*, 4th ed. s.v.v. "cast coating, "reverse roll coating."

[32] ***.

[33] ***.

[34] ***.

[35] Conference transcript, p.13 (Cameron), and Staff trip report, November 17, 2006.

[36] Conference transcript, pp. 102 (Anderson) and 167 (Hunley).

DOMESTIC LIKE PRODUCT ISSUES

No like product arguments with respect to CFS paper have been advanced by the parties to these investigations, but data were nonetheless gathered on other potentially similar products and are summarized below. Two of the products for which information was gathered, coated groundwood and uncoated free sheet, are categories within the hierarchy of graphics papers identified above that are in certain respects similar to CFS. Information was also elicited from producers regarding coated kraft paper and paperboard, which are not considered graphics paper but which are somewhat similar. Finally, information was sought concerning the potential differences between C2S and C1S products, both of which are included in the scope of these investigations. Table I-2 presents recent U.S. production statistics for various grades of coated and uncoated paper.

Table I-2
Paper and paperboard: U.S. production of various grades, 2003-06

* * * * * * *

Of the other products for which information was sought, uncoated free sheet was the most likely to be produced by U.S. CFS producers. Among the ten U.S. CFS producers that submitted questionnaires, six reported that they also made uncoated free sheet paper.

Physical Characteristics and Uses, Manufacturing Facilities, and Production Employees

The most significant physical difference between CFS and coated groundwood[37] paper is the presence of significant amounts of mechanical pulp in the coated groundwood paper.[38] The advantages of mechanical pulp are that it is high yield relative to chemical pulp and that it is high in opacity. A major disadvantage is that mechanical pulp retains the lignin that was in the original wood.[39] Because lignin discolors (i.e., yellows) with age, groundwood paper is used where permanence is not necessary. Coated groundwood is used principally for weekly publications (e.g., *Time*, *Newsweek*) and low-end mail order catalogs where permanence is not a necessary feature but where weight and, therefore, postal costs are important.[40]

Coated groundwood paper is generally lighter in basis weight, less bright, and has lower physical specifications (i.e., rougher surface) than CFS paper.[41] CFS paper has superior tear and fold strength, is inherently brighter, and is less likely to yellow.[42] However, because of the opacity of groundwood fiber,[43]

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[37] Traditionally, to produce groundwood (i.e., mechanical) pulp, bolts of wood were ground against large grindstones to separate the fibers. Modern groundwood pulp mills grind wood chips between large steel plates sometimes with various amounts of heat, pressure, and/or chemicals added.

[38] ***.

[39] Technically speaking, lignin is the noncarbohydrate portion of the cell wall of plant materials, which generally speaking is the stuff that holds the cellulose fibers together in wood. *The Dictionary of Paper*, 4th ed. s.v. "lignin."

[40] Coated groundwood paper has moved toward lighter basis weights to offset postal rate increases and the correspondingly higher cost of publication distribution. *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 and 494 (Final)*, USITC Publication 2467, December 1991, p. A-7.

[41] *** producers' questionnaire response, p. 8; *** response, p. 10.

[42] *** producers' questionnaire response, p. 10.

[43] *** producers' questionnaire response, att. II-3f.

coated groundwood paper can be manufactured in basis weights ranging from 26 to 60 pounds (25" x 38" 500 sheets).[44]

Provided that a paper mill has the capacity to supply both chemical and mechanical pulp, the same paper machines can be used to make either coated groundwood or CFS paper as economic/market conditions dictate. However, only three producers of CFS paper reported having the capacity to produce both coated groundwood and CFS paper. One U.S. producer reported that coated groundwood paper is more apt to be manufactured on paper machines with on-machine coaters .[45]

Uncoated free sheet and CFS paper are similar in that they have a common uncoated free sheet base stock, but the manufacture of CFS paper requires additional equipment and raw materials to complete the manufacture of CFS paper.[46] For a given basis weight, uncoated freesheet is bulkier than CFS paper,[47] consumes more ink, and has inferior printing surfaces (i.e., brightness, smoothness, and gloss). In comparison, CFS paper has higher print performance and fidelity due to superior ink retention (i.e., hold out).[48] Several U.S. producers reported that uncoated free sheet was sometimes made on coated paper machines but that this was typically done to fill paper making capacity that would otherwise be idle.[49]

In contrast to CFS paper, which is primarily made from hardwood pulp, coated kraft paper is typically made mostly from softwood pulp. It is distinct from CFS paper in that it is often heavyweight paper ranging in caliper (thickness) from a low of 9 or 10 points to a high of 22 points and primarily serves packaging and other converting end uses.[50] At basis weights under 50 pounds, C1S kraft paper is reported to be stronger than CFS paper for bag products.[51] According to petitioner, there are physical differences between CFS paper and coated kraft paper (e.g., smoothness, bulk, and coating) resulting in part from the use of rotary flexographic or rotogravure presses typically used in converting operations.[52]

Essentially C1S and C2S papers are identical except for the absence of coating on one side. Tear strength and stiffness might be somewhat different for sheets of the same basis weight.[53] The customers' applications determine whether a C1S or C2S sheet is needed.[54] Therefore, C1S serves applications (e.g., labels, covers, folders, laminated products, gift wrap, box wraps, signage, posters, bags, and envelopes) where printing is required on only one side.[55] Generally, U.S. CFS producers can manufacture either C1S or C2S grades although one U.S. producer reported that its paper machines were limited by their configuration to production of C1S grades.[56]

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[44] ***.

[45] *** producers' questionnaire response, p. 8.

[46] *** producers' questionnaire response, p. 9; *** producers' questionnaire response, p. 4.

[47] *** producers' questionnaire response, p. 8.

[48] *** producers' questionnaire response, p. 7.

[49] *** producers' questionnaire response, p. 7; *** response, p. 8, and ***

[50] *** producers' questionnaire response, p. 12.

[51] *** producers' questionnaire response, p. 9.

[52] ***.

[53] *** producers' questionnaire response, p. 13.

[54] *** producers' questionnaire response, p. 10.

[55] *** producers' questionnaire response, Att. II-3h; *** response, p. att II-3; and *** response, p. 11.

[56] *** producers' questionnaire response, p. 6.

Interchangeability and Customer and Producer Perceptions

In the previous investigations pertaining to coated groundwood paper, it was noted that because printing characteristics are unique to each type of graphic paper, they were rarely substituted. The Commission's report continued, "most buyers decide upon the printing effect, both visual and tangible, they wish to achieve and select a paper accordingly. Switching may occur, if another type of paper better suits their needs or constraints, but most publishers – particularly those of recurring products like magazines and catalogues – are neither indifferent nor capricious as to their choice of paper."[57]

With respect to the interchangeability of CFS and coated groundwood, the available information in these investigations generally supports the earlier assertion. Customers reportedly view CFS as more suited to prestigious applications such as annual reports, high-end catalogues and magazines, and high impact direct mail.[58] Interchangeability is inherently restricted because CFS is generally not available in basis weights less than 45 pounds and there are only three common basis weights (45, 50, and 60 pound).[59] Technical improvements made to the groundwood pulping process since 1991 have not altered the basic distinction between groundwood and freesheet paper or increased the substitutability of one for the other.[60]

One U.S. CFS producer asserted that high brightness, coated groundwood grades have attempted to substitute for CFS with moderate success but that a more typical occurrence was the catalog or magazine publisher who switched from CFS to coated groundwood as circulation increased to save postal costs.[61] In the market for gift wrap base stock, where CFS and coated groundwood do compete, coated groundwood is used more for holiday gift wrap than for everyday gift wrap. CFS is preferred for everyday gift wrap because it will not yellow if held by the consumer for an extended period of time.[62]

With respect to uncoated free sheet, the general perception is that CFS is a superior product because it prints better than uncoated free sheet.[63] The petitioner asserts that CFS and uncoated free sheet are not interchangeable in the market place expressly because of the difference in image quality of the printed sheets.[64] Other U.S. producers tend to support this assertion noting that customer applications often require either CFS paper or uncoated free sheet[65] and that for certain uncoated free sheet end uses (e.g., carbonless and thermal base stock), CFS paper is simply not suited.[66] Another producer stated that CFS paper and uncoated free sheet were technically interchangeable albeit with significant differences in the print quality, surface feel, and appearance of the finished products.[67] One producer's sales staff emphasizes the sale of coated products over uncoated products due to higher margins and less competition.[68]

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[57] *Coated Groundwood Paper from Belgium, Finland, France, Germany, and the United Kingdom, Inv. Nos. 731-TA-487-490 (Final)*, USITC Publication 2467, December 1991, p. A-9.

[58] *** producers' questionnaire response, p. 11.

[59] *** producers' questionnaire response, p. 8.

[60] ***.

[61] *** producers' questionnaire response, att. II-3f.

[62] *** producers' questionnaire response, p. 8.

[63] *** producers' questionnaire response, p. 7, Stora Enso response, p. 7, NewPage response p. 9.

[64] *** producers' questionnaire response, p. 8.

[65] *** producers' questionnaire response, p. 7

[66] *** producers' questionnaire response, p. 7.

[67] *** producers' questionnaire response, p. 7.

[68] *** producers' questionnaire response, p. 8.

Although there is some interchangeability between coated kraft paper and CFS paper in certain end uses (e.g., cover, bags), it is generally limited to markets where CFS paper is sold to converters.[69] For heavy weight grades of coated kraft paper (e.g., bristols, solid bleached sulfate), the stiffness of the sheet is an important performance specification, and unlike CFS paper cover grades that are typically sold by weight, bristols are generally sold on the basis of caliper. End uses for bristols, many of which require C1S, include clothing tags, lottery tickets, playing cards, table-top tents, hotel "do not disturb" signs, greeting cards, calendars, post cards, as well as paperback book covers.

Customer perceptions for C2S and C1S are generally similar, although C1S is reportedly more apt to be sold to converters than is C2S. Producers perceive C1S to be more technically challenging because of the requirements of downstream converting processes.[70] The necessity for C1S to run well in customers' converting equipment makes a formal supplier qualification process for C1S more likely than for C2S.[71] C2S can substitute for C1S as long as the customer doesn't mind the side-to-side surface difference.[72] However, C1S cannot substitute for C2S because C2S applications require the same surface characteristics on both sides of the paper.[73]

Channels of Distribution

Generally, channels of distribution are the same for CFS paper and other types of graphics papers in that they are either sold directly to large users or to distributors (i.e., paper merchants and/or brokers).[74] However, the relative importance of one segment or the other may vary. Reportedly, the majority of CFS is sold through merchants.[75] Coated groundwood, on the other hand, is more likely to be sold direct because the end uses for coated groundwood (e.g., weekly magazines) are more heavily weighted to applications that lend themselves to direct sales to large users.[76] The types of customers to which direct sales are made may also differ. CFS paper is sold directly to users such as magazine, catalogue, and book publishers, whereas direct sales of uncoated free sheet often go to envelope and forms converters and office supply stores in addition to book publishers.[77] Reportedly, coated kraft paper is sold mostly to converters, particularly for flexible packaging (e.g., bags, candy over-wrap sleeves).[78] C1S is more apt than C2S to be sold direct than to distributors. Large customers for C1S include various converters such as litho laminators, pressure sensitive label OEMs, and metallizer OEMs.[79]

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[69] *** producers' questionnaire response, p. 9, ***.

[70] *** producers' questionnaire response, p. 11.

[71] *** producers' questionnaire response, p. 13.

[72] *** producers' questionnaire response, p. 10.

[73] *** producers' questionnaire response, p. 11.

[74] According to one producer's definition, brokers differ from paper merchants in that they never take possession of the paper. *** producers' questionnaire response, p. 9, and *** response, p. 8.

[75] *** producers' questionnaire response, p. 7

[76] *** producers' questionnaire response, p. 8, and *** response, p. 11.

[77] *** producers' questionnaire response, p. 7, and *** response, p. 9

[78] *** producers' questionnaire response, p. 6; *** response, p. 12.

[79] *** producers' questionnaire response, p. 13.

Price

CFS paper typically has a higher price than other types of graphics papers. The price of coated groundwood is traditionally less than that for CFS paper.[80] Competition with coated groundwood is limited because CFS paper is not available in basis weights below 45 pounds; a producer active in gift wrap and converting segments noted that CFS paper rarely competed against coated groundwood.[81] For products with similar characteristics (e.g., 45 pound, 86 brightness), CFS paper prices were reported to be approximately 10 percent higher than those for coated groundwood.[82] The price for CFS paper is traditionally higher than that for uncoated free sheet[83] by as much as 20 to 40 percent according to U.S. CFS paper producers.[84] The higher prices were attributed to the more complex manufacturing process for CFS paper which leads to higher production costs and less efficiency.[85] U.S. CFS paper producers reported that the price of C2S is generally similar to or at a slight premium above C1S,[86] with the estimated price differential being 10 to 15 percent.[87] In was noted that price trends generally run parallel for both C1S and C2S.[88]

DATA ON PRODUCT TYPES

Respondents have raised the issue as to whether competition between U.S.-produced CFS paper and imports of subject merchandise is attenuated. *See*, for example, Chinese manufacturers and Unisource's postconference brief where they assert that web rolls constitute a "distinct market segment" and Korean manufacturers' postconference brief where they argue that the domestic industry does not face what they label as "significant competition" from subject imports within the web roll "segment" of the U.S. market.[89] Petitioner emphasizes that CFS paper is a commodity product and that respondents "offer no evidence" that "they are actually blocked from competing for sales of web rolls."[90]

As shown in table I-3, the "domestic industry" (which as shown in the notes include data for a relatively small volume of Canadian production) consists primarily of rolls (*** percent in 2003, *** percent in 2004, and *** percent in 2005). *** web rolls were imported from the subject countries[91] and only a relatively small portion of total subject imports were in the form of sheeter rolls (*** percent in 2003, *** percent in 2004, and *** percent in 2005). Most subject merchandise was imported in sheet-

[80] *** producers' questionnaire response, p. 11.

[81] *** producers' questionnaire response, p. 8.

[82] *** producers' questionnaire response, p. 8.

[83] *** producers' questionnaire response, p. 9.

[84] *** producers' questionnaire response, p. 7, and *** response, p. 7.

[85] *** producers' questionnaire response, p. 7, and *** response, p. 7.

[86] *** producers' questionnaire response, p. 13; *** response, p. 11; and *** response, p. 10.

[87] *** producers' questionnaire response, p. 10.

[88] *** producers' questionnaire response, p. 11.

[89] Chinese manufacturers and Unisource's postconference brief, pp. 4-10; and Korean manufacturers' postconference brief, pp. 8-11 and app. A (pp. 2-5). Chinese manufacturers and Unisource further assert that there are additional factors that differentiate subject imports from domestically produced CFS paper. Chinese manufacturers and Unisource's postconference brief, pp. 10-13.

[90] Petitioners' postconference brief, pp. 7, 37-41, and exh. 1 (pp. 21-37).

[91] Petitioner's postconference brief includes a declaration (exh. 14) from ***.

form. The subject web sales that were reported occurred in the last full year of the period examined (2005)[92] and were *** larger than the smaller volume shown for 2003.

Table I-3
Coated free sheet paper: U.S. consumption by source and by product type, 2003-05

* * * * * * *

The following tabulation provides data on NewPage's domestic production of CFS paper, by type of product, that were provided by the firm in response to a request for supplemental information:

* * * * * * *

Data on CFS paper types gathered in Commission questionnaires and derived from official Commerce statistics are presented in appendix E.

[92] Sales of U.S. imports of CFS web from China were *** short tons in January-September 2006 and were projected at *** short tons for full year 2006. *See* part VII of this report for additional information.

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

U.S. MARKET SEGMENTS/CHANNELS OF DISTRIBUTION

CFS paper is sold in three forms: web rolls, sheeter rolls, and sheets. The product is sold to be used in printed materials requiring high-gloss pages, including books, catalogues, magazines, posters, signage, playing cards, and packaging. Petitioner reported that approximately *** percent of its business is accounted for by commercial printing, which includes annual reports and direct mail.[1] Petitioner reported that approximately *** percent of U.S. producers' sales of CFS paper are made through distributors, typically referred to as paper merchants.[2] The remainder of sales are directly to printers and other end users.[3] Respondent importers estimate that *** percent of subject imports are sold to merchants.[4] Respondent importers reported that there may also be a paper broker that arranges for a direct sale from a foreign manufacturer to an end user or from a manufacturer to a paper merchant.[5] Therefore, while some importers serve as distributors, others serve as brokers and sell to other distributors.[6]

Petitioner reported that both the domestic product and the subject imports are sold to distributors and end users for the same types of applications.[7] There is some overlap of customers of U.S. producers and subject importers. ***. Among importers from the subject countries, *** were all listed as customers. There was a wide variety of smaller printers also listed as customers by importers from each of the subject countries, but there was no clear overlap of these customers.

When firms were asked to list market areas in the United States where they sell CFS paper, the responses showed that the market areas tended to be nationwide. Eight of nine responding U.S. producers reported that they sell nationally. Respondents have reported that U.S. producers are sometimes reluctant to ship west of the Rocky Mountains because of higher transportation costs.[8]

Among responding importers of CFS paper from China, six of nine importers reported that they sold nationally. The others listed specific geographic regions, including the Northeast, the Mid-Atlantic, the Southeast, the Rocky Mountains, the Midwest, the west coast, and southern New England. Four of seven responding importers of CFS paper from Indonesia reported that they sold nationally. The others listed the Northeast, the Mid-Atlantic, the Southeast, the Midwest, the Rocky Mountains, the west coast, the Northeast, and Hawaii. Six of 12 responding importers of CFS paper from Korea reported that they sold nationally. The others listed the west coast, the Southeast, and the Midwest.

Official Commerce import statistics, by subject source and customs district, indicate that imports of CFS paper from China are most heavily concentrated on the west coast, accounting for 66.3 percent of total U.S. imports from China during 2005, followed by imports to the east coast, accounting for 22.4

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[1] Conference transcript, p. 92 (Tyrone).

[2] Petitioner's postconference brief, exh. 1, p. 4.

[3] Petitioner reported that it may sell directly to larger printers and publishers. Conference transcript, p. 74 (Tyrone).

[4] Respondents also state that long lead times on imports necessitate the purchaser to hold inventories, which mostly precludes producers from subject countries from selling directly to end users who are unable to maintain large inventories. Chinese respondents' postconference brief, p. 18.

[5] Conference transcript, p. 144 (Dragone).

[6] *** of the *** responding importers of record listed distributors among their customers.

[7] Conference transcript, p. 48 (Jones).

[8] Conference transcript, p. 100 (Anderson).

percent.[9] U.S. imports of CFS paper from Indonesia are also concentrated on the west coast, accounting for 52.8 percent of total U.S. imports from Indonesia during 2005, followed by imports to the Great Lakes region, accounting for 26.9 percent of imports from Indonesia, and imports to the east coast, accounting for 17.0 percent of imports. U.S. imports of CFS from Korea are also concentrated on the west coast, accounting for 63.3 percent of total imports from Korea during 2005, followed by imports to the east coast, accounting for 25.5 percent of imports of CFS paper from Korea.

U.S. inland shipping distances for U.S.-processed CFS paper were compared with those for imports from China, Indonesia, and Korea. For U.S. producers, *** percent of their U.S. sales occur within 100 miles of their storage or production facility, *** percent were within distances of 101 to 1,000 miles, and *** percent were at distances of over 1,000 miles from their facilities. For imports from China, *** percent of sales occurred within 100 miles of importers' storage facilities, *** percent were within 101 to 1,000 miles, and *** percent were over 1,000 miles. For imports from Indonesia , *** percent of sales occurred within 100 miles of importers' storage facilities, *** percent were within 101 to 1,000 miles, and *** were over 1,000 miles. For imports from Korea , *** percent of sales occurred within 100 miles of importers' storage facilities, *** percent were within 101 to 1,000 miles, and *** percent were over 1,000 miles.

Petitioner also reported that shipping coated free sheet in web-roll form is more efficient than shipping sheets because web rolls are easier to stack.[10] Respondent importers, on the other hand, reported that shipping web rolls is less efficient than shipping sheets because they cannot be containerized, resulting in more unused space in the shipping vessel, and that transportation costs per ton are higher for web rolls.[11]

Five of nine responding U.S. producers reported that the majority of their sales are made from inventory, with the remainder reporting that the majority of sales are produced to order. Lead times for delivery of CFS paper for U.S. producers ranged from to one day to four weeks on sales from inventory and ranged from 10 days to 30 days on sales produced to order. For importers, seven of nine responding importers reported that the majority of their sales are made from inventory. Lead times for delivery of CFS paper for importers ranged from one day to three days on sales from inventory and ranged from three weeks to 120 days on sales produced to order. Respondent importers reported that due to the longer lead times associated with imported product, merchants buying imports must hold them in inventory and thus face additional handling costs.[12]

SUPPLY AND DEMAND CONSIDERATIONS

U.S. Supply

Allegations of Allocation

One importer, ***, reported that it was placed on "soft allocation", or a reservation system, by U.S. producers in 2004 for web rolls, sometimes of a certain basis weight.[13] This importer also reported that it and other customers, including ***, were put on "soft allocation" in January 2006, citing a letter

[9] See table IV-3.

[10] Petitioner's postconference brief, exh. 1, p. 11.

[11] Conference transcript, pp. 103-104 (Anderson), 120 (Dragone), and 167 (Hunley). Korean respondents' postconference brief, p. 10. Chinese respondents' postconference brief, p. 7.

[12] Conference transcript, pp. 106, 140 (Anderson) and p. 109 (Cho).

[13] Conference transcript, pp. 112-113 (Dragone).

from ***.[14] Petitioner reports that ***.[15] Petitioner also reported that sometimes a mere perception that supplies are tightening will induce customers to place orders in excess of what they actually require and suppliers may respond by using a reservation system to avoid disruptions in the supply chain.[16]

Domestic Production

The supply response of CFS paper producers to changes in price depends on such factors as the level of excess capacity, the availability of alternate markets for U.S.-produced coated free sheet paper, inventory levels, and the ability to shift to the manufacture of other products. The evidence indicates that the U.S. supply is likely to be relatively inelastic, due primarily to the high levels of capacity utilization and lack of alternative markets.

Industry capacity

U.S. producers' capacity utilization increased from 90.1 percent in 2003 to 95.1 percent in 2005. This level of capacity utilization indicates that U.S. producers have little, if any, unused capacity with which they could increase production of CFS paper in the event of a price change.

Alternative markets

Exports by U.S. producers, as a share of total shipments, increased from 5.5 percent in 2003 to 6.3 percent in 2005. These data indicate that U.S. producers have a limited ability to divert shipments to or from alternative markets in response to changes in the price of CFS paper.

Inventory levels

The ratio of end-of-period inventories to U.S. shipments decreased from 17.2 percent in 2003 to 15.4 percent in 2005. These data indicate that U.S. producers have some inventories they could use as a means of increasing shipments of CFS paper to the U.S. market.

Production alternatives

Five of seven responding U.S. producers reported using the actual machinery and equipment used to make CFS paper in the production of other products.

Subject Imports

The responsiveness of supply of imports from China, Indonesia, and Korea to changes in price in the U.S. market is affected by such factors as capacity utilization rates and the existence of home markets and other export markets. Based on available information, producers in China, Indonesia, and Korea are likely to respond to changes in demand with slight changes in the quantity of shipments of CFS paper to the U.S. market. The main contributing factors to this degree of responsiveness of supply are the high levels of capacity utilization and relatively small inventories.

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[14] Chinese respondents' postconference brief, p. 16, exh. 1 and exh. 3. ***.

[15] Petitioner's postconference brief, exh 1, p. 39.

[16] Petitioner's postconference brief, exh. 1, pp. 38-39.

Industry capacity

During the period of investigation, the capacity utilization rate for Chinese producers of CFS paper slightly increased from *** percent in 2003 to *** percent in 2005; it is projected to reach *** percent in 2006. The capacity utilization rate for producers in Indonesia increased from *** percent in 2003 to *** percent in 2005; it is projected to reach *** percent in 2006. The capacity utilization rate for producers in Korea increased from 91.3 percent in 2003 to 95.9 percent in 2005; it is projected to be 94.8 percent in 2006. These levels of capacity utilization indicate that subject producers have very little, if any, unused capacity with which they could increase production of CFS paper in the event of a price change.

Alternative markets

Available data indicate that producers in China, Indonesia, and Korea do have the ability to divert shipments to or from alternative markets in response to changes in the price of CFS paper. Shipments of CFS paper from China to the United States increased from approximately *** percent of total shipments in 2003 to *** percent in 2005. The share of shipments from China to export markets other than the United States increased from about *** percent in 2003 to *** percent in 2005 with the remainder going to its home market, including internal consumption. Shipments of CFS paper from Indonesia to the United States increased from approximately *** percent of total shipments in 2003 to *** percent in 2005. The share of shipments from Indonesia to export markets other than the United States decreased from *** percent in 2003 to *** percent in 2005, with the remainder going to its home market, including internal consumption. Shipments of CFS paper from Korea to the United States decreased from approximately 19.4 percent of total shipments in 2003 to 18.9 percent in 2005. The share of shipments from Korea to export markets other than the United States increased from 35.2 percent in 2003 to 36.0 percent in 2005, with the remainder going to its home market, including internal consumption.

Inventory levels

Inventories of subject producers in China, as a share of total shipments, increased from *** percent in 2003 to *** percent in 2004, before decreasing to *** percent in 2005. Inventories of subject producers in Indonesia, as a share of total shipments, increased from *** percent in 2003 to*** percent in 2005. Inventories of subject producers in Korea, as a share of total shipments, increased from 4.9 percent in 2003 to 5.3 percent in 2005. These data indicate that foreign producers have a very limited ability to use inventories as a means of increasing shipments of CFS paper to the U.S. market.

Nonsubject Imports

Based on official Commerce data, U.S. imports of CFS paper from nonsubject sources accounted for 59.5 percent of the quantity of total U.S. imports in 2005. The major sources of nonsubject imports of CFS paper include Canada, Finland, and Germany.

U.S. Demand

Demand Characteristics

The evidence discussed below indicates that the demand for this product is likely to be relatively price inelastic. U.S. apparent consumption increased by *** percent from 2003 to 2005. When asked how overall demand for CFS paper has changed since January 2003, all nine responding U.S. producers and 18 of 31 responding importers stated that demand has increased.[17] The increase in demand was most commonly attributed to economic growth and its effect on advertising and the publication of corporate financial reports. Two U.S. producers reported that the restrictions placed on telemarketing have increased the demand for direct mail advertising. One importer also indicated that demand may be shifting more towards coated free sheet in web-roll form, as roll production becomes more efficient.[18]

Substitute Products

When asked whether there are substitutes for CFS paper, all but one responding U.S. producer and most responding importers cited one or more alternatives. Coated groundwood paper and uncoated free sheet paper were named most often; other possible substitutes named included high-yield board, super-calendared papers, plastic, coated bristols, electronic media, fine art paper, and film for packaging. However, two producers reported that substitutability is limited. In particular, two producers reported that higher-end publications typically do not substitute away from CFS paper in order to retain their image and standard of quality. Moreover, petitioner noted that once a recurring publication has launched, it is slow to switch the paper it uses. One importer reported that substitutability between coated free sheet and coated groundwood is limited because coated groundwood is not readily available in sheet form.[19] Another importer reported that substitution would be more likely in lower-end applications. Five U.S. producers reported that the price of substitutes can affect prices of CFS paper, citing time lags of three to four months. In particular, three producers reported that price increases of substitutes will have the strongest impact on lower weights of CFS paper. One producer reported that the price of uncoated free sheet paper has been increasing, which is increasing demand for CFS paper. This producer also reported that increases in the price of plastic have increased demand for CFS paper as well. Seven of 12 responding importers reported that the prices of substitutes do not affect the price of CFS paper. The five importers that reported that prices of substitutes do affect the price of CFS paper cited time lags of four to 12 weeks. One importer reported that price changes across all segments of the printing paper market tend to move in unison.

SUBSTITUTABILITY ISSUES

The extent of substitutability between domestic products and subject and nonsubject imports and between subject and nonsubject imports is examined in this section. The discussion is based upon the results of questionnaire responses from producers and importers.

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[17] Eleven responding importers reported that demand was unchanged and two reported that it has decreased. The importers reporting that demand was unchanged most commonly cited the growth of the internet and electronic media.

[18] Conference transcript, p. 162 (Dragone).

[19] Conference transcript, p. 164 (Dragone).

Comparison of Domestic Product and Subject Imports

In order to determine whether U.S.-produced CFS paper can generally be used in the same applications as imports from China, Indonesia, and Korea, producers and importers were asked whether the products can "always," "frequently," "sometimes," or "never" be used interchangeably. The majority of U.S. producers that compared CFS paper from China, Indonesia, Korea, and nonsubject countries with the product from the United States reported that they are always comparable, as shown in table II-1. The majority of importers reported that U.S. product is always comparable with coated free sheet from the subject countries and that the products from each of the subject countries are always comparable with each other. When comparing the U.S.-produced product and the product from the subject countries with product from nonsubject sources, the majority of responding importers reported that they are frequently comparable.

Table II-1
Coated free sheet paper: Perceived degree of interchangeability of product produced in the United States and in other countries

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
U.S. vs. China	5	3	0	0	14	11	3	0
U.S. vs. Indonesia	5	2	0	0	13	10	2	0
U.S. vs. Korea	5	3	0	0	17	11	3	0
U.S. vs. Nonsubject	5	2	0	0	8	13	0	0
China vs. Indonesia	4	0	0	0	14	9	1	0
China vs. Korea	4	1	0	0	13	12	1	0
China vs. Nonsubject	4	1	0	0	7	12	1	0
Indonesia vs. Korea	4	0	0	0	12	12	1	0
Indonesia vs. Nonsubject	4	0	0	0	7	12	1	0
Korea vs. Nonsubject	4	1	0	0	8	12	1	0

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

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

Both petitioner and respondent importers characterize CFS paper as a commodity product.[20] Four importers reported that coated free sheet rolls are not interchangeable with coated free sheet in sheet form and that U.S. producers concentrate on web roll production while subject import suppliers concentrate on sheet production. Respondent importers reported that CFS paper in sheet form is often used for small-volume, high-end applications, whereas web rolls are used in high-volume applications.[21] Petitioner and respondent importers both reported that end users typically have either a printer for web rolls or a sheet-

[20] Petitioner's postconference brief, p. 7.

[21] Korean respondents' postconference brief, p. 9.

fed press, but not both.[22] However, petitioner reports that there is no significant difference in physical characteristics or applications between web rolls, sheeter rolls, and sheet, stating that it produces some CFS paper that is certified for use in both sheet-fed presses and web-roll printers.[23] Petitioner also identified several customers that have both kinds of presses, as well as customers that are capable of converting a roll product into a sheet product.[24] Petitioner also reported that it is not very costly for customers to establish converting operations.[25]

As indicated in table II-2, the majority of U.S. producers that compared the United States with China, Indonesia, and Korea said that differences other than price are frequently or sometimes significant. The majority of U.S. producers that compared imports from one subject country with another subject country said that differences other than price are sometimes significant. The majority of responding importers reported that differences other than price between CFS paper processed in the United States compared to CFS paper processed in the subject countries are sometimes significant; however, many others reported that the differences are frequently or always significant.

One U.S. producer reported that custom sizing is only available from U.S. sources. Petitioner noted that customers may request custom sizes in an attempt to save money by not paying for excess paper; yet subject imports that are not custom ordered are still less expensive than what U.S. producers can offer, according to petitioner.[26] Three U.S. producers reported that the technical support and customer service provided by U.S. producers is superior to those provided by the subject import suppliers, in part due to their geographic proximity to customers which allows speedier delivery and response time. Two producers reported that the availability and product range offered by U.S. producers is superior to those offered by subject import suppliers. One U.S. producer reported that the quality of CFS paper from Asian countries is inferior to that of domestically produced CFS paper. One U.S. producer reported that it is among the few sources that produce environmentally friendly CFS paper.

Petitioner also reported that branding plays a role in purchasers' decisions to buy CFS paper.[27] However, petitioner also stated that producing private label brands for merchants is not necessarily a good option for producers because the private label brand competes with the manufacturer's own brand, and often at a lower price.[28] Two importers reported that the opportunity for brand development is an important factor. One importer reported that many customers only use one brand of CFS paper.[29] This importer also indicated that U.S. producers provide superior marketing support.[30] However, another importer reported that U.S. producers were unwilling to work together in developing a private brand and that it then turned to the subject producers to source this product.[31]

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[22] Conference transcript, p, 91 (Tyrone). Chinese respondents' postconference brief, p. 8.

[23] Petitioner's postconference brief, p. 38.

[24] Petitioner named *** customers that have both sheet-fed presses and web roll printers and *** customers that are capable of converting a web roll into sheet. Petitioner's postconference brief, exh. 1, pp. 18-19 and attach. C.

[25] Petitioner's postconference brief, exh 1, p. 19.

[26] Conference transcript, p. 77 (Tyrone).

[27] Conference transcript, p. 76 (Tyrone).

[28] Petitioner's postconference brief, exh. 1, p. 4.

[29] Conference transcript, p. 158 (Anderson).

[30] Conference transcript, p. 106 (Anderson).

[31] Conference transcript, pp. 115-116 and 154-157 (Dragone).

Table II-2
Coated free sheet paper: Differences other than price between products from different sources[1]

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
U.S. vs. China	0	3	4	1	6	8	9	4
U.S. vs. Indonesia	0	2	3	1	4	6	10	3
U.S. vs. Korea	0	2	4	1	5	9	10	4
U.S. vs. Nonsubject	0	1	3	1	3	5	10	2
China vs. Indonesia	0	0	1	2	4	3	10	6
China vs. Korea	0	0	3	1	5	4	12	3
China vs. Nonsubject	0	0	2	1	4	3	10	2
Indonesia vs. Korea	0	0	2	1	5	4	10	3
Indonesia vs. Nonsubject	0	0	1	1	3	2	9	3
Korea vs. Nonsubject	0	0	2	1	3	3	9	3

[1] Producers and importers were asked if differences other than price between CFS paper produced in the United States and in other countries are a significant factor in their firms' sales of CFS paper.

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

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

Several importers reported that U.S. producers have shorter delivery times than subject import suppliers. One importer indicated that longer lead times from subject countries imposes higher costs on importers that must make a greater investment in maintaining inventories. One importer cited these higher inventory costs as the reason why subject import suppliers do not offer coated free sheet in web roll form in the U.S. market; namely, because the inventory costs can be offset by the higher profit margins realized on CFS paper in sheet form, but not on CFS in web-roll form, which is lower priced than sheets and bears lower profit margins.[32]

Three importers reported that the quality of CFS paper from subject countries is superior than that of domestically produced CFS paper, with one importer specifically citing higher brightness, shade, and gloss. One importer reported that U.S.-produced CFS paper is more stiff, allowing it to run faster through printing presses. Higher stiffness also allows for substitution to lower basis weights in some applications. One importer reported that Chinese producers do not offer CFS paper with a matte, or "natural" finish and have not been approved for use in digital printing. One importer also reported that Asian suppliers generally do not produce lightweight coated product.[33] Three importers reported that availability is sometimes a significant difference, but it was unclear whether U.S. product or subject imports were superior in these comparisons.

Three importers reported that availability is sometimes a significant difference, but it was unclear whether U.S. product or product from the subject countries was superior in these comparisons.

[32] Conference transcript, p. 140 (Anderson).

[33] Conference transcript, p. 146 (Dragone).

Two importers reported that they do not have access to domestically produced CFS paper, one citing unavailability in certain geographic markets. One importer reported that U.S. producers take advantage of the fact that subject imports do not offer web rolls in the United States by requiring customers to buy the U.S. producers' full product line rather than just buying web rolls.[34] Two importers also reported that the technical support and customer service offered by U.S. producers is superior to that of import suppliers. Three importers reported that paper merchants prefer to offer their customers a wider range of quality and prices and therefore carry U.S.-produced CFS paper as well as subject imports and possibly European product as well.[35]

Other Country Comparisons

In addition to comparisons between the U.S. product and imports from the subject countries, U.S. producer and importer comparisons between the United States and imports from nonsubject countries and between subject imports and nonsubject imports are also shown in tables II-1 and II-2. The majority of responding U.S. producers and importers reported that nonsubject imports are "always" or "frequently" interchangeable with domestic product and with subject imports. The majority of responding U.S. producers and importers reported that differences other than price between nonsubject imports and domestic product and between nonsubject imports and subject imports are sometimes significant.

One importer reported that imports from European countries are competitive in the web-roll segment.[36] Another importer reported that CFS paper has different brightness levels and basis weights. Another importer reported that European countries make coated paper which is less stiff than domestic product or subject-produced coated free sheet, due to the different fibers and coating formulations they use. This importer also noted that CFS paper from Europe tends to require more care in handling. Another importer reported that European suppliers, like domestic producers, offer lower basis weights.[37] This importer also reported that the European CFS paper has the best surface quality, consisting of very fine fiber which is more receptive to coatings.[38] Another importer reported that imports from Europe are mostly sold on the east coast.[39]

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[34] Conference transcript, pp. 121-122 (Hunley).

[35] Conference transcript, pp. 99-100 (Anderson), 112 (Dragone), and 118 (Hunley). Chinese respondents' postconference brief, p. 19.

[36] Conference transcript, p. 108 (Cho).

[37] Conference transcript, p. 146 (Dragone).

[38] This importer sources web roll product from Germany and sheet product from Italy. Conference transcript, pp. 150 and 182 (Dragone).

[39] Conference transcript, p. 184 (Anderson).

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

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the "alleged"margins of dumping was presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of 10 firms that accounted for over 95 percent of U.S. production of CFS paper during 2005.[1] The petitioner also identified Bowater, Inc. (Greenville, SC) and Wausau Paper Corp. (Mosinee, WI) as manufacturers of CFS paper. ***.[2] Wausau Paper Corp. (Wausau) responded that it does not produce the subject merchandise.[3]

U.S. PRODUCERS

The U.S. industry primarily consists of the following firms, each of which provided a response to the Commission's producer questionnaire: Appleton Coated LLC (Appleton), Kimberly, WI; P.H. Glatfelter Co. (Glatfelter), York, PA; International Paper Co. (International Paper), Memphis, TN; Mohawk Fine Papers, Inc. (Mohawk), Cohoes, NY; NewPage Corp. (NewPage), Dayton, OH; S.D. Warren Co., d/b/a Sappi Fine Paper NA (Sappi), Boston, MA; Smart Papers LLC (Smart Paper), Hamilton, OH; Stora Enso North America Corp. (Stora Enso), Wisconsin Rapids, WI; Verso Paper Holdings LLC (Verso), Memphis, TN; and West Linn Paper Co. (West Linn), West Linn, OR. Responding firms' positions on the petition, plant locations, and their production and shares of CFS paper production in 2005 are shown in table III-1. The petitioner, NewPage, accounted for *** of U.S. production of CFS paper in 2005. Sappi accounted for ***. Manufacturing plants primarily are located in the north central part of the United States and in Maine, although there is also CFS production in the south (in Alabama) with a relatively small volume produced on the West Coast (in Oregon). Several U.S. producers are owned by holding companies (NewPage, Smart Paper, Verso, and West Linn) or by offshore manufacturers (Appleton, Sappi, and Stora Enso). International Paper and Mohawk are not owned by other entities, whereas Glatfelter's stock is traded on the New York stock exchange.

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[1] Petition, exh. I-1. The Commission sent an additional 11 questionnaires to other paper manufacturers; with the exception of Fraser Papers Ltd. (Fraser), none of the firms that responded (Boise White Paper, Dunn Paper, FiberMark North America, Hollingsworth & Vose, and Little Rapids) reported producing CFS paper. Fraser indicated that CFS paper accounted for about *** to *** percent of its total paper production and that the firm could not derive accurate allocations for its CFS production. Fraser produced about *** tons in 2005. Staff telephone interview with ***, Fraser, November 9, 2006. ***.

[2] ***.

[3] *See* Wausau's negative response to producer questionnaire and staff telephone interview with ***, Wausau, November 8, 2006. According to its website, the firm manufactures uncoated printing and writing papers, technical specialty papers, and towel and tissue products. It also manufactures specialty release liners that are coated. *See www.wausaumosinee.com* and *www.wpcoatedproducts.com*, retrieved November 16, 2006.

Table III-1
Coated free sheet paper: U.S. producers, positions on the petition, plant location(s), production, and shares of U.S. production in 2005

Firm	Position on the petition	Plant location(s)	Production (*short tons*)	Share of production (*percent*)
Appleton Coated LLC[1]	***	Combined Locks, WI	***	***
P.H. Glatfelter Co.[2]	***	Spring Grove, PA; Chillicothe, OH	***	***
IP/Verso: International Paper Co.[3]	***	Courtland, AL	***	***
Verso Paper Holdings LLC[4]	***	Courtland, AL; Jay, ME	***	***
Mohawk Fine Papers, Inc.[5]	***	Cohoes, NY; Waterford, NY Hamilton, OH (2005-06 only)	***	***
NewPage Corp.[6]	Petitioner	Escanaba, MI; Luke, MD; Rumford, ME; Wickliffe, KY	***	***
S.D. Warren Co., d/b/a Sappi Fine Paper NA[7]	***	Cloquet, MN; Muskegon, MI; Skouhegan (Somerset), ME; Westbrook, ME	***	***
Smart Papers LLC[8]	Support	Hamilton, OH	***	***
Stora EnsoNorth America Corp.[9]	***	Kimberly, WI; Wisconsin Rapids, WI	***	***
Belgravia Investments, Inc., d/b/a/ West Linn Paper Co.[10]	***	West Linn, OR	***	***
Total	--	--	4,597,794	100.0

[1] Appleton is ***-percent owned by Arjo Wiggins S.A.S. (France), a manufacturer of CFS paper. ***.
[2] Glatfelter's common stock is traded on the New York stock exchange.
[3] International Paper is not owned by any other firm. ***.
[4] Verso is ***-percent owned by ***.
[5] Mohawk is not owned by any other firm. Mohawk acquired its Hamilton, OH facility from International Paper in 2005-06. Staff telephone interview with ***, Mohawk, December 13, 2006.
[6] NewPage is ***-percent owned by ***.
[7] Sappi is ***-percent owned by Sappi Ltd. (South Africa). A division of Sappi Ltd. manufactures CFS paper in Belgium (Sappi Fine Paper Europe). NewPage states that ***. Petitioner's postconference brief, p. 36, n. 86.
[8] Smart Paper is owned by ***, which is in turn ***-percent owed by *** and ***-percent owned by ***.
[9] Stora Enso is ***-percent owned by Stora Enso Oyi (Finland), a manufacturer of CFS paper. Subsidiaries of Stora Enso Oyi also manufacture CFS paper in China (Stora Enso Suzhou Paper Co., Ltd) and Germany (Stora Enso Uetersen GmbH & Co. KG). Stora Enso stated in its questionnaire response that ***.
[10] West Linn is ***-percent owned by ***.

Note.–Does not include data for Pasadena (with a capacity rating of *** tons) that closed in October 2005. Also does not include data for Fraser. Fraser produced *** tons of CFS paper in 2003, *** tons in 2004, and *** tons in 2005.

Source: Compiled from data submitted in response to Commission questionnaires, except as noted.

There have been a number of changes to organizational and production operations of firms since 2003. Capacity changes[4] are shown in the following tabulation:

* * * * * * *

As shown above, Pasadena Paper Co. (Pasadena), which was an independent company owned by the Canadian-based Belgravia Paper Co., shut down operations in 2005; representatives of the firm did not respond to a request to contact the Commission.[5] Pasadena produced both one-sided CFS for use in labels and privately branded two-sided web and sheets. Both the petitioner and respondents attached to their postconference briefs press reports describing what was initially thought to be a temporary shutdown prior to the landfall of Hurricane Rita in September 2005. Petitioner included in its postconference brief a press report from The Citizen (for Pasadena), dated October 10, 2005, that quotes a letter sent to the 315 employees that were terminated. The letter reportedly attributes the closing to "the continued increase in the prices of electricity and natural gas which have been exacerbated by the recent hurricanes, as well as the loss of business to foreign competitors" (*quotes* refer directly to the employee letter).[6] Chinese respondents and Unisource attach additional articles to their postconference brief (exhibit 22) that refer to the high energy costs but make no mention of import competition.[7] The plant was not damaged by the hurricane.

With reference to the Luke shutdown, NewPage announced the permanent closure of the no. 7 paper machine at the plant on November 2, 2005. It reported the sales value of the production volume on the machine to be approximately $***. Employment associated with this system is approximately ***. NewPage included in its producer questionnaire ***.[8] ***.[9] The Sappi closure of a paper machine (and pulp mill) at its Muskegon mill was reported to have impacted approximately *** employees.[10] West Linn stated that due to "***" it ***.[11]

Parties differ in their assessment of the capacity shutdowns, with petitioner attributing the closures to foreign competition[12] while Chinese respondents and Unisource label them as an overdue but positive move for the industry.[13] Korean respondents state that "these capacity closures are in fact

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[4] Petitioner states that entire paper machines need to be installed to increase capacity and, conversely, shutdown to decrease it. They add that the need to run machines continuously makes it difficult to adjust capacity on an incremental basis. Petitioner's postconference brief, pp. 9-10. (As will be discussed later in this section, firms did report being able to boost capacity by coating off-line. Coating off-line is, however, less cost effective than coating on a paper machine.) Petitioner further states that "once a machine has been shut down for several months it becomes very expensive to reactivate it. Thus, capacity that is shut down tends to stay shut down." Ibid.

[5] Commission staff left a voice mail message on November 3, 2006.

[6] Petitioner's postconference brief, exh. 12.

[7] Paperloop.com (dated September 30, 2005 and October 10, 2005); and Associated Press (dated October 7, 2005).

[8] NewPage's producer questionnaire response, question II-2.

[9] ***.

[10] Sappi's producer questionnaire response, question II-2.

[11] West Linn's producer questionnaire response, question II-2.

[12] In support of its position, NewPage cites the "numerous successful" petitions for Trade Adjustment Assistance. Petitioner's postconference brief, p. 6 and exh. 2.

[13] Chinese respondents and Unisource's postconference brief, p. 29. Unisource testified at the conference that the industry consolidations and rationalizations were to take "antiquated production offline in order to increase the operating rates for their more cost-effective equipment and increase their overall profitability." Conference

(continued...)

entirely consistent with similar elimination of less efficient capacity taking place world-wide and in other paper segments (e.g., uncoated free sheet), and are actually a sign of the domestic industry's improved competitive position."[14]

Organizational changes within the industry include Glatfelter's acquisition of the Chillicothe, OH paper mill from NewPage on April 3, 2006.[15] The Chillicothe operation consists of a *** ton-per-year paper making facility in Chillicothe, OH, and ***. International Paper sold its coated and supercalendered papers business to ***, in a transaction that closed on ***.[16] [17]

U.S. PRODUCERS' IMPORTS AND PURCHASES

Imports and purchases by producing firms are shown in table III-2.

Table III-2
Coated free sheet paper: U.S. producers' U.S. production, imports, and purchases, by firm, 2003-05, January-September 2005, and January-September 2006

* * * * * * *

U.S. PRODUCERS' CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION

CFS paper is produced on mills that are also utilized to produce other paper products that include uncoated free sheet and coated groundwood.[18] The following tabulation lists the share (in *percent*) of each firm's total production in 2005 of products produced on machinery and equipment where there is at least some overlap with CFS paper.

* * * * * * *

Another issue encountered in developing capacity estimates is that free sheet paper is coated both on the paper machine line and off-line. *** commented that any measure of capacity is "not as simple" as separately calculating a coating capacity and uncoated capacity figure for firms that maintain separate coating capacity and can coat off-line. In addition to coating off-line, it is possible to move a coating drum to one of the uncoated machines on a temporary basis.[19]

Data concerning U.S. producers' CFS paper capacity, production, and capacity utilization are shown in table III-3. Capacity to produce the subject product in the United States remained relatively stable at 4.7 million to 4.9 million short tons during 2003-05 and is depicted as rising slightly during the January-September 2005 to January-September 2006 interim periods. The increase is due both to a reported capacity increase by *** and to what may be a reporting artifice resulting from the International

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[13] (...continued)
transcript, p. 114 (Dragone)

[14] Korea respondents' postconference brief, pp. 2, 15.

[15] NewPage did not report producing CFS paper in Chillicothe, OH during the period examined (table III-1). Glatfelter indicated that ***. Staff telephone interview with ***, Glatfelter, November 27, 2006.

[16] Data for this operation were reported to the Commission by Verso Paper Holdings LLC (or Verso).

[17] Both International Paper and Verso are shown in table III-1 as currently manufacturing CFS paper in the Courtland, AL mill. ***. International Paper's producer questionnaire response and e-mails from ***, International Paper, November 28, 2006 and November 29, 2006.

[18] Most firms reported that they calculated their subject capacity on the basis of either production or sales.

[19] ***. E-mails from ***, ***, November 29, 2006.

Paper/Verso division.[20] Production of CFS paper rose on an overall basis by 7.6 percent from 2003 to 2005 and by 2.6 percent from January-September 2005 to January-September 2006. U.S. producers' capacity utilization was 90 percent in 2003 and 2004 and then rose to 95 percent in 2005. Interim capacity utilization in interim 2006 was, however, 4 percentage points lower than that reported during the interim 2005 period.[21]

The Chinese respondents and Unisource argue in their postconference brief that the U.S. industry does not have sufficient capacity to meet demand.[22] Petitioner asserts that lost capacity could be brought back on line "if adequate relief were imposed as a result of these investigations."[23] Allocations or "reservations" have been imposed within the CFS industry during the period examined, although parties disagree as to their extent and impact. Unisource testified at the Commission's conference that it was were placed on allocation by "a number" of its CFS suppliers. In its case, the actual allocations depended upon the mill and product (i.e., web, web within a range of specific basis weights and/or sheets).[24] Petitioner stated in its postconference brief that it "***."[25] Attached as exhibits 1 and 3 to Chinese respondents and Unisource's postconference brief are ***.[26]

As shown in table III-4, capacity utilization on the same machinery and equipment used in the production of CFS paper is within the general range for that reported for subject CFS paper alone.

[20] ***. *See* the notes to table III-3.

[21] NewPage states that, due to their high operating costs, a paper mill "requires very high capacity utilization to achieve profitability and an adequate return on investment. Petitioner's postconference brief, p. 9.

[22] Chinese respondents and Unisource's postconference brief, p. 13.

[23] Petitioner's postconference brief, exh. 1, p. 16. They add that NewPage "could shift production from coated groundwood paper to coated free sheet at its Escanaba, MI and Rumford, ME plants if market conditions improved." Ibid.

[24] Conference transcript, pp. 112 and 146-147 (Dragone).

[25] Petitioner's postconference brief, p. 39.

[26] Chinese respondents and Unisource's postconference brief, pp. 15-17. ***.

Table III-3
Coated free sheet paper: Capacity, production, and capacity utilization, by firm, 2003-05, January-September 2005, and January-September 2006

Firm	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Capacity (*short tons*)		
Appleton	***	***	***	***	***
International Paper	(1)	(1)	***	***	***[2]
Glatfelter	***	***	***	***	***
Mohawk[3]	***	***	***	***	***
NewPage	***	***	***	***	***
Sappi	***	***	***	***	***
Smart Paper	***	***	***	***	***
Stora Enso	***	***	***	***	***
Verso	***	***	***	***[4]	***
West Linn	***	***	***	***	***
Total	4,741,656	4,855,056	4,834,098	3,627,401	3,897,321
			Production (*short tons*)		
Appleton	***	***	***	***	***
International Paper	(1)	(1)	***	***	***
Glatfelter	***	***	***	***	***
Mohawk	***	***	***	***	***
NewPage	***	***	***	***	***
Sappi	***	***	***	***	***
Smart Paper	***	***	***	***	***
Stora Enso	***	***	***	***	***
Verso	***	***	***	***	***
West Linn	***	***	***	***	***
Total	4,272,195	4,359,562	4,597,794	3,416,090	3,503,202

Table continued on next page.

Table III-3
Coated free sheet paper: Capacity, production, and capacity utilization, by firm, 2003-05, January-September 2005, and January-September 2006

Firm	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Capacity utilization (*percent*)				
Appleton	***	***	***	***	***
International Paper	(1)	(1)	***	***	***
Glatfelter	***	***	***	***	***
Mohawk	***	***	***	***	***
NewPage	***	***	***	***	***
Sappi	***	***	***	***	***
Smart Paper	***	***	***	***	***
Stora Enso	***	***	***	***	***
Verso	***	***	***	***	***
West Linn	***	***	***	***	***
Average	90.1	89.8	95.1	94.2	89.9

[1] ***. Staff telephone interview with ***, Verso, November 30, 2006.
[2] ***. *See* e-mail from ***, International Paper, November 28, 2006, and staff telephone interview with ***, Verso, November 30, 2006. Finally, the data may include ***.
[3] Capacity data for Mohawk are derived from ***.
[4] ***.

Note 1.--Glatfelter acquired the Chillicothe, OH paper mill from NewPage in April 2006. ***. Staff telephone interview with ***, Glatfelter, November 27, 2006.

Note 2.–Korean respondents note that some of the smaller U.S. producers report very low capacity utilization, which they assert may reflect incorrect allocations of overall capacity to the subject product. Korean respondents' postconference brief, p. 14.

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

Table III-4
Coated free sheet paper: Products produced by domestic manufacturers on the same machinery and equipment used in the production of CFS paper, 2003-05

Item	Calendar years		
	2003	2004	2005
	Quantity (*short tons*)		
Annual capacity for all products	5,214,731	5,479,737	5,421,532
Production of:			
Subject product[1]	3,615,681	3,851,306	3,885,965
Uncoated free sheet paper[1]	***	***	***
Coated groundwood paper	***	***	***
Kraft paper	***	***	***
Other	***	***	***
All products	4,735,102	4,941,538	4,926,394
	Capacity utilization (*percent*)		
All products	90.8	90.2	90.9

[1] Overlap recorded if the only substantial difference between the two products (in equipment utilized) is that uncoated paper is not subject to the application of kaolin or a similar coating.

Note.–Does not include data for a small amount of coated groundwood produced by ***. Also does not include data for *** or *** or data for ***. *** answered on the basis of the specific equipment used in the production of CFS and nonsubject papers.

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

U.S. PRODUCERS' SHIPMENTS

U.S. producers' shipments and inventories of CFS paper are presented in table III-5. As shown, the quantity of U.S. producers' commercial shipments followed a trend comparable to that shown in table III-3 for production. There was minimal captive consumption of the product. Export shipments accounted for 5 to 6 percent of total shipments throughout the period examined. The unit values of commercial shipments fluctuated within a $33 per short ton range from 2003 and 2005 and were $21 per short ton higher in January-September 2006 than in January-September 2005.

Table III-5
Coated free sheet paper: U.S. producers' shipments, by types, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Quantity (*short tons*)		
Commercial shipments	***	***	***	***	***
Internal consumption[1]	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total U.S. shipments	3,925,471	4,171,009	4,264,514	3,159,277	3,318,788
Export shipments	226,847	256,176	289,055	213,320	215,081
Total shipments	4,152,318	4,427,185	4,553,569	3,372,597	3,533,869
			Value (*1,000 dollars*)		
Commercial shipments	***	***	***	***	***
Internal consumption[1]	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total U.S. shipments	3,309,111	3,480,184	3,698,083	2,767,416	2,976,205
Export shipments	172,706	197,355	232,409	169,942	182,539
Total shipments	3,481,817	3,677,539	3,930,492	2,937,358	3,158,744
			Unit value (*per short ton*)		
Commercial shipments	***	***	***	***	***
Internal consumption[1]	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total U.S. shipments	$843	$834	$867	$876	$897
Export shipments	761	770	804	797	849
Total shipments	839	831	863	871	894
			Shares of quantity (*percent*)		
Commercial shipments	***	***	***	***	***
Internal consumption[1]	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total U.S. shipments	94.5	94.2	93.7	93.7	93.9
Export shipments	5.5	5.8	6.3	6.3	6.1
Total shipments	100.0	100.0	100.0	100.0	100

[1] Excludes *** tons of CFS paper that is used internally each year by *** as a base paper to produce paper with more advanced coatings that doesn't meeting the definition of the subject merchandise.

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

U.S. PRODUCERS' INVENTORIES

Inventories are reported in table III-6. U.S. mills typically maintain inventories of finished products at the mill, or in nearby warehouses, and provide just-in-time delivery to their customers.[27]

Table III-6
Coated free sheet paper: U.S. end-of-period inventories, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
Inventories (*short tons*)	676,439	600,337	656,751	661,641	621,468
Ratio to production (*percent*)	15.8	13.8	14.3	14.5	13.3
Ratio to U.S. shipments (*percent*)	17.2	14.4	15.4	15.7	14.0
Ratio to total shipments (*percent*)	16.3	13.6	14.4	14.7	13.2

Note.–Does not include EOP inventories of *** short tons of C1S CFS in 2003 and *** short tons in 2004 reported by ***.

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

U.S. PRODUCERS' EMPLOYMENT, WAGES, AND PRODUCTIVITY

The average number of PRWs producing CFS paper rose irregularly from 7,390 workers in 2003 to 7,464 workers in 2005, or by 1.0 percent (table III-7). The number of hours worked dipped slightly from 2003 to 2004 and then rose in 2005 for an overall increase of 2.8 percent. The hourly wage rate decreased from $26.30 per hour in 2003 to $25.30 per hour in 2005. Each employment indice, except for productivity, fell from January-September 2005 to January-September 2006. Productivity increased on an overall basis from 2003 to 2005 and then rose by more than 15 tons per 1,000 hours from January-September 2005 to January-September 2006 to a period high. Unit labor coss fell consistently throughout the period examined.

[27] ***.

Table III-7
Coated free sheet paper: Employment-related indicators, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
Production and related workers (PRWs)	7,390	7,112	7,464	7,382	7,095
Hours worked by PRWs (*1,000 hours*)	16,287	15,924	16,749	12,670	12,276
Wages paid to PRWs (*1,000 dollars*)	428,406	425,539	423,757	323,343	315,827
Hourly wages	$26.30	$26.72	$25.30	$25.52	$25.73
Productivity (*short tons produced per 1,000 hours*)	261.4	272.7	273.7	268.8	284.3
Unit labor costs (*per short ton*)	$100.62	$98.00	$92.43	$94.92	$90.49

Note.–Does not include employment data for *** or for ***. Data for *** and *** are based, in part, on Commission staff estimates.

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

NewPage notes that plant closures have resulted in the layoffs of over 1,000 workers and that many of them have met the certification requirements for Trade Adjustment Assistance benefits.[28] Workers were certified at 16 CFS paper mills since January 1, 2003.[29] The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union, AFL-CIO-CLC (or USW) filed a letter, dated October 27, 2006, in support of the petition. The USW represents the following mills: Appleton (Combined Locks, WI); NewPage (Escanaba, MI; Luke, MD; Rumford, ME; and Wickliffe, KY), SAPPI (Cloquet, MN; Hinckley, ME; Muskegon, MI; and Westbrook, ME); Stora Enso (Kimberly, WI, and Wisconsin Rapids, WI); and Verso (Jay, ME). The Acting Legislative Director for the USW testified at the Commission's conference that 95 percent of the CFS capacity in the United States is in unionized mills and that the USW represents over 90 percent of the workers.[30]

[28] Petitioner's postconference brief, p. 3.

[29] Petitioner's postconference brief, exh. 2. One of the mills listed in the exhibit (Wausau Paper Corp.) is not believed to produce paper that meets the definition of the subject merchandise.

[30] Conference transcript, pp. 33-34 (Hart).

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

U.S. IMPORTERS

The subject product is imported by a variety of mill agents, independent brokers, and paper merchants. In some instances, trading companies sell subject paper to paper merchants that are themselves importers, resulting in the potential for the double-counting of reported imports.[1] Importer questionnaires were sent to 74 firms identified in Customs documents under the HTS reporting numbers identified in the petition (and subsequently in Commerce's initiation notices) as having imported CFS paper from any source from January 2003 through July 2006.[2] An additional 46 questionnaires were sent to firms only identified in the petition as importing the subject merchandise as well as to all U.S. producers. Of these firms, 42 returned questionnaires[3] while about 20 firms (primarily those listed only in the petition) indicated that they did not, in fact, import CFS paper, although they may have purchased it.

As shown both in Customs documents and in table IV-1, a relatively small number of importers accounted for the majority of U.S. imports of CFS paper from the subject sources. The most substantial U.S. importers of subject merchandise from China during January 2003 to July 2006 in order of the value of their U.S. imports recorded in Customs documents were: ***. ***[4] accounted for the bulk of U.S. subject imports from Indonesia during the period examined. As discussed in the notes to table IV-1, most subject merchandise from Indonesia was imported by ***[5] until ***; from *** onward subject merchandise was almost entirely sold in the U.S. market through ***. The most substantial U.S. importers of subject merchandise from Korea during 2003-05 in terms of volume were: ***.

Table IV-1
Coated free sheet paper: U.S. importers' reported subject U.S. imports in 2005, shares of the value of reported subject U.S. imports, parent firm(s), and identified foreign manufacturer(s)

* * * * * * *

MISCLASSIFICATION OF THE SUBJECT MERCHANDISE

A comparison of the quantity and value of U.S. imports compiled from questionnaire data to official Commerce statistics for the HTS reporting numbers listed in the petition (and which were used to compile the Customs documents used for the mailing lists)[6] shows that questionnaire data substantially

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[1] ***, for example, stated in its importer questionnaire response (question I-7) that it was "not able to determine whether its purchasers were the consignee {in Customs documents} on some or all of the transactions during the period in question."

[2] Customs documents were available only through July 2006.

[3] A number of firms were shown in both Customs documents and in the petition as operating at multiple addresses. In order to ensure that the questionnaire would actually be received by the branch best able to provide a response, Commission staff in most instances mailed to each address shown. Therefore, any comparison of the number of responses received to the questionnaires mailed out does not necessarily provide a good measure of the response rate or the responsiveness of the industry.

[4] ***.

[5] ***.

[6] According to the petition, almost all CFS paper is "currently" entered under these HTS items and, further, the items do not include more than very minor volumes of nonsubject merchandise. Petition, p. 4.

exceed Commerce statistics for China and Indonesia.[7] A portion of the apparent over-count is almost certainly due to the double-counting described above. That said, the bulk of the subject merchandise is imported by a relatively small number of firms and questionnaire coverage was high.

Exports of subject merchandise to the United States is, of course, the corresponding measure to U.S. imports.[8] Exports of Chinese-produced CFS paper, in terms of quantity,[9] reported in response to the Commission's foreign producer questionnaire also substantially exceed U.S. imports reported in official Commerce statistics for the HTS reporting numbers listed in the petition. This suggests that the discrepancy in import data discussed above cannot be solely attributed to double-counting. By way of contrast, there is a very close correlation between Korean-reported export data and U.S. imports of subject merchandise from Korea. While there is a close correlation between Indonesian-reported export data and official Commerce statistics for 2003 and 2004, there is a significant discrepancy for 2005 and, to a lesser extent, for January-September 2006 where foreign exports of the subject merchandise again exceed U.S. imports compiled from official Commerce statistics.[10]

In response to a request for assistance in resolving the seeming discrepancy with respect to shipments of the subject merchandise from China, counsel for the Chinese manufacturers indicated that U.S. imports of CFS paper from China are believed to be entering under two HTS statistical reporting numbers (4811.59.2000 and 4811.90.8000) in addition to those identified in Commerce's initiation notices.[11] Counsel further stated that "this appears to be an issue that is unique to China, with only a small volume of imports from Indonesia and Korea having been reported under those headings. We have no reason to believe that the small quantity of imports from Indonesia or Korea that entered under HTS headings 4811.59.2000 and 4811.90.8000 is subject merchandise."[12]

The following tabulation presents data measuring the flow of CFS paper from the subject sources as reported in Commerce statistics and in response to Commission questionnaires (in *short tons*):

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[7] Commission staff attempted to identify and minimize double-counting by, as shown in the notes to table IV-1, not including data provided by certain firms in the import totals. However, it was not possible in the time available to edit questionnaire data submitted by firms that, while they were shown in Customs documents as the bonafide importer ("consignee"), appeared to overstate their U.S. imports (most probably by not being able to separate their direct imports from their purchase of imports). These firms are listed in table IV-1 (see footnote 2). Note, however, that (as an additional complication) the edits shown in table IV-1 are based on value. Using value eliminates the need to convert the kilograms reported in Customs documents into the short tons requested in the questionnaire data but may not be the best point of comparison.

[8] Such exports are addressed in detail along with the operations of the subject manufacturers in part VII of this report.

[9] Value data were not gathered in the foreign producer questionnaire.

[10] A review of monthly export data provided by the Indonesian industry indicates that the discrepancies in the later periods between official Commerce statistics and export data provided in response to the foreign producer's questionnaire, are not associated with end-of-period shipment lags. E-mail from Adams Lee, White & Case, December 7, 2006.

[11] NewPage stated in its petition that CFS from China previously had been misclassified under HTSUS subheading 4811.90 (in particular, under reporting numbers 4811.90.8000 and 4811.90.9000 which were basket categories in existence during 2003-05). NewPage further notes that reporting number. 4811.90.9000 was eliminated effective July 1, 2005 and replaced by 4811.90.9090. Petitioner also indicated that it understood that the misclassification was "not a continuing problem." Petition, pp. 4-5 and n. 3.

[12] E-mail from counsel to the Chinese manufacturers, November 29, 2006.

Data source	2003	2004	2005	Jan.-Sept.		Oct. 2005-Sept. 2006
				2005	2006	
China						
Commerce statistics for HTS numbers listed in Commerce's initiation notices	54,649	32,277	109,328	76,381	219,416	252,363
Above Commerce statistics plus HTS reporting numbers 4811.59.2000 and 4811.90.8000	96,440	145,112	175,548	139,411	236,698	272,835
U.S. imports reported in importer questionnaires	105,352	161,228	184,329	138,198	238,618	([1])
Exports to the United States reported in the foreign producer questionnaires	***	***	***	***	***	([1])
Indonesia						
Commerce statistics for HTS numbers listed in Commerce's initiation notices	31,996	33,319	29,418	19,470	47,240	57,188
Above Commerce statistics plus HTS reporting numbers 4811.59.2000 and 4811.90.8000	32,926	36,128	32,461	21,537	52,045	62,969
U.S. imports reported in importer questionnaires	***	***	***	***	***	([1])
Exports to the United States reported in the foreign producer questionnaires	***	***	***	***	***	***
Korea						
Commerce statistics for HTS numbers listed in Commerce's initiation notices	378,212	430,444	417,113	323,261	366,772	460,623
Above Commerce statistics plus HTS reporting numbers 4811.59.2000 and 4811.90.8000	386,639	432,101	417,656	323,782	368,229	462,103
U.S. imports reported in importer questionnaires	426,775	466,637	408,408	319,919	335,406	([1])
Exports to the United States reported in the foreign producer questionnaires	386,950	462,590	417,085	315,387	361,926	([1])

[1] Not available.

For the purposes of this report, U.S. import data for Korea (and nonsubject countries) are compiled from official Commerce statistics based only on the HTS numbers listed in Commerce's initiation notices; data for China also include U.S. imports entered under 4811.59.2000 and 4811.90.8000; data for U.S. imports from Indonesia are based on responses to the Commission's foreign producer questionnaire.[13]

[13] With respect to data for Indonesia, quantities are compiled from responses to the foreign producer's questionnaire, and values were estimated using the average unit value of U.S. imports from Indonesia derived from (continued...)

U.S. IMPORTS

U.S. imports of CFS paper from China, Indonesia, and Korea combined increased, in terms of quantity, by *** percent from 2003 to 2005 and by *** percent from January-September 2005 to January-September 2006 (table IV-2). During 2003 to 2005, U.S. imports from China increased by 82.0 percent, Indonesian imports increased by *** percent, and Korean imports rose from 2003 to 2004 and then fell in 2005 for a net increase of 10.3 percent, during the 2003-05 period. With respect to the interim periods, U.S. imports increased from each subject country. NewPage attributes what they label as the "surge" of U.S. imports of Indonesian-produced CFS to a "displacement" of Indonesia's exports to China as the Chinese expanded their domestic production capability.[14] Indonesian respondents argue that its "allegation" should be rejected since petitioner's figures are based on aggregating data into both China and Hong Kong.[15] NewPage also claims that "the temporary leveling off of U.S. imports from Korea in 2005 was widely understood to be the result of competition from China."[16]

The majority of the CFS paper imported into the United States is sourced from countries other than China, Indonesia, and Korea. Subject countries only accounted for around one-third of total U.S. imports during the annual periods although their share rose towards the end of the period examined and was *** percent in January-September 2006. Finland and Canada are the most significant sources of product from nonsubject countries.[17] A portion of the nonsubject imports are acquired by U.S. producers (*see* the section of this report entitled "U.S. Producers' Imports and Purchases"). ***. ***.[18]

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[13] (...continued)
official Commerce statistics.

[14] Petitioner's postconference brief, p. 17. It provided a tabulation showing the percent change in imports of CFS into China from Indonesia for January-August 2005 to January-August 2006. Ibid.

[15] Indonesian manufacturers' postconference brief, pp. 15-16.

[16] Petitioner's postconference brief, p. 42.

[17] NewPage stated in its postconference brief that U.S. imports from Canada are falling as large Canadian CFS plants close. It provided ***. Petitioner further argued that the capacity closures in Canada indicate that "the subordinate role of non-subject imports in the market is likely to be a long-term phenomenon." NewPage's postconference brief, p. 10.

[18] ***'s importer questionnaire response, attach. C.

Table IV-2
Coated free sheet paper: U.S. imports, by sources, 2003-05, January-September 2005, and January-September 2006

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Quantity (*short tons*)				
China	96,440	145,112	175,548	139,411	236,698
Indonesia	***	***	***	***	***
Korea	378,212	430,444	417,113	323,261	366,772
Subtotal subject	***	***	***	***	***
Finland	183,619	218,296	185,486	122,696	175,359
Canada	265,123	295,016	299,302	225,692	128,761
Germany	91,897	160,034	108,414	71,836	105,214
Japan	97,661	98,538	101,801	79,586	69,169
Italy	85,366	78,743	83,053	61,314	71,283
Austria	70,658	56,219	40,204	24,522	45,792
Spain	16,484	28,881	39,749	28,001	41,296
All other sources	178,850	140,830	86,079	65,627	72,212
Subtotal nonsubject	989,659	1,076,558	944,088	679,274	709,087
Total	***	***	***	***	***
	Value (*1,000 dollars*)[1]				
China	80,579	128,326	165,399	129,494	223,231
Indonesia	***	***	***	***	***
Korea	322,695	364,866	366,553	285,609	322,475
Subtotal subject	***	***	***	***	***
Finland	144,427	171,936	150,171	98,849	141,955
Canada	244,892	259,462	273,042	207,040	114,505
Germany	84,638	147,829	110,904	72,434	105,907
Japan	128,394	128,745	144,615	110,817	91,312
Italy	77,878	75,952	87,379	63,556	75,899
Austria	67,956	49,200	41,307	23,508	47,695
Spain	18,162	29,715	37,378	26,928	36,237
All other sources	172,585	141,403	112,933	83,062	94,276
Subtotal nonsubject	938,932	1,004,241	957,728	686,193	707,787
Total	***	***	***	***	***

Table continued on next page.

Table IV-2
Coated free sheet paper: U.S. imports, by sources, 2003-05, January-September 2005, and January-September 2006

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Unit value (*per short ton*)[1]		
China	$836	$884	$942	$929	$943
Indonesia	***	***	***	***	***
Korea	853	848	879	884	879
Average subject	***	***	***	***	***
Finland	787	788	810	806	810
Canada	924	879	912	917	889
Germany	921	924	1,023	1,008	1,007
Japan	1,315	1,307	1,421	1,392	1,320
Italy	912	965	1,052	1,037	1,065
Austria	962	875	1,027	959	1,042
Spain	1,102	1,029	940	962	877
All other sources	965	1,004	1,312	1,266	1,306
Average nonsubject	949	933	1,014	1,010	998
Average	***	***	***	***	***
			Share of quantity (*percent*)		
China	***	***	***	***	***
Indonesia	***	***	***	***	***
Korea	***	***	***	***	***
Subtotal subject	***	***	***	***	***
Finland	***	***	***	***	***
Canada	***	***	***	***	***
Germany	***	***	***	***	***
Japan	***	***	***	***	***
Italy	***	***	***	***	***
Austria	***	***	***	***	***
Spain	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	100.0	100.0	100.0	100.0	100.0

Table continued on next page.

Table IV-2
Coated free sheet paper: U.S. imports, by sources, 2003-05, January-September 2005, and January-September 2006

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Share of value (*percent*)				
China	***	***	***	***	***
Indonesia	***	***	***	***	***
Korea	***	***	***	***	***
Subtotal subject	***	***	***	***	***
Finland	***	***	***	***	***
Canada	***	***	***	***	***
Germany	***	***	***	***	***
Japan	***	***	***	***	***
Italy	***	***	***	***	***
Austria	***	***	***	***	***
Spain	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	100.0	100	100.0	100.0	100.0

[1] Landed, duty-paid.

Source: Compiled from official Commerce statistics (China, Korea, and nonsubject). The following statistical categories of the HTS were used: 4810.13.1900; 4810.13.2010; 4810.13.2090; 4810.13.5000; 4810.13.7040; 4810.14.1900; 4810.14.2010; 4810.14.2090; 4810.14.5000; 4810.14.7040; 4810.19.1900; 4810.19.2010; 4810.19.2090; and, for China only, 4811.59.2000 and 4811.90.8000. For Indonesia, quantity data are compiled from responses to the foreign producer's questionnaire, and values were estimated using the average unit value of U.S. imports from Indonesia derived from official Commerce statistics.

CUMULATION CONSIDERATIONS

In assessing whether imports compete with each other and with the domestic like product, the Commission has generally considered four factors: (1) fungibility, (2) presence of sales or offers to sell in the same geographical market, (3) common or similar channels of distribution, and (4) simultaneous presence in the market. Issues concerning fungibility are addressed in Part II of this report and channels of distribution are discussed in Parts I and II. Geographical markets and presence in the market are discussed below.

A review of monthly official Commerce statistics that have been placed on the record indicates that imports of CFS paper from each of the subject countries entered into the United States during every month of the January 2002-September 2006 period of investigation.

The petitioner claims that U.S. producers of CFS supply the entire geographical U.S. market, including the West Coast. and states that its operations have "significant sales" in the western portion of

the United States. It also notes that West Linn manufactures CFS in its West Linn, OR plant.[19] Paper merchants appearing at the Commission's conference (specifically PaperlinX and Unisource) testified that many domestic mills are "unable" to or not "interested" in providing nationwide distribution rights or extending lines to them outside of their current trading areas.[20] With reference to the issue of transportation costs, Korean respondents include freight rates tables as exhibit 2 to their postconference brief.

Table IV-3 provides U.S. imports for CFS paper aggregated by district of entry into the United States for 2003-05, January-September 2005, and January-September 2006. As shown, the bulk of merchandise from each subject source is entering into the western portion of the United States, although there are import entries of CFS paper from each subject country within each U.S. geographical area.[21]

THE QUESTION OF NEGLIGIBLE IMPORTS

The statute (section 771(24)(A)(i) of the Act) provides that imports from a subject country corresponding to the domestic like product are negligible if such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition - in this case October 2005 through September 2006.[22] The statute (section 771(24)(B) of the Act) further provides that in an investigation under section 701, imports of subject merchandise from developing countries are negligible if such imports account for less than 4 percent of the volume of all such merchandise imported into the United States in the specified 12-month period. In accordance with section 771(B) of the Act, the United States Trade Representative has designated Indonesia as a developing country under the countervailing duty law.[23] [24]

Table IV-4 presents official Commerce statistics for the 12-month period October 2005 through September 2006. As indicated in the table, imports of coated free sheet paper from China accounted for *** percent of total U.S. imports, imports from Indonesia accounted for 4.1 percent, and imports from Korea accounted for *** percent of total U.S. imports. The data for China and Korea are compiled from official Commerce statistics, and those for Indonesia were submitted by counsel for the Indonesian industry.[25]

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[19] Petitioner's postconference brief, pp. 49-50.

[20] Conference transcript, p. 99 (Anderson) and pp. 115-116 (Dragone), as cited in the Chinese respondents and Unisource's postconference brief, pp. 14-15.

[21] While official Commerce statistics for Indonesia are understated, the available data indicate that relatively small quantities of CFS paper from Indonesia were imported into the Gulf coast ports. The volume of such imports have, however, increased steadily throughout the period examined after an initial drop-off from 2003 to 2004.

[22] Also, section 771(24)(A)(iv) of the Act provides that the Commission shall not treat imports as negligible if it determines that there is a potential that imports found to be negligible will imminently account for more than 3(4) percent of total subject imports.

[23] 15 CFR § 2013.1.

[24] Petitioner points out that Asia Pulp & Paper maintains CFS plants in both Indonesia and China and argues that any termination of the subsidy investigation involving Indonesia "would likely divert production for its U.S. customers from its Chinese mills to its Indonesian mills." Petition, p. 19. *See* exh. I-15 of the petition for ***. Asia Pulp and Paper is identified in that exhibit as ***.

[25] Because of the apparent under reporting of U.S. imports from Indonesia in official Commerce statistics, table IV-4 presents data for export shipments to the United States as submitted by the Indonesian industry in response to a staff request. E-mail from Adams Lee, White & Case, December 7, 2006. If official Commerce statistics are used for Indonesia, such imports accounted for 3.2 percent of total U.S. imports for the 12-month period.

Table IV-3
Coated free sheet paper: U.S. imports, by sources and customs districts, 2003-05, January-September 2005, and January-September 2006

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Quantity (*short tons*)				
China:					
East region	12,289	35,967	39,284	30,535	49,336
Gulf Coast region	5,384	14,340	14,232	11,006	25,588
Great Lakes region	14,564	9,723	5,727	5,595	12,503
West region	64,204	85,082	116,304	92,265	149,271
Total	96,440	145,112	175,548	139,411	236,698
Indonesia:					
East region	7,564	3,963	4,995	3,571	2,817
Gulf Coast region	2,677	611	967	862	1,136
Great Lakes region	7,479	9,157	7,909	4,942	7,103
West region	14,275	19,588	15,547	10,096	36,184
Total	31,996	33,319	29,418	19,470	47,240
Korea:					
East region	109,496	113,794	106,286	84,387	88,141
Gulf Coast region	29,058	40,351	30,655	20,041	19,148
Great Lakes region	36,968	23,744	16,240	12,904	11,174
West region	202,689	252,555	263,932	205,929	248,309
Total	378,212	430,444	417,113	323,261	366,772
Subject sources:					
East region	129,349	153,724	150,565	118,496	140,294
Gulf Coast region	37,119	55,303	45,854	31,909	45,872
Great Lakes region	59,011	42,624	29,876	23,441	30,780
West region	281,168	357,225	395,783	308,290	433,764
Total	506,647	608,875	622,079	482,142	650,709

Table continued on next page.

Table IV-3--*Continued*
Coated free sheet paper: U.S. imports, by sources and customs districts, 2003-05, January-September 2005, and January-September 2006[1]

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Share (*percent*)				
China:					
East region	12.8	24.8	22.4	21.9	20.9
Gulf Coast region	5.6	9.9	8.1	7.9	10.8
Great Lakes region	15.0	6.7	3.3	4.0	5.3
West region	66.6	58.6	66.3	66.2	63.1
Total	100.0	100.0	100.0	100.0	100.0
Indonesia:					
East region	23.6	11.9	17.0	18.3	6.0
Gulf Coast region	8.4	1.8	3.3	4.4	2.4
Great Lakes region	23.4	27.5	26.9	25.4	15.0
West region	44.6	58.8	52.8	51.9	76.6
Total	100.0	100.0	100.0	100.0	100.0
Korea:					
East region	29.0	26.4	25.5	26.1	24.0
Gulf Coast region	7.7	9.4	7.3	6.2	5.2
Great Lakes region	9.8	5.5	3.9	4.0	3.0
West region	53.6	58.7	63.3	63.7	67.7
Total	100.0	100.0	100.0	100.0	100.0
Subject sources:					
East region	25.5	25.2	24.2	24.6	21.6
Gulf Coast region	7.3	9.1	7.4	6.6	7.0
Great Lakes region	11.6	7.0	4.8	4.9	4.7
West region	55.5	58.7	63.6	63.9	66.7
Total	100.0	100.0	100.0	100.0	100.0

Note.--The "East region" consists of the following customs districts: Baltimore, MD; Boston, MA; Charleston, SC; Charlotte, NC; New York, NY; Norfolk, VA; Philadelphia, PA; Portland, ME; Providence, RI; St. Albans, VT; Wilmington, NC; Savannah, GA; and Washington, DC. The "Great Lakes region" consists of the following customs districts: Buffalo, NY; Chicago, IL; Cleveland, OH; Detroit, MI; Duluth, MN; Milwaukee, WI; Minneapolis, MN; Ogdensburg, NY; Pembina, ND; and St. Louis, MO. The "Gulf Coast region" consists of the following customs districts: Dallas/Ft. Worth, TX; Houston/Galveston, TX; Laredo, TX; Miami, FL; Mobile, AL; New Orleans, LA; Port Arthur, TX; San Juan, PR; Tampa, FL; and Virgin Islands of the United States. The "West region" consists of the following customs districts: Anchorage, AK; Columbia/Snake, OR; El Paso, TX; Great Falls, MT; Los Angeles, CA; San Diego, CA; San Francisco, CA; Seattle, WA; Honolulu, HI; and Nogales, AZ.

Source: Compiled from official Commerce statistics. The following statistical categories of the HTS were used: 4810.13.1900; 4810.13.2010; 4810.13.2090; 4810.13.5000; 4810.13.7040; 4810.14.1900; 4810.14.2010; 4810.14.2090; 4810.14.5000; 4810.14.7040; 4810.19.1900; 4810.19.2010; 4810.19.2090; and, for China only, 4811.59.2000 and 4811.90.8000.

Table IV-4
Coated free sheet paper: Monthly U.S. imports, by sources, October 2005-September 2006

Period	China	Indonesia[1]	Korea	All other	Total
	Quantity in *1,000 short tons*, except as noted				
2005:					
October	9,301	***	27,624	91,623	***
November	13,653	***	30,394	87,615	***
December	13,183	***	35,834	85,576	***
2006:					
January	22,386	***	40,377	81,121	***
February	15,030	***	36,161	68,128	***
March	26,118	***	38,618	93,267	***
April	29,675	***	41,317	89,344	***
May	26,432	***	43,793	84,296	***
June	34,187	***	40,448	75,785	***
July	24,506	***	45,074	73,891	***
August	30,211	***	44,185	71,220	***
September	28,152	***	36,801	72,035	***
Total	272,835	***	460,623	973,900	***
Shares (*percent*)	***	4.1	***	***	100.0

[1] Because of the apparent under reporting of U.S. imports from Indonesia in official Commerce statistics, the data for Indonesia are exports to the United States as reported by the Indonesian industry. E-mail from Adams Lee, White & Case, December 7, 2006. If the monthly export data were lagged by one month to account for shipping (i.e., September 2005-August 2006), CFS paper from Indonesia would total *** short tons and account for 4.1 percent of total "imports". If official Commerce statistics are used for Indonesia, such imports accounted for 3.2 percent of total U.S. imports for the 12-month period.

Note.–As noted earlier, the question has arisen concerning possible misclassification of subject imports both for China and, potentially, for other sources. Counsel for Pindo Deli and Tjiwi Kimia indicated in an e-mail to the Commission (November 29, 2006) that:

"It does appear that a small quantity of imports from Indonesia entered under HTS headings 4811.59.2000 and 4811.90.8000 during the period. It is not clear that imports from Indonesia that enter under those HTS headings is subject merchandise. . . Should the case proceed to a final, the Indonesian respondents reserve the right to examine whether subject merchandise from other countries is entering under HTS headings beyond those listed in the petition and the definitions, and thus, is properly included in the denominator of the negligibility calculation."

Source: Compiled from official Commerce statistics (China, Korea, and nonsubject). The following statistical categories of the HTS were used: 4810.13.1900; 4810.13.2010; 4810.13.2090; 4810.13.5000; 4810.13.7040; 4810.14.1900; 4810.14.2010; 4810.14.2090; 4810.14.5000; 4810.14.7040; 4810.19.1900; 4810.19.2010; and 4810.19.2090; and, for China only, 4811.59.2000 and 4811.90.8000. Data for Indonesia were submitted by counsel for Pindo Deli and Tjiwi Kimia.

APPARENT U.S. CONSUMPTION, U.S. MARKET SHARES, AND RATIO OF IMPORTS TO U.S. PRODUCTION

Table IV-5 presents the apparent U.S. consumption and market shares of CSF paper for the period examined (i.e., 2003-05, January-September 2005, and January-September 2006) while table IV-6 presents the ratio of U.S. imports to production. The quantity of U.S. consumption increased steadily, rising by *** percent from 2003 to 2005 and by *** percent from January-September 2005 to January-September 2006 (table IV-5). From 2003 to 2005, U.S. producers' market shares in terms of quantity were relatively stable gaining *** percentage points. Imports of CFS paper from the subject countries gained *** percentage points of market share, which was offset by a corresponding decrease in the share of nonsubject countries. With respect to the interim periods, the domestic industry's market share fell by *** percentage points while the share of subject imports rose by *** points and the share of nonsubject imports fell by ***.

Table IV-5
Coated free sheet paper: U.S. consumption and market shares, by sources, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Quantity (*short tons*)		
U.S. producers' U.S. shipments	3,925,471	4,171,009	4,264,514	3,159,277	3,318,788
Total U.S. imports	***	***	***	***	***
U.S. consumption	***	***	***	***	***
			Value (*1,000 dollars*)		
U.S. producers' U.S. shipments	3,309,111	3,480,184	3,698,083	2,767,416	2,976,205
Total U.S. imports	***	***	***	***	***
U.S. consumption	***	***	***	***	***
			Share of quantity (*percent*)		
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. imports from--					
China	***	***	***	***	***
Indonesia	***	***	***	***	***
Korea	***	***	***	***	***
Subtotal subject	***	***	***	***	***
Finland	***	***	***	***	***
Canada	***	***	***	***	***
Germany	***	***	***	***	***
Japan	***	***	***	***	***
Italy	***	***	***	***	***
Austria	***	***	***	***	***
Spain	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***

Table continued on next page.

Table IV-5
Coated free sheet paper: U.S. consumption and market shares, by sources, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Share of value (*percent*)				
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. imports from--					
China	***	***	***	***	***
Indonesia	***	***	***	***	***
Korea	***	***	***	***	***
Subtotal subject	***	***	***	***	***
Finland	***	***	***	***	***
Canada	***	***	***	***	***
Germany	***	***	***	***	***
Japan	***	***	***	***	***
Italy	***	***	***	***	***
Austria	***	***	***	***	***
Spain	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires and from official Commerce statistics except for Indonesia where quantity data are compiled from responses to the foreign producer's questionnaire, and values were estimated using the average unit value of U.S. imports from Indonesia derived from official Commerce statistics.

Table IV-6
Coated free sheet paper: Subject production, imports, and ratios of imports to U.S. production, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Quantity (*short tons*)				
U.S. production	4,272,195	4,359,562	4,597,794	3,416,090	3,503,202
Subject U.S. imports from--					
China	96,440	145,112	175,548	139,411	236,698
Indonesia	***	***	***	***	***
Korea	378,212	430,444	417,113	323,261	366,772
Subtotal subject	***	***	***	***	***
Finland	183,619	218,296	185,486	122,696	175,359
Canada	265,123	295,016	299,302	225,692	128,761
Germany	91,897	160,034	108,414	71,836	105,214
Japan	97,661	98,538	101,801	79,586	69,169
Italy	85,366	78,743	83,053	61,314	71,283
Austria	70,658	56,219	40,204	24,522	45,792
Spain	16,484	28,881	39,749	28,001	41,296
All other sources	178,850	140,830	86,079	65,627	72,212
Subtotal nonsubject	989,659	1,076,558	944,088	679,274	709,087
Total	***	***	***	***	***
	Ratio to production (*percent*)				
Subject U.S. imports from--					
China	2.3	3.3	3.8	4.1	6.8
Indonesia	***	***	***	***	***
Korea	8.9	9.9	9.1	9.5	10.5
Subtotal subject	***	***	***	***	***
Finland	4.3	5.0	4.0	3.6	5.0
Canada	6.2	6.8	6.5	6.6	3.7
Germany	2.2	3.7	2.4	2.1	3.0
Japan	2.3	2.3	2.2	2.3	2.0
Italy	2.0	1.8	1.8	1.8	2.0
Austria	1.7	1.3	0.9	0.7	1.3
Spain	0.4	0.7	0.9	0.8	1.2
All other sources	4.2	3.2	1.9	1.9	2.1
Subtotal nonsubject	23.2	24.7	20.5	19.9	20.2
Total	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires and from official Commerce statistics.

PART V: PRICING AND RELATED INFORMATION

FACTORS AFFECTING PRICES

Transportation Costs to the U.S. Market

Transportation costs for CFS paper shipped from China to the United States averaged 16.7 percent of the customs value during 2005. Transportation costs for CFS paper shipped from Indonesia to the United States averaged 19.8 percent of the customs value during 2005. Transportation costs for CFS paper shipped from Korea to the United States averaged 16.2 percent of the customs value during 2005. These estimates are derived from official Commerce statistics.[1]

U.S. Inland Transportation Costs

Transportation costs on U.S. inland shipments of CFS paper generally account for a small to moderate share of the delivered price of these products. For U.S. producers, reported costs ranged from 3 percent to 10 percent of the delivered price. For importers from China, Indonesia, and Korea, the costs ranged from 1 percent to 10 percent of the delivered price.[2]

Exchange Rates

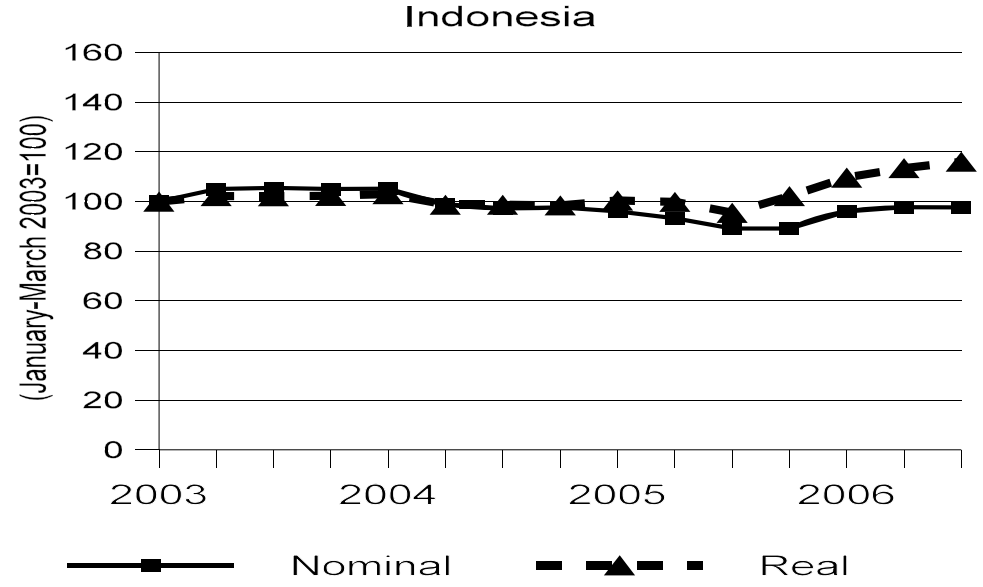
Nominal and real exchange rate data for Indonesia and Korea are presented on a quarterly basis in figure V-1.[3] The nominal exchange rate for the Chinese yuan relative to the U.S. dollar remained stable during most of this period, with some appreciation (3.3 percent) of the Chinese yuan against the U.S. dollar starting in the last half of 2005 as the Chinese government altered its exchange rate policy. The data show that the nominal exchange rate of the Indonesian rupiah remained relatively stable relative to the U.S. dollar, while the real exchange rate of the rupiah appreciated moderately over the period. The data show that the nominal exchange and real exchange rates of the Korean won appreciated relative to the U.S. dollar over the period, with the nominal value appreciating by 25.9 percent and the real value appreciating by 17.1 percent.

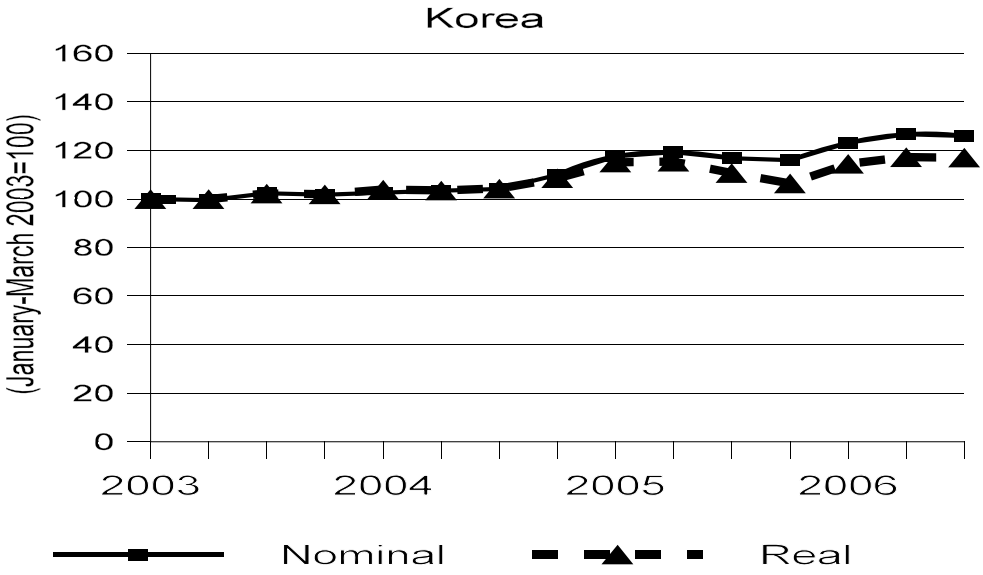
[1] The estimated cost was obtained by subtracting the customs value from the c.i.f. value of the imports for 2005 and then dividing by the customs value. This calculation used import data on HTS statistical subheadings 4810.13, 4810.14, and 4810.19.

[2] Three importers reported that their purchasers pay for U.S. inland transportation costs.

[3] Real exchange rates are calculated by adjusting the nominal rates for movements in producer prices in the United States and each of the subject countries.

Figure V-1
Exchange rates: Indices of the nominal and real exchange rates of the Indonesian and Korean currencies relative to the U.S. dollar, by quarters, January 2003-September 2006





Source: International Monetary Fund, *International Financial Statistics*, November 30, 2006.

PRICING PRACTICES

Pricing Methods

When U.S. producers were asked how they determined the prices that they charge for CFS paper, responses were varied. Transaction-by-transaction negotiations and set price lists were cited most often. Most responding importers reported the use of transaction-by-transaction negotiations, price lists, or prices that reflect market conditions.

U.S. producers reported that they quote prices of CFS paper both on an f.o.b. basis and on a delivered basis.[1] Virtually all responding importers reported that they quote on a delivered basis.

Sales Terms and Discounts

U.S. producers and importers of CFS paper from China, Indonesia, and Korea were asked what shares of their sales were on a (1) long-term contract basis (multiple deliveries for more than 12 months), (2) short-term contract basis, and (3) spot sales basis (for a single delivery) in 2005. Most responding producers and importers reported the use of short-term contracts or spot sales.[2] Among producers, five reported that at least half of their sales are on a short-term contract basis, three reported that the sell nearly exclusively on a spot sales basis, and one reported that it sells mostly on a long-term contract basis. Among responding importers, 14 reported that they sell nearly exclusively on a spot sales basis, four reported that they sell exclusively on a short-term contract basis, and two reported that they sell mostly on a long-term contract basis.

For U.S. producers selling on a contract basis, provisions varied from company to company. Short-term contracts are typically for periods of one month to up to one year, while long-term contracts are for periods of one to three years. For both long- and short-term contracts, quantity, but not typically price, is fixed during the contract period. These producer contracts usually do not have a meet-or-release provision. In the case of importers, short-term contracts are typically for periods of three months to up to one year. Most importers reported that price can usually be renegotiated during the contract period. These importer contracts typically do not contain meet-or-release provisions.

Discount policies on sales of CFS paper vary widely. Six responding U.S. producers reported the use of volume discounts. Two producers reported offering discounts to compete with imports. Most importers did not report the use of discounts, although five importers reported the use of discounts while another two reported offering discounts for early payment. Moreover, respondent importers contend that importers' sales to merchants must incorporate a discount to offset the additional costs of handling imports and the capital expenditures needed to maintain large inventories typically associated with import shipments.[3]

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[1] Four U.S. producers reported quoting on an f.o.b. basis and four reported quoting on a delivered basis.

[2] Petitioner contends that the predominance of short-term contracts, as opposed to long-term contracts, allows customers to switch suppliers fairly easily. Petitioner's postconference brief, p. 8.

[3] Conference transcript, pp. 106 (Anderson) and 109 (Cho). Korean respondents' postconference brief, p. 30.

PRICE DATA

The Commission requested U.S. producers and importers[4] of CFS paper to provide quarterly data for the total quantity and f.o.b.[5] value of selected products that were shipped to merchants and directly to end users in the U.S. market.[6] Data were requested for the period January 2003-September 2006. The products for which pricing data were requested are as follows:

> ***Product 1*.–Coated free sheet, two-side coated sheets, text weight, 70-100 pounds basis weights, brightness levels 87 and above.**
>
> ***Product 2*.–Coated free sheet, two-side coated rolls, text weight, 70-100 pounds basis weights, brightness levels 87 and above.**
>
> ***Product 3*.–Coated free sheet, one-side coated sheets, text weight, 70-100 pounds basis weights, brightness levels 83 and above.**

The Commission received usable pricing data for sales of the requested products from eight U.S. producers (***)[7], nine importers of CFS paper from China (***)[8], three importers of product from Indonesia (***)[9], and eight importers of product from Korea (***)[10], although not all firms reported pricing for all products for all quarters. Merchant sales and direct sales pricing data reported by these firms accounted for *** percent of U.S. producers' U.S. shipments of CFS paper during January 2003-

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[4] Some firms that submitted pricing data on the importers' questionnaires are not the importer of record; therefore, their reported sales are not at the same level of trade and their sales prices are excluded here and rather presented in app. F. These other firms include: ***. If their sales prices had been included, they would have had a minimal impact on the pricing trends presented here. The underselling analysis for merchant sales prices would have also remained virtually the same, with only the average margins changing slightly. For direct pricing, there are more quarterly pricing comparisons, and there are more instances of overselling relative to underselling. The Commission also requested sales data from importers that import from nonsubject sources. The Commission received pricing data on sales of product imported from ***. These data are presented in app. G.

[5] The Commission also requested quarterly data for delivered sales values. These data are presented in app. H. Delivered sales prices followed relatively the same trends as the f.o.b. sales prices, but the delivered merchant sales show slightly more underselling relative to overselling than the data presented here, whereas the delivered direct sales show slightly more overselling relative to underselling than the data presented here.

[6] Petitioner states that the merchant sales prices carry more weight, as they account for *** percent of domestic producers' shipments and *** percent of subject import shipments.

[7] U.S. producer *** only provided pricing data on a delivered basis and is therefore not represented here. Its data are included in app. H.

[8] Importer *** only provided pricing data on a delivered basis and is therefore not represented here. Its data are included in app. H.

[9] Importers *** and *** only provided pricing data on a delivered basis and are therefore not represented here. Importer *** could not identify whether its sales values were on an f.o.b. basis or on a delivered basis and is therefore not represented here. Its data are included in app. H.

[10] Importers *** and *** only provided pricing data on a delivered basis and are therefore not represented here. Pricing data as reported by *** were excluded here as it reported values on a delivered basis. *** could not identify whether its sales values were on an f.o.b. basis or a delivered basis. Its data accounted for a relatively small share of the total data on imports from Korea. Pricing data as reported by these excluded firms are presented in app. H.

September 2006 and *** percent of U.S. imports from China, *** percent of U.S. imports from Indonesia, and *** percent of U.S. imports from Korea over the same period.[11]

Price Trends

Weighted-average prices of CFS paper reported for U.S. producers and importers are presented in tables V-1 through V-6 and in figures V-2 through V-7 on a quarterly basis during January 2003-September 2006.

The CFS paper market exhibits seasonality, as prices increase in the third, and possibly fourth, quarters in anticipation of increased demand for books and catalogs associated with holiday shopping.[12]

In terms of comparing merchant sales prices with direct sales prices, for U.S.-produced products 1 and 3, merchant sales prices were, on average, *** to *** percent higher than direct sales prices. For U.S.-produced product 2, on the other hand, direct sales prices were slightly higher. For products 1 and 2 imported from China and Korea, merchant sales prices were, on average, *** to *** percent lower than direct sales prices.[13] There were no reported direct sales of product 3, and there were no reported direct sales on an f.o.b. basis of any product imported from Indonesia.

The weighted-average sales price of U.S.-produced product 1 sold to merchants *** decreased by *** percent from the first quarter of 2003 to the ***; the *** show a slight upturn.[14] The weighted-average sales price of U.S.-produced product 1 sold directly to end users decreased by *** over the entire period.[15] Most of this decrease occurred from *** during which domestic prices decreased by *** percent, then rebounded, experienced another decrease ***, which was followed by a slight rebound to levels that were still below their 2003 levels. The weighted-average sales price of product 1 imported from China and sold to merchants fluctuated slightly over the period, increasing by *** percent from the first quarter of 2003 to the third quarter of 2006. There were no reported direct sales of product 1 imported from China. The weighted-average sales price of product 1 imported from Indonesia and sold to merchants fluctuated over the period, decreasing by *** percent from the third quarter of 2003 to the third quarter of 2006. There were no reported direct sales on an f.o.b. basis of product 1 imported from Indonesia. The weighted-average sales price of product 1 imported from Korea and sold to merchants increased by *** percent from the first quarter of 2003 to the third quarter of 2006. The weighted-average sales price of product 1 imported from Korea and sold directly to end users increased by *** percent from the second quarter of 2003 to the third quarter of 2006.

The weighted-average sales price of U.S.-produced product 2 sold to merchants increased by *** percent from the first quarter of 2003 to the third quarter of 2006. The weighted-average sales price of U.S.-produced product 2 sold directly to end users increased by *** percent over the same period. The weighted-average sales price of product 2 imported from China and sold to merchants increased by *** percent from the first quarter of 2003 to the third quarter of 2006. There was *** direct sales price of product 2 imported from China reported ***. The weighted-average sales price of product 2 imported from Indonesia and sold to merchants increased by *** percent from the third quarter of 2004 to the third quarter of 2006. There were no reported direct sales on an f.o.b. basis of product 2 imported from

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[11] Direct sales pricing data alone accounted for *** of U.S. producers' U.S. shipments and *** percent of U.S. imports from China and *** percent of U.S. imports from Korea. ***.

[12] Petitioner's postconference brief, p. 8.

[13] Korean respondents contend that merchant sales prices of imports are lower than direct sales prices of imports because importers must offer merchants a discounted price to offset the additional costs of storing large inventories of imports that cannot be shipped just-in-time because of long lead times. Korean respondents' postconference brief, p. 30.

[14] This slight upturn in prices may reflect the seasonality of the CFS paper market, as discussed *supra*.

[15] One sales value reported by U.S. producer *** was excluded as it was deemed to be an outlier.

Indonesia. The weighted-average sales price of product 2 imported from Korea and sold to merchants increased by *** percent over the entire period, remaining virtually unchanged from the first quarter of 2003 to the third quarter of 2004 and then increasing through the rest of the period. There were no reported direct sales of product 2 imported from Korea.

The weighted-average sales price of U.S.-produced product 3 sold to merchants increased by *** percent from the first quarter of 2003 to the third quarter of 2006.[16] However, most of the increase occurred from the first quarter of 2003 to the second quarter of 2003 and is nearly entirely attributable to ***. The sales price increased by *** percent from the second quarter of 2003 to the end of the period. The weighted-average sales price of U.S.-produced product 3 sold directly to end users fluctuated during the first half of the period, through the ***, and decreased thereafter. The sales price decreased by *** percent from the second quarter of 2003 to the third quarter of 2006. The weighted-average sales price of product 3 imported from China and sold to merchants slightly increased by *** percent from the first quarter of 2003 to the third quarter of 2006. There were no reported direct sales of product 3 imported from China. There were no reported sales on an f.o.b. basis of product 3 imported from Indonesia. The weighted-average sales price of product 3 imported from Korea and sold to merchants increased by *** percent from the first quarter of 2003 to the third quarter of 2006. There were no reported direct sales of product 3 imported from Korea.

Table V-1
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

Table V-2
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

Table V-3
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

Table V-4
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

[16] *** sales value associated with relatively small volumes as reported by U.S. producer *** were excluded as they were deemed to be outliers.

Table V-5
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 3 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

Table V-6
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 3 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

* * * * * * *

Figure V-2
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 1 sold to merchants/distributors, by quarters, January 2003-September 2006

* * * * * * *

Figure V-3
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 1 sold directly to end users, by quarters, January 2003-September 2006

* * * * * * *

Figure V-4
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 2 sold to merchants/distributors, by quarters, January 2003-September 2006

* * * * * * *

Figure V-5
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 2 sold directly to end users, by quarters, January 2003-September 2006

* * * * * * *

Figure V-6
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 3 sold to merchants/distributors, by quarters, January 2003-September 2006

* * * * * * *

Figure V-7
Coated free sheet paper: Weighted-average f.o.b prices and quantities of domestic and imported product 3 sold directly to end users, by quarters, January 2003-September 2006

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Table V-7
Coated free sheet paper: Margins of underselling/(overselling) by product and by country, on quarterly *merchant* sales, January 2003-September 2006

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Table V-8
Coated free sheet paper: Margins of underselling/(overselling) by product and by country, on quarterly *direct* sales, January 2003-September 2006

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Price Comparisons

Margins of underselling and overselling for the period are presented in table V-9 below.[17] Merchant sales prices of imports from the subject countries were lower than U.S. producer prices in 77 out of 117 quarterly comparisons of products 1-3, by margins of 1.0 percent to 40.4 percent. In the remaining 40 instances, the imported product was priced above the comparable domestic product; margins of overselling ranged from 0.7 percent to 56.7 percent. Merchant sales prices of imports from China were lower than U.S. producer prices in 36 out of 51 quarterly comparisons of products 1, 2, and 3, by margins of 1.0 percent to 37.2 percent. In the remaining 15 instances, the imported product from China was priced above the comparable domestic product; margins of overselling ranged from 2.6 percent to 56.7 percent. Merchant sales prices of imports from Indonesia were lower than U.S. producer prices in 12 out of 21 quarterly comparisons of products 1 and 2, by margins of 7.4 percent to 20.6 percent. In the remaining nine instances, the imported product from Indonesia was priced above the comparable domestic product; margins of overselling ranged from 5.0 percent to 32.8 percent. Merchant sales prices of imports from Korea were lower than U.S. producer prices in 29 out of 45 quarterly comparisons of products 1, 2, and 3, by margins of 9.2 percent to 26.5 percent. In the remaining 16 instances, the imported product from Korea was priced above the comparable domestic product; margins of overselling ranged from 0.5 percent to 24.8 percent.[18]

Direct sales prices of imports from China were lower than U.S. producer direct sales prices in one quarterly comparison of product 2, by a margin of 2.9 percent. Direct sales prices on imports from Korea were lower than U.S. producer direct sales prices in 12 out of 14 quarterly comparisons of product 1, by margins of 2.1 percent to 35.4 percent. In the remaining two instances, the imported product from Korea was priced above the comparable domestic product; margins of overselling ranged from 1.0 percent to 5.2 percent.

[17] As noted previously, the underselling analysis is slightly different for delivered prices than for the f.o.b. prices presented here. There were slightly more instances of underselling relative to overselling for delivered merchant sales than in the data presented here, occurring in *** out of *** quarterly comparisons, or *** percent of the time, as opposed to *** percent of the time with the f.o.b. merchant sales. For the delivered direct sales prices, overselling was more predominant, occurring in *** out of *** quarterly comparisons, or *** percent of the time, as opposed to underselling occurring *** percent of the time with the f.o.b. direct sales prices presented here. Pricing data on a delivered basis are presented in app. H.

[18] Korean respondents contend that merchant sales exhibit underselling by subject imports because importers must offer merchants a discounted price to offset the additional costs of storing large inventories of imports that cannot be shipped just-in-time because of long lead times. Korean respondents' postconference brief, p. 30.

Table V-9
Coated free sheet paper: Instances of underselling/overselling and the range and average of margins for products 1-3, January 2003-September 2006

	Underselling			Overselling		
	Number of instances	Range (*percent*)	Average margin (*percent*)	Number of instances	Range (*percent*)	Average margin (*percent*)
Merchant Sales						
By product:						
Product 1	42	7.4 to 37.2	20.0	1	8.9	8.9
Product 2	6	1.0 to 4.9	3.6	38	0.7 to 56.7	18.7
Product 3	29	1.9 to 29.3	21.2	1	0.5	0.5
By country:						
China	36	1.0 to 37.2	21.0	15	2.6 to 56.7	36.2
Indonesia	12	7.4 to 20.6	14.3	9	5.0 to 32.8	9.7
Korea	29	9.2 to 26.5	18.9	16	0.5 to 24.8	5.6
Total[1]	**77**	**1.0 to 37.2**	**19.2**	**40**	**0.5 to 56.7**	**18.0**
Cumulated	**30**	**1.8 to 27.8**	**21.0**	**15**	**0.01 to 21.0**	**5.1**
Direct Sales						
By product:						
Product 1	12	2.1 to 35.4	18.0	2	1.0 to 5.2	3.1
Product 2	1	2.9	2.9	0	0	0
By country:						
China	1	2.9	2.9	0	0	0
Korea	12	2.1 to 35.4	18.0	2	1.0 to 5.2	3.1
Total[1]	**13**	**2.1 to 35.4**	**16.8**	**2**	**1.0 to 5.2**	**3.1**
Cumulated	**13**	**2.1 to 35.4**	**16.8**	**2**	**1.0 to 5.2**	**3.1**

[1] Total number of instances for all cited products, range of margins for all cited products, and average margin for all cited products.

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

LOST SALES AND LOST REVENUES

The Commission requested U.S. producers of CFS paper to report any instances of lost sales or revenues they experienced due to competition from imports of CFS paper from China, Indonesia, and Korea from January 2003 to September 2006. Five of nine responding U.S. producers reported that they had lost sales or revenues due to subject imports. One of these U.S. producers, however, reported that it could not document individual transactions. Another U.S. producer reported that subject imports are highly competitive, but did not cite specific lost sales or lost revenues. U.S. producers provided *** lost sales allegations and *** lost revenue allegations. The *** lost sales allegations totaled $*** and the *** lost revenue allegations totaled $***. Staff contacted the *** purchasers cited in the allegations; *** responded. The results are summarized in tables V-10 and V-11 and are discussed below.

Table V-10
Coated free sheet paper: U.S. producers' lost sales allegations

* * * * * * *

Table V-11
Coated free sheet paper: U.S. producers' lost revenue allegations

* * * * * * *

*** was named in a lost sales allegation valued at $*** allegedly occurring in ***. *** did not respond to the allegations.

*** was named in a lost sales allegation valued at $*** allegedly occurring in ***. *** did not respond to the allegation.

*** was named in a lost sale allegation valued at $*** allegedly occurring in 2003. It did not respond to the allegation.

*** was named in a lost sale allegation valued at $*** allegedly occurring in 2004. It did not respond to the allegation.

*** was named in a lost sales allegation valued at $*** allegedly occurring in 2004. It could not respond to the specific allegation cited; however, it reported that it bases its purchasing decisions on a combination of price and availability and purchases both domestic product and subject imports.

*** was named in a lost sales allegation valued at $*** allegedly occurring in 2004. It did not respond to the allegation.

*** was named in a lost sales allegation valued at $*** allegedly occurring in 2003. It did not respond to the allegation.

*** was named in a lost sales allegation valued at $*** allegedly occurring in 2006. While *** could not respond to the specific transaction cited, it reported that it has not switched purchases away from domestic product to subject imports, but rather has switched purchases away from Korean product to Chinese product and that its overall import purchases have been flat since 2003.

*** was named in a lost revenue allegation valued at $*** allegedly occurring in 2006. It agreed with the allegation, stating that the price of the product from China was *** percent less than the comparable domestic product, and that the price of the product from Korea was *** percent less.

*** was named in *** valued at $*** allegedly occurring in 2005. It agreed with the allegations, stating that any printer that orders standard sheet sizes and is shopping for the best price will purchase from the subject countries. Furthermore, it stated that *** has made it clear that it plans to grow its business worldwide.

*** was named in ***, some focused on lost volume and some on price reductions, valued at $*** allegedly occurring in 2006 and including CFS paper in both sheet form and web-rolls. *** could not verify the specific transactions cited. However, it disagreed with at least the portion of the allegations

allegedly occurring at ***, stating that those divisions do not purchase CFS paper in web-rolls from Asia. The portion of the lost revenues allegations attributed to those *** are valued at $***. *** also reported that it has worked with U.S. producers *** to develop lower-priced brands to be more competitive with subject imports. It also maintained that it has not switched purchases away from domestic product to subject imports, but rather has switched purchases away from Korean product to Chinese product and that its overall import purchases have been flat since 2003.

PART VI: FINANCIAL CONDITION OF U.S. PRODUCERS

BACKGROUND

Ten producers[1] provided financial results for their operations on CFS paper. The responding producers are believed to represent the substantial majority of U.S. production.[2] ***.

OPERATIONS ON COATED FREE SHEET PAPER

Results of operations of the U.S. producers on their CFS paper operations are presented in table VI-1 which includes data on a per-short ton basis as well as operating income (loss) to net sales ratios.[3]

The financial results of the producers fluctuated from 2003 to 2005. While the quantity and value sold increased continuously between 2003 and 2005 and the two interim periods, operating income turned into an operating loss from 2003 to 2004, due to the decrease in per-unit sale values and increased per-unit total costs/expenses. The operating loss became a profit in 2005 as per-unit sales values increased measurably while per-unit total cost only increased slightly during this period. Sales quantity and value both increased somewhat from interim 2005 to interim 2006 and operating income increased between the two interim periods, as average unit sales values again increased (from $865 to $889 per short ton) while average unit total cost decreased (from $866 to $854). While the operating income margin increased from 2004 to 2005, the operating income margin for 2005 (0.1 percent) was below the 0.5 percent margin in 2003. The operating income margin for January-September 2006 was approximately 3.9 percent, an improvement from the negative 0.03 percent operating loss for January-September 2005.

[1] The producers with a fiscal year ending other than December 31 are ***.

[2] ***.

[3] ***.

Table VI-1
Coated free sheet paper: Results of operations of U.S. producers, fiscal years 2003-05, January-September 2005, and January-September 2006

Item	Fiscal year			January-September	
	2003	2004	2005	2005	2006
Net sales:	Quantity (*short tons*)				
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total net sales	4,204,339	4,410,525	4,581,891	3,386,014	3,552,716
Net sales:	Value (*$1,000*)				
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total net sales	3,507,971	3,637,023	3,932,692	2,930,489	3,156,664
COGS	3,217,458	3,515,029	3,679,581	2,743,559	2,827,631
Gross profit	290,513	121,994	253,111	186,930	329,033
SG&A expenses	271,260	249,202	250,270	187,850	205,059
Operating income (loss)	19,253	(127,208)	2,841	(920)	123,974
Interest expense	78,728	76,616	158,089	114,366	133,473
Other expense	38,740	161,895	213,557	205,461	7,332
Other income	6,077	5,010	570	6,922	17,420
Net income (loss)	(92,138)	(360,709)	(368,235)	(313,825)	589
Depreciation/amortization	363,528	385,979	353,706	263,822	242,831
Cash flow	271,390	25,270	(14,529)	(50,003)	243,420

Table continued on next page.

Table VI-1--*Continued*
Coated free sheet paper: Results of operations of U.S. producers, fiscal years 2003-05, January-September 2005, and January-September 2006

Item	Fiscal year			January-September	
	2003	2004	2005	2005	2006
	Unit value (*per short ton*)				
Net sales	$834	$825	$858	$865	$889
COGS	765	797	803	810	796
Gross profit	69	28	55	55	93
SG&A expenses	65	57	55	55	58
Operating income (loss)	5	(29)	1	0	35
	Ratio to net sales (*percent*)				
COGS	91.7	96.6	93.6	93.6	89.6
Gross profit	8.3	3.4	6.4	6.4	10.4
SG&A expenses	7.7	6.9	6.4	6.4	6.5
Operating income (loss)	0.5	(3.5)	0.1	0.0	3.9
	Number of firms reporting				
Operating losses	5	4	6	5	2
Data	9	9	10	10	10

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

Selected financial data, by firm, are presented in table VI-2. Between 2003 and 2005, the operating results of the *** turned from profits to losses, largely because of increased unit costs. During the same period, the operating results of *** all improved measurably, *** largely because of reduced unit costs, and *** largely because of increased unit revenues. When comparing interim 2006 results to interim 2005 results, *** of the ten producers reported improved profitability (in terms of both operating income and margin ratio), while the remaining four producers reported deteriorating operations results between the two interim periods.[4] [5] Most notable improvements were reported by ***, all of which reported increased unit sales prices and decreased unit costs. Average operating income margins decreased from 2003 to 2004 and increased from 2004 to 2005, and also increased from interim 2005 to interim 2006.

Table VI-2
Coated free sheet paper: Results of operations of U.S. producers, by firm, fiscal years 2003-05, January-September 2005, and January-September 2006

* * * * * * *

[4] ***.

[5] ***.

Selected aggregate per-short ton cost data of the producers on their operations, i.e., cost of goods sold ("COGS") and selling, general, and administrative ("SG&A") expenses, are presented in table VI-3. Overall per-short ton COGS[6] and total cost (which includes SG&A expenses) increased continuously from 2003 to 2005, and decreased somewhat from interim 2005 to interim 2006.

Table VI-3
Coated free sheet paper: Average unit costs of U.S. producers, fiscal years 2003-05, January-September 2005, and January-September 2006

Item	Fiscal year			January-September	
	2003	2004	2005	2005	2006
COGS:	**Value (*per short ton*)**				
Raw materials:[1 2]					
WF/KP internally sourced	$0	$0	$0	$0	$0
WF sourced from affiliates	16	20	20	19	27
WF from unrelated parties	127	135	139	141	137
KP sourced from affiliates	0	0	0	0	0
KP from unrelated parties	0	0	0	0	0
Other raw materials	183	192	219	219	219
Total raw materials	326	347	378	380	383
Direct labor	84	80	78	79	76
Factory overhead	356	370	348	351	337
Total COGS	765	797	803	810	796
SG&A expenses	65	57	55	55	58
Total cost	830	853	858	866	854

[1] Wood fiber (WF).
[2] Kraft paper (KP).

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

A variance analysis showing the effects of prices and volume on the producers' sales of CFS paper, and of costs and volume on their total cost, is shown in table VI-4. The analysis is summarized at the bottom of the table. The analysis indicates that the decrease in operating income ($16.4 million) between 2003 and 2005 was attributable mainly to the negative effect of increased costs/expenses ($127.8 million) which was offset by the positive effects of increased price ($109.7 million) and increased sales volume ($1.7 million). However, between the two interim periods, it indicates that an increased operating income of $124.9 million resulted from the positive effects of both increased price and decreased cost/expenses.

[6] ***.

Table VI-4
Coated free sheet paper: Variance analysis of operations of U.S. producers, fiscal years 2003-05, January-September 2005, and January-September 2006

Item	Between fiscal years			January-September
	2003-05	2003-04	2004-05	2005-06
	Value (*$1,000*)			
Net sales:				
Price variance	109,703	(42,983)	154,357	81,900
Volume variance	315,018	172,035	141,312	144,275
Total net sales variance	424,721	129,052	295,669	226,175
Cost of sales:				
Cost variance	(173,193)	(139,783)	(27,979)	51,000
Volume variance	(288,930)	(157,788)	(136,573)	(135,072)
Total cost variance	(462,123)	(297,571)	(164,552)	(84,072)
Gross profit variance	(37,402)	(168,519)	131,117	142,103
SG&A expenses:				
Expense variance	45,349	35,361	8,614	(7,961)
Volume variance	(24,359)	(13,303)	(9,682)	(9,248)
Total SG&A variance	20,990	22,058	(1,068)	(17,209)
Operating income variance	(16,412)	(146,461)	130,049	124,894
Summarized as:				
Price variance	109,703	(42,983)	154,357	81,900
Net cost/expense variance	(127,844)	(104,422)	(19,365)	43,040
Net volume variance	1,729	944	(4,943)	(45)

Note.--Unfavorable variances are shown in parentheses; all others are favorable. The data are comparable to changes in operating income as presented in table VI-1.

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

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

The responding firms' aggregate data on capital expenditures and research and development ("R&D") expenses are presented in table VI-5. All producers reported capital expenditures during the period, and ***[7] ***[8] ***[9] ***[10] spent substantial amounts on capital expenditures. All *** producers, ***, reported R&D expenses. Capital expenditures, by firm, are presented in table VI-6. Capital expenditures increased from 2003 to 2004 and then decreased substantially from 2004 to 2005, then increased again from interim 2005 to interim 2006. Overall, total R&D expenses remained at relatively the same level except for the period between 2004 and 2005.

Table VI-5
Coated free sheet paper: Capital expenditures and R&D expenses by U.S. producers, fiscal years 2003-05, January-September 2005, and January-September 2006

Item	Fiscal year			January-September	
	2003	2004	2005	2005	2006
	Value (*$1,000*)				
Capital expenditures[1]	209,396	263,708	172,777	118,916	129,466
R&D expenses[2]	14,054	14,194	18,667	13,995	14,334

[1] All companies reported capital expenditures.
[2] All producers except *** reported R&D expenses.

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

Table VI-6
Coated free sheet paper: Capital expenditures by U.S. producers, by firms, fiscal years 2003-05, January-September 2005, and January-September 2006

* * * * * * *

ASSETS AND RETURN ON INVESTMENT

U.S. producers were requested to provide data on their assets used in the production and sales of CFS paper during the period for which data were collected to assess their return on investment ("ROI"). Although ROI can be computed in different ways, a commonly used method is income earned during the period divided by the total assets utilized for the operations. Therefore, staff calculated ROI as operating income divided by total assets used in the production and sales of CFS paper. Data on the U.S. producers' total assets and their ROI are presented in table VI-7.[11]

[7] ***.
[8] ***.
[9] ***.
[10] ***.
[11] ***.

The value of total assets, especially for the original cost and net book value of property, plant, and equipment ("PPE") decreased substantially from 2004 to 2005, due primarily to ***. The return on investment decreased from 2003 to 2004, then increased somewhat from 2004 to 2005 to become slightly positive (a small operating income margin). The trend of ROI over the period was the same as the trend of the operating income margin shown in table VI-1.

Table VI-7
Coated free sheet paper: Value of assets and return on investment of U.S. producers, fiscal years 2003-05

Item	Fiscal year		
	2003	2004	2005
Value of assets	**Value (*$1,000*)**		
1. Current assets:			
A. Cash and equivalents	47,889	25,660	32,407
B. Trade receivables (net)	356,796	437,347	505,348
C. Inventories	828,271	729,735	829,638
D. All other current	47,968	79,093	84,761
Total current	1,280,924	1,271,835	1,452,154
2. Non-current assets:			
A. Productive facilities[1]	6,388,297	6,652,575	5,930,724
B. Productive facilities	3,818,697	3,727,535	3,362,816
C. Other non-current	716,772	623,880	702,448
Total non-current	4,535,469	4,351,415	4,065,264
Total assets	5,816,393	5,623,250	5,517,418
	Value (*$1,000*)		
Operating income	19,253	(127,208)	2,841
	Ratio of operating income to total assets (*percent)*		
Return on investment	0.3	(2.3)	0.1

[1] Original cost of property, plant, and equipment (PPE).
[2] Net book value of PPE (original cost less accumulated depreciation).

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

CAPITAL AND INVESTMENT

The Commission requested U.S. producers to describe any actual negative effects on their return on investment, or their growth, investment, ability to raise capital, existing development and production efforts, or the scale of capital investments as a result of imports of CFS paper from China, Indonesia, and Korea. The producers' comments are presented in appendix I.

PART VII: THREAT CONSIDERATIONS

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the nature of the alleged subsidies was presented earlier in this report (if relevant); information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows.

SUBJECT MANUFACTURERS

The Commission sent, or arranged for parties to transmit, foreign producer questionnaires to companies in China (56 firms), Indonesia (4 firms), and Korea (11 firms) that were identified in the petition, Customs documents, and/or public sources as possibly producing CFS paper. Reporting subject manufacturers are listed in table VII-1 along with each firm's reported capacity, production, total exports, and exports to the United States in 2005.[1] Table VII-2 provides information on the structure of the foreign producer' operations and projected changes to those operations that were identified in their responses to the Commission's foreign producer questionnaire. CFS paper constituted a substantial share of the total sales of most of the companies. The majority also produced other products, most often uncoated free sheet, on the machinery and equipment used to produce the subject merchandise. *** reported any plans to add, expand, curtail, or shut down CFS paper capacity or production. The most frequently cited anticipated change to the operations of the Chinese and Indonesian manufacturers was a drop in their export volume.[2]

* * * * * * *

[1] Chinese firms that were identified in the petition as CFS producers but which did not provide a response to the foreign producer questionnaire include: Dandong Kaite Yalujiang Paper Commerce, Inc.; Jiangnan Papermaking Plant; Mudanjiang Daewoo Paper Co., Ltd.; Ningxia Meili Paper Industry Co., Ltd.; Shandong Huatai Paper Co., Ltd.; Shandong Kaili Paper Co.; Shandong Taishan Paper Mill; Shandong Tralin Paper Co. (Shandong Quanlin Paper Industry Co., Ltd.); Shandong Wanhao Paper Group Co. Ltd.; and UPM-Kymmene (Suzhou) Paper Industry Co. Ltd. Petition, exh. I-5. Both of the Indonesian firms identified as subject producers in the petition provided responses as did each of the identified Korean manufacturers. Petition, exh. I-6 and exh. I-7.

[2] Korean manufacturers also anticipate a decrease in their exports to the United States but addressed the issue in their postconference brief and not in their foreign producer questionnaire responses. *See* the section of this report titled "The Industry in Korea" for further information.

Table VII-1
Coated free sheet paper: Subject foreign producers' capacity, production, total exports, and exports to the United States in 2005, by firm

Firm	Capacity	Production	Total exports	Exports to the United States	Capacity utilization	Share of total shipments to the United States
	Quantity (*short tons*)				*Percent*	
Subject manufacturers in China						
Chenming[1]	***	***	***	***	***	***
Gold East[2]	***	***	***	***	***	***
Gold Huasheng[3]	***	***	***	***	***	***
Sun Paper[4]	***	***	***	***	***	***
Total	***	***	***	176,538	***	***
Subject manufacturers in Indonesia						
Pindo Deli and Tjiwi Kimia[5]	***	***	***	***	***	***
Subject manufacturers in Korea						
HanKuk[6]	***	***	***	***	***	***
Hansol[7]	***	***	***	***	***	***
Hongwon[8]	***	***	***	***	***	***
Kyesung[9]	***	***	***	***	***	***
Moorim[10]	***	***	***	***	***	***
Nanhan[11]	***	***	***	***	***	***
Shinho[12]	***	***	***	***	***	***
Shnmoorim[13]	***	***	***	***	***	***
Total	2,309,445	2,214,079	1,210,016	417,085	95.9	18.9

Notes on next page.

Continuation.

[1] Shandong Chenming Paper Holdings, Ltd., in Shandong province.
[2] Gold East Paper (Jiangsu) Co., Ltd. in Jiangsu province. ***.
[3] Gold Huasheng Paper (Suzhou Industry Park) in Jiangsu province. ***. ***. E-mail from counsel for the Chinese manufacturers, November 30, 2006.
[4] Shandong Sun Paper Industry Joint Stock Co., Ltd., in Shandong province. The firm began operating in 2005; data was provided for 2005 are for August to December. ***.
[5] PT. Pindo Deli Pulp & Paper Mills (Pindo Deli) and PT. Pabrik Kertas Tjiwi Kimia, Tbk (Tjiwi Kimia).
[6] HanKuk Paper Mfg. Co., Ltd.
[7] Hansol Paper Co., Ltd. ***.
[8] Hongwon Paper Mfg. Co., Ltd.
[9] Kyesung Paper Co., Ltd.
[10] Moorim Paper Mfg. Co., Ltd. (name changed to Moorim SP Co., as of August 1, 2006). ***.
[11] Namhan Paper Co., Ltd.
[12] Shinho Paper (name changed to EN Paper). ***.
[13] Shnmoorim Paper Mfg. Co. (name changed to Moorim Paper Co., Ltd., as of August 1, 2006). ***.

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

DATA GATHERED ON THE SUBJECT COUNTRY INDUSTRIES

The following sections provide data on subject manufacturers' capacity, production, shipments, and inventories of CFS paper for 2003-05, January-September 2005, January-September 2006, projected 2006, and projected 2007. As noted above, firms produced both subject and nonsubject merchandise on common production lines. Accordingly, to address the possibility of product shifting the Commission gathered overall capacity and itemized production data for products manufactured on the same equipment and machinery used in the production of CFS paper from each subject manufacturer. These data are presented within each section covering the industries in China, Indonesia, and Korea. Finally, the issue of whether competition between subject imports and domestic production is attenuated was raised at the Commission's conference.[3] Following the conference, the Commission gathered additional information from foreign manufacturers on their production and exports to the United States of CFS paper in web roll, sheeter roll, and sheet form. These data are also provided separately by country within each of the following industry sections.[4]

THE INDUSTRY IN CHINA

Responding firms consisted *** of Chinese manufacturers that currently export CFS paper to the United States. There are, however, other non-exporting (at least to the United States) Chinese producers. NewPage included an excerpt from the *** in its petition that lists *** producers of CFS paper in China.

[3] *See* Part I of this report for a full discussion.

[4] Referring to the Asian market as whole, Korean manufacturers state: "Web offset printing is less common in Asia and other world markets than in the United States, causing producers in the subject countries to concentrate on sheet production." Korean respondents' postconference brief, p. 10.

Reported capacity for these firms increased from *** metric tons in 2003 to *** metric tons in 2005 with continued expansion to *** metric tons in 2006 and to *** metric tons in 2007.[5] Respondents provided ***. According to that data source, ***.[6]

Table VII-3 provides data on the operations of the reporting firms. Capacity to produce subject merchandise in China rose continuously during 2003-05 period and in interim 2006 compared to interim 2005. Capacity is projected to increase further in 2006 to a level almost *** than that reported in 2003.[7] Reporting firms did not, however, project a *** rise in 2007 over that reported for 2006.[8] CFS production kept pace with the expansion of capacity, with capacity utilization ratios remaining above *** percent throughout the period examined (including projected 2006 and 2007).[9] There is a *** home market for CFS paper in China; the home market was, in fact, the *** destination of CFS paper from Chinese mills throughout the period examined. Exports, however, rose continuously from about *** of total shipments in 2003 and 2004 to well over *** of total shipments in both January-September 2006 and full-year (projected) 2006 but are projected to decline as a share of total shipments in 2007. Exports of CFS paper to the United States as a share of total shipments almost *** from *** percent in 2003 to *** percent in January-September 2006 and are projected to fall back in 2007 to a share *** to that reported for 2003. In absolute terms, the quantity of exports to the United States in 2007 are projected to decline by about *** tons–an amount *** than the total volume exported in 2003. Chinese respondents argued that the volume of exports to the United States was temporarily stimulated by the phase-out period for a VAT rebate.[10]

Table VII-3
Coated free sheet paper: Chinese production capacity, production, shipments, and inventories, 2003-05, January-September 2005-06, and projected 2006-07

* * * * * * *

As noted in table IV-1, a substantial portion of the CFS paper imported from China is marketed by U.S. importers related to the Chinese manufacturers. Specifically, *** sells CFS paper through ***[11]

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[5] Petition, exh. 15.

[6] Chinese respondents and Unisource's postconference brief, exh. 20. ***. Ibid.

[7] Counsel for the Chinese manufacturers and Unisource states that "coating capacity sets a firm and immovable upward limit on a CFS producer's capacity to manufacture additional CFS." Further, the firms responding to the Commission's foreign producer questionnaire based their capacity data on the "upward limits of that capacity." Chinese manufacturers and Unisource's postconference brief, p. 38.

[8] Global Paper Solutions argued in a declaration attached as exh. 18 to the Chinese respondents and Unisource's postconference brief that to his knowledge ***. This means that ***. As shown in table VII-3, the projected capacity figure for 2006 is over *** tons greater than that reported as installed in 2005. ***.

[9] Chinese respondents state that there is "no dispute that China is the fastest growing market for CFS in the world" and tie the growing demand to the rapidly expanding Chinese GDP and, more specifically, to the 2008 Summer Olympics and the 2010 World Fair to be held in China. Chinese manufacturers and Unisource's postconference brief, pp. 33-34.

[10] They state: "Effective November 2006, exports of CFS paper are no longer eligible to receive a VAT rebate. Removal of the VAT rebate will increase the cost of Chinese CFS exports by approximately 13%. The slight relative increase in the ratio of Chinese exports to the U.S. in the interim comparison is largely, if not entirely, attributable to the fact that revocation of the VAT rebate had a transition period." Chinese respondents and Unisource's postconference brief, pp. 31-33.

[11] ***'s importer questionnaire response, question I-4.

and *** distributes subject merchandise in the United States through its affiliate, ***.[12] *** is related to ***. With respect to manufacturers' inventories, Chinese respondents state that inventories held at the mills are "unlikely" to be exported to the United States since product sold to the U.S. market is made-to-order.[13]

CFS paper exported by the Chinese manufacturers was reported not to be subject to antidumping findings or remedies in any WTO-member countries.[14] Table VII-4 lists overall capacity and production data for products manufactured on the same equipment and machinery used in the production of the subject merchandise, and table VII-5 provides data on Chinese production and exports to the United States by type of product. As shown, most CFS paper production in China is in the form of sheets (and sheeter rolls). The production of CFS web rolls, however, rose from 2003 to 2005, with the increase paired with the start (at least during the period examined) of web exports to the United States.

Table VII-4
Coated free sheet paper: Products produced by subject Chinese manufacturers on the same equipment and machinery used in the production of coated free sheet paper, 2003-05

* * * * * * *

Table VII-5
Coated free sheet paper: Chinese production and exports of subject merchandise to the United States from China, by web rolls, sheeter rolls, and sheets, 2003-05, January-September 2006, and projected 2006-07

* * * * * * *

THE INDUSTRY IN INDONESIA

Pindo Deli and Tjiwi Kimia account for virtually all the capacity to produce CFS paper in Indonesia. Both mills are owned by Asia Pulp and Paper and, as shown in table VII-1, responded to the foreign producer questionnaire.[15] Data for their operations are presented in table VII-6. Capacity increased by about *** short tons from 2003 and 2004 and has since remained level with *** projected increases either in the fourth quarter of 2006 or in 2007. Production rose steadily throughout the period examined, resulting in an increase in capacity utilization from almost *** percent in 2003 and 2004 to *** percent in 2005 and to *** percent in January-September 2006. Capacity utilization ratios of ***

[12] ***'s foreign producer questionnaire response, question I-5.

[13] Chinese respondents and Unisource's postconference brief, pp. 37-38.

[14] Chinese manufacturers' foreign producer questionnaire responses, question II-6.

[15] Petition, exh. 15 (***). ***.

percent are projected for both full-year 2006 and 2007. The home market consistently consumed about a *** of total CFS paper production with internal consumption/transfers accounting for about *** percent. Exports as a share of total shipments accounted for *** percent of total shipments from 2003 through September 2006. The export share of total shipments is projected to decrease in 2007 compared to full-year 2006 by *** percentage points to *** percent as home market shipments rise by *** percentage points (with a *** percentage point decline in internal consumption/transfers). Although slight, the reported decline in the export share is accounted for entirely by the share of exports to the United States; the share of total shipments accounted for by other markets rises slightly. Indonesian manufacturers anticipate shipping to the United States, in absolute terms, about *** short tons less CFS paper in 2007 than will be shipped in full-year 2006. Projected 2007 exports to the United States will *** the 2005 level, which was approaching *** that shipped in 2003.

Table VII-6
Coated free sheet paper: Indonesian production capacity, production, shipments, and inventories, 2003-05, January-September 2005-06, and projected 2006-07

* * * * * * *

CFS paper exported by the Indonesian manufacturers was reported not to be subject to antidumping findings or remedies in any WTO-member countries.[16] Table VII-7 lists overall capacity and production data for products manufactured on the same equipment and machinery used in the production of the subject merchandise and table VII-8 provides data on Indonesian production and exports to the United States by type of product. As shown, *** portion of the CFS paper produced in Indonesia is in web form with *** web roll exports to the United States during the period examined.

Table VII-7
Coated free sheet paper: Products produced by subject Indonesian manufacturers on the same equipment and machinery used in the production of coated free sheet paper, 2003-05

* * * * * * *

Table VII-8
Coated free sheet paper: Indonesian production and exports of subject merchandise to the United States, by web rolls, sheeter rolls, and sheets, 2003-05, January-September 2006, and projected 2006-07

* * * * * * *

THE INDUSTRY IN KOREA

Eight Korean manufacturers of CFS paper provided data in response to the foreign producer questionnaire (table VII-1). The firms reported aggregate capacity of 2.3 million tons in 2005 with production of 2.2 millions tons. Since these figures actually exceed those reported in the ***,[17] questionnaire data as reported are believed to account for virtually the entire Korean industry. Korean

[16] Pindo Deli and Tjiwi Kimia's foreign producer questionnaire response, question II-6.

[17] Document is attached as exh. 18 to the petition. According to the "***," there were *** tons of Korean CFS paper capacity in 2005 with production of *** tons.

Table VII-9
Coated free sheet paper: Korean production capacity, production, shipments, and inventories, 2003-05, January-September 2005-06, and projected 2006-07

Item	Actual experience					Projections	
	2003	2004	2005	Jan.-Sept.		2006	2007
				2005	2006		
Quantity (*short tons*)							
Capacity	2,180,481	2,267,501	2,309,445	1,713,220	1,748,801	2,328,338	2,338,338
Production	1,991,631	2,168,023	2,214,079	1,653,386	1,658,098	2,206,942	2,234,245
End of period inventories	97,379	104,575	116,188	140,080	128,207	124,973	118,458
Shipments:							
Internal consumption	6,778	3,638	3,631	2,528	4,334	5,411	3,499
Home market	896,204	940,299	988,820	704,886	758,775	1,043,980	1,100,602
Exports to--							
The United States	386,950	462,590	417,085	315,387	361,926	481,632	433,306
All other markets	700,159	754,299	792,930	595,081	521,042	667,134	703,352
Total exports	1,087,109	1,216,889	1,210,015	910,468	882,968	1,148,766	1,136,658
Total shipments	1,990,091	2,160,826	2,202,466	1,617,882	1,646,077	2,198,157	2,240,759
Ratios and shares (*percent*)							
Capacity utilization	91.3	95.6	95.9	96.5	94.8	94.8	95.5
Inventories to production	4.9	4.8	5.2	6.4	5.8	5.7	5.3
Inventories to total shipments	4.9	4.8	5.3	6.5	5.8	5.7	5.3
Share of total shipments:							
Internal consumption	0.3	0.2	0.2	0.2	0.3	0.2	0.2
Home market	45.0	43.5	44.9	43.6	46.1	47.5	49.1
Exports to--							
The United States	19.4	21.4	18.9	19.5	22.0	21.9	19.3
All other markets	35.2	34.9	36.0	36.8	31.7	30.3	31.4
Total exports	54.6	56.3	54.9	56.3	53.6	52.3	50.7

Note.–*See* exhibit 18 of the petition for ***.

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

respondents characterize their involvement in the U.S. market as “long-term” and state that they are not new market participants.[18]

Data on the Korean industry are presented in table VII-9. With one exception, each of the indices presented in table VII-9 have followed a pattern of steady, albeit relatively slow, growth throughout the

[18] Korean respondents’ postconference brief, p. 35.

2003-05 period. Capacity steadily increased by 5.9 percent over 2003-05 while production rose by 11.2 percent. Home market shipments increased each year for an overall rise of 10.3 percent and exports to the United States[19] and to all other markets rose by 7.8 percent and 13.2 percent, respectively. Capacity, production, and home market shipments again increased during the interim periods (and are projected to continue to grow at a generally slow pace in 2007 compared to 2006). In contrast, total export shipments fell from January-September 2005 to January-September 2006 although exports to the U.S. market rose (by 14.8 percent). Total exports are projected to again decline in 2007 compared to full year 2006 with exports to the United States falling (by 10.0 percent) while exports to all other markets rise (by 5.4 percent). While slightly below the projected 2006 level, the volume of total exports that are projected in 2007 remains slightly below the 2005 figure.

The Korean respondents state in their postconference brief that a decrease in exports to the United States in 2007 should offset rising home market demand from the on-coming Presidential election in 2007.[20] Analysts reportedly project strong growth estimates for the Korean home market derived from "growing populations with disposable income, increasing demand for high quality magazines, high basis CFS displacing certain cartonboards, increased four color and digital printing, increased direct marketing and advertising, and some substitution of CFS for uncoated magazines."[21]

As noted in table IV-1, a *** portion of the CFS paper imported from Korea is marketed by U.S. importers related to the Korean manufacturers. Specifically, *** sells CFS paper through ***,[22] *** distribute subject merchandise in the United States through their affiliate ***,[23] and *** sells through its U.S. branch ***. [24]

CFS paper exported by the Korean manufacturers as of August 2003 is subject to an antidumping order in China.[25] Korean respondents list the antidumping margins for three manufacturers in their postconference brief (p. 42, n. 168). Petitioner argues that the imposition of the antidumping duty order has resulted in the diversion to the United States of Korean product that otherwise would have been shipped to China.[26]

Table VII-10 lists overall capacity and production data for products manufactured in Korea on the same equipment and machinery used in the production of the subject merchandise. Korean manufacturers argue that there is "little risk" of product shifting since the production lines where the subject merchandise is produced are "primarily dedicated" to CFS paper. Any shift of paper machines from uncoated to coated free sheet production would require "substantial sums" to add coating machines, rewinders, and supercalendars. Approximately two months to install and four months to adjust the additional machinery would be required to produce high quality merchandise.[27]

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[19] The only annual decline for any index in 2003-05 was the fall in exports to the United States from 2004 to 2005.

[20] Korean respondents' postconference brief, p. 40.

[21] Korean respondents' postconference brief, pp. 40-41.

[22] ***'s foreign producer questionnaire response, question I-4.

[23] ***'s foreign producer questionnaire responses, question I-5.

[24] ***'s foreign producer questionnaire response, question I-5.

[25] Korean manufacturers' foreign producer questionnaire responses, question II-6.

[26] Petitioner's postconference brief, p. 47.

[27] Korean respondents' postconference brief, p. 42.

Table VII-10
Coated free sheet paper: Products produced by subject Korean manufacturers on the same equipment and machinery used in the production of coated free sheet paper, 2003-05

Item	Calendar years		
	2003	2004	2005
	Quantity (*short tons*)		
Annual capacity for all products	3,213,412	3,415,027	3,449,825
Production of:			
Subject product[1]	1,991,631	2,168,023	2,214,079
Uncoated free sheet paper[1]	***	***	***
Coated groundwood paper	***	***	***
Kraft paper	***	***	***
Other	***	***	***
All products	3,005,973	3,228,687	3,365,229
	Capacity utilization (*percent*)		
All products	93.5	94.5	97.5

[1] Overlap recorded if the only substantial difference between the two products (in equipment utilized) is that uncoated paper is not subject to the application of kaolin or a similar coating.

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

Data on Korean production and exports to the United States by type of product are presented in table VII-11. According to respondents' brief, {t}he Korean market does not consume many web rolls because there are few large end-users with production runs large enough to support the use of web rolls and most end-users operate on a small production scale using sheets." Those not consumed domestically are primarily shipped to ***.[28] *** short tons of web were exported to the United States in 2003[29] with no subsequent web exports and none projected throughout 2006 or in 2007.

[28] Korean respondents' postconference brief, exh. A, p. 6.

[29] The Korean manufacturers state that the 2003 shipments were on a "trial basis" ... "which did not succeed" and that "future efforts were abandoned." Korean manufacturers' postconference brief, exh. A, p. 5.

Table VII-11
Coated free sheet paper: Korean production and exports of subject merchandise to the United States from China, by web rolls, sheeter rolls, and sheets, 2003-05, January-September 2006, and projected 2006-07

Item	Actual experience				Projections	
	2003	2004	2005	Jan.-Sept. 2006	2006	2007
	Quantity (*short tons*)					
Production of product in:						
Web rolls[1]	***	***	***	***	***	***
Sheeter rolls	***	***	***	***	***	***
Sheets	***	***	***	***	***	***
Total	1,991,631	2,168,024	2,214,078	1,658,096	2,206,942	2,234,247
Exports to the United States of production:						
Web rolls[1]	***	***	***	***	***	***
Sheeter rolls	***	***	***	***	***	***
Sheets	***	***	***	***	***	***
Total	386,950	462,590	417,084	361,926	481,631	433,305

[1] Web roll production is sold to the following markets: ***.

Note.–The Korean industry provided data on the aggregate capacity in place for products produced on the same equipment as subject merchandise (and did not attempt to identify the capacity represented by the specific machines that might be dual-operating for multiple products at certain time periods).

Source: Compiled from supplemental information provided by the Korean manufacturers.

AGGREGATED DATA ON THE INDUSTRIES IN SUBJECT COUNTRIES

Table VII-12 presents CFS paper capacity, production, total exports, and exports to the United States for each subject source in 2005. As shown, the Chinese and Korean CFS paper industries are comparable in size although the Korean industry is more export oriented and, in 2005, shipped more than *** the tonnage to the United States as did China. The Indonesian industry is about *** the size of the other subject countries. Capacity utilization was uniformly high for all sources. Table VII-13 presents data on the combined industries for 2003-05, January-September 2005, January-September 2006, projected 2006, and projected 2007.

Table VII-12
Coated free sheet paper: Subject foreign producers' capacity, production, total exports, and exports to the United States in 2005, by source

Source	Capacity	Production	Total exports	Exports to the United States	Capacity utilization
	Quantity (*short tons*)				(*percent*)
China	***	(1)	***	***	***
Indonesia	***	***	***	***	***
Korea	2,309,445	2,214,079	1,210,015	417,085	95.9
Total	4,955,743	4,844,797	2,234,509	644,577	96.5

[1] ***.

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

Table VII-13
Coated free sheet paper: Aggregated data for reporting producers in China, Indonesia, and Korea, 2003-05, January-September 2005-06, and projected 2006-07

Item	Actual experience					Projections	
	2003	2004	2005	Jan.-Sept.		2006	2007
				2005	2006		
Quantity (*short tons*)							
Capacity	4,134,454	4,555,485	4,955,743	3,665,865	4,410,464	5,787,939	5,847,816
Production	3,855,064	4,430,066	4,844,797	3,532,631	4,223,072	5,629,483	5,703,826
End of period inventories	221,736	319,056	301,756	340,543	359,254	306,713	286,062
Shipments:							
Internal consumption	32,339	27,595	25,339	18,107	31,603	34,802	25,545
Home market	2,185,122	2,358,067	2,602,249	1,803,791	2,165,428	2,973,731	3,400,697
Exports to--							
The United States	511,802	646,389	644,577	480,210	659,909	859,180	686,132
All other markets	1,240,307	1,300,694	1,589,932	1,209,037	1,308,632	1,758,352	1,611,921
Total exports	1,752,109	1,947,083	2,234,509	1,689,247	1,968,541	2,617,532	2,298,053
Total shipments	3,969,570	4,332,745	4,862,097	3,511,145	4,165,572	5,626,065	5,724,295
Ratios and shares (*percent*)							
Capacity utilization	93.2	97.2	96.5	95.8	95.8	97.3	97.5
Inventories to production	5.8	7.2	6.2	7.2	6.4	5.4	5.0
Inventories to total ship.	5.6	7.4	6.2	7.3	6.5	5.5	5.0
Share of total shipments:							
Internal consumption	0.8	0.6	0.5	0.5	0.8	0.6	0.4
Home market	55.0	54.4	53.5	51.4	52.0	52.9	59.4
Exports to--							
The United States	12.9	14.9	13.3	13.7	15.8	15.3	12.0
All other markets	31.2	30.0	32.7	34.4	31.4	31.3	28.2
Total exports	44.1	44.9	46.0	48.1	47.3	46.5	40.1

Note.–The calculation of capacity utilization for 2005 excludes ***.

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

IMPORTERS' U.S. INVENTORIES OF SUBJECT PRODUCT

Reported inventories held by U.S. importers of subject merchandise from China, Indonesia, and Korea and inventories from all other sources are shown in table VII-14. The ratio of combined subject inventories to both imports and U.S. shipments of imports combined remained within 8 to 9 percent throughout the period examined. The actual quantity of product held in inventory, however, increased by about 13,000 short tons as of September 30, 2006 compared to September 30, 2005. Most of the subject inventories reported in Commission questionnaires consisted of merchandise imported from Korea.[30]

Petitioner characterized the reported inventory levels as a "***" buildup and, further, asserted that even these *** levels are underreported in that several importers did not report holding inventories.[31] [32] Testimony at the conference indicated that inventories were most likely to be maintained by the "paper merchant" who has established warehouses where it maintains an inventory level. Both mill agents (which may be independent of or function as the local sales offices of offshore manufacturers) and/or paper brokers usually arrange for sales by the manufacturers to either paper merchants or end users. Mill agents or paper brokers do not, however, typically take possession of the product in the United States or maintain inventories.[33] As discussed earlier, importer questionnaires were sent to and completed (see table IV-1) by firms that were listed as consignees on Customs documents. These firms consisted of a mix of mill agents, paper brokers, and paper merchants.

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[30] One reason for the relatively large inventories reported for Korea is that they include data for ***. Consequently, the inclusion of ***s data in this table is not believed to result in the double-counting of inventories even though the firm is not shown in table IV-1 (where listing its imports would result in the double-counting of imports). Similarly, all of the inventories reported for China in table IV-14 are by ***. *** also reported inventorying a substantial volume of Korean-manufactured CFS paper.

[31] Several large U.S. importers (including ***) reported either maintaining no or minimal inventories in their importer questionnaire responses. (Each of these firms either reported "0" or minimal inventories in their importer questionnaire responses which suggests that they were in fact not holding inventories at their level of distribution rather than not being able to provide the requested data.) Other importers reported substantial inventories.

[32] According to a letter submitted by ***, November 14, 2006, "most" offshore suppliers cannot compete in providing "just-in-time" delivery and often average 60 to 120 day lead times. Further, distributors are required to "make a very large financial inventory investment in order to buy large quantities, stock and resell an offshore CFS product. Without large inventories on hand, the distributor could not meet the demands of large printers who might require a large quantity of a particular size and substance of paper."

[33] Conference transcript, pp. 141-146 (Anderson, Dragone, and Cameron).

Table VII-14
Coated free sheet paper: U.S. importers' end-of-period inventories of imports, by sources, 2003-05, January-September 2005, and January-September 2006

Source	Calendar year			January-September	
	2003	2004	2005	2005	2006
Imports from China:					
Inventories (*short tons*)	***	***	***	***	***
Ratio to imports (*percent*)	***	***	***	***	***
Ratio to U.S. shipments of imports (*percent*)	***	***	***	***	***
Imports from Indonesia:					
Inventories (*short tons*)	***	***	***	***	***
Ratio to imports (*percent*)	***	***	***	***	***
Ratio to U.S. shipments of imports (*percent*)	***	***	***	***	***
Imports from Korea:					
Inventories (*short tons*)	46,649	50,032	46,858	50,212	54,982
Ratio to imports (*percent*)	10.1	9.9	10.4	10.6	11.1
Ratio to U.S. shipments of imports (*percent*)	10.3	10.0	10.4	10.6	11.3
Imports from all subject sources:					
Inventories (*short tons*)	54,882	61,819	58,097	61,621	74,793
Ratio to imports (*percent*)	***	***	***	***	***
Ratio to U.S. shipments of imports (*percent*)	9.1	8.5	8.5	8.9	9.0
Nonsubject imports from all other sources:					
Inventories (*short tons*)	63,325	70,890	69,411	70,494	74,940
Ratio to imports (*percent*)	17.6	13.6	14.8	17.4	19.0
Ratio to U.S. shipments of imports (*percent*)	18.2	15.1	16.3	19.5	19.2
Total imports:					
Inventories (*short tons*)	118,207	132,709	127,508	132,115	149,733
Ratio to imports (*percent*)	***	***	***	***	***
Ratio to U.S. shipments of imports (*percent*)	12.4	11.1	11.5	12.6	12.2

Note.–Does not include inventories from Korea reported by ***.

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

APPENDIX A

FEDERAL REGISTER NOTICES

INTERNATIONAL TRADE COMMISSION

[Investigation Nos. 701–TA–444–446 and 731–TA–1107–1109 (Preliminary)]

Coated Free Sheet Paper From China, Indonesia, and Korea

AGENCY: United States International Trade Commission.

ACTION: Institution of countervailing duty and antidumping investigations and scheduling of preliminary phase investigations.

SUMMARY: The Commission hereby gives notice of the institution of investigations and commencement of preliminary phase countervailing duty investigation Nos. 701–TA–444–446 (Preliminary) and preliminary phase antidumping investigation Nos. 731–TA–1107–1109 (Preliminary) under sections 703(a) and 733(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a) and 1673b(a)) (the Act) to determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from China, Indonesia, and Korea of coated free sheet paper, provided for in subheadings 4810.13.19, 4810.13.20, 4810.13.50, 4810.13.70, 4810.14.19, 4810.14.20, 4810.14.50, 4810.14.70, 4810.19.19, and 4810.19.20 of the Harmonized Tariff Schedule of the United States, that are alleged to be subsidized by the Governments of China, Indonesia, and Korea and that are alleged to be sold in the United States at less than fair value. Unless the Department of Commerce extends the time for initiation pursuant to sections 702(c)(1)(B) and 732(c)(1)(B) of the Act (19 U.S.C. 1671a(c)(1)(B) and 1673a(c)(1)(B)), the Commission must reach preliminary determinations in countervailing duty and antidumping investigations in 45 days, or in this case by December 15, 2006. The Commission's views are due at Commerce within five business days thereafter, or by December 22, 2006.

For further information concerning the conduct of these investigations and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and B (19 CFR part 207).

DATES: *Effective Date:* October 31, 2006.

FOR FURTHER INFORMATION CONTACT: Debra Baker (202–205–3180), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its internet server (*http://www.usitc.gov*). The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov.*

SUPPLEMENTARY INFORMATION:

Background.—These investigations are being instituted in response to a petition filed on October 31, 2006, by NewPage Corporation, Dayton, OH.

Participation in the investigations and public service list.—Persons (other than petitioners) wishing to participate in the investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the Commission's rules, not later than seven days after publication of this notice in the **Federal Register**. Industrial users and (if the merchandise under investigation is sold at the retail level) representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to these investigations upon the expiration of the period for filing entries of appearance.

Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in these investigations available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigations under the APO issued in the investigations, provided that the application is made not later than seven days after the publication of this notice in the **Federal Register**. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

Conference.—The Commission's Director of Operations has scheduled a conference in connection with these investigations for 9:30 a.m. on November 21, 2006, at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC. Parties wishing to participate in the conference should contact Debra Baker (202–205–3180) not later than November 16, 2006, to arrange for their appearance. Parties in support of the imposition of countervailing and antidumping duties in these investigations and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

Written submissions.—As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before November 27, 2006, a written brief

containing information and arguments pertinent to the subject matter of the investigations. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II (C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: These investigations are being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

Issued: November 1, 2006.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E6–18654 Filed 11–3–06; 8:45 am]

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DEPARTMENT OF COMMERCE

International Trade Administration

[A–560–820, A–570–906, A–580–856]

Initiation of Antidumping Duty Investigations: Coated Free Sheet Paper from Indonesia, the People's Republic of China, and the Republic of Korea

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

EFFECTIVE DATE: November 27, 2006.

FOR FURTHER INFORMATION CONTACT: Irina Itkin (Indonesia), Magd Zalok (People's Republic of China) or Joy Zhang (Republic of Korea), AD/CVD Operations, Office 2, Office 4, and Office 3, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230; telephone: (202) 482–0656, (202) 482–4162, or (202) 482–1168, respectively.

SUPPLEMENTARY INFORMATION:

The Petitions

On October 31, 2006, the Department of Commerce (the Department) received petitions concerning imports of coated free sheet paper (CFS) from Indonesia (Indonesian petition), the Republic of Korea (Korea) (Korean petition), and the People's Republic of China (PRC) (PRC petition) filed in proper form by NewPage Corporation (the petitioner). *See* the Petitions for the Imposition of Antidumping and Countervailing Duties Against Coated Free Sheet Paper From China, Indonesia, and Korea filed on October 31, 2006. On November 3, 13, and 16, 2006, the Department issued requests for additional information and clarification of certain areas of the petitions. Based on the Department's requests, the petitioner filed supplements to the petitions on November 9, 15, and 17, 2006. The period of investigation (POI) for Indonesia and Korea is October 1, 2005, through September 30, 2006. The POI for the PRC is April 1, 2006, through September 30, 2006.

In accordance with section 732(b) of the Tariff Act of 1930, as amended (the Act), the petitioner alleges that imports of CFS from Indonesia, Korea, and the PRC are being, or are likely to be, sold in the United States at less than fair value, within the meaning of section 731 of the Act, and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that the petitioner filed these petitions on behalf

of the domestic industry because the petitioner is an interested party as defined in section 771(9)(C) of the Act, and has demonstrated sufficient industry support with respect to the antidumping investigations that the petitioner is requesting that the Department initiate (*see* ''Determination of Industry Support for the Petition'' below).

Scope of Investigations

The merchandise covered by each of these investigations includes coated free sheet paper and paperboard of a kind used for writing, printing or other graphic purposes. Coated free sheet paper is produced from not-more-than 10 percent by weight mechanical or combined chemical/mechanical fibers. Coated free sheet paper is coated with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating. Coated free sheet paper may be surface-colored, surface-decorated, printed (except as described below), embossed, or perforated. The subject merchandise includes single- and double-side-coated free sheet paper; coated free sheet paper in both sheet or roll form; and is inclusive of all weights, brightness levels, and finishes. The terms ''wood free'' or ''art'' paper may also be used to describe the imported product.

Excluded from the scope are: (1) Coated free sheet paper that is imported printed with final content printed text or graphics; (2) base paper to be sensitized for use in photography; and (3) paper containing by weight 25 percent or more cotton fiber.

Coated free sheet paper is classifiable under subheadings 4810.13.1900, 4810.13.2010, 4810.13.2090, 4810.13.5000, 4810.13.7040, 4810.14.1900, 4810.14.2010, 4810.14.2090, 4810.14.5000, 4810.14.7040, 4810.19.1900, 4810.19.2010, and 4810.19.2090 of the Harmonized Tariff Schedule of the United States (HTSUS). While HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of these investigations is dispositive.

Comments on Scope of Investigations

During our review of the petitions, we discussed the scope with the petitioner to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the regulations (*Antidumping Duties; Countervailing Duties; Final Rule,* 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department encourages all interested parties to submit such comments within 20 calendar days of the publication of this notice. Comments should be addressed to Import Administration's Central Records Unit (CRU), Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determinations.

Determination of Industry Support for the Petitions

Section 732(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 732(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for (1) at least 25 percent of the total production of the domestic like product and (2) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for or opposition to the petition. Moreover, section 732(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) Poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the ''industry'' as the producers as a whole of a domestic like product. Thus, to determine whether the petitions have the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The International Trade Commission (ITC) is responsible for determining whether ''the domestic industry'' has been injured and must also determine what constitutes a domestic like product in order to define the industry. While the Department and the ITC must apply the same statutory definition regarding the domestic like product, they do so for different purposes and pursuant to separate and distinct authority. *See* section 771(10) of the Act. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the domestic like product, such differences do not render the decision of either agency contrary to law.[1]

Section 771(10) of the Act defines the domestic like product as ''a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this subtitle.'' Thus, the reference point from which the domestic like product analysis begins is ''the article subject to an investigation,'' *i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition.

With regard to domestic like product, the petitioner does not offer a definition of domestic like product distinct from the scope of the investigations. Based on our analysis of the information presented by the petitioner, we have determined that there is a single domestic like product, coated free sheet paper, which is defined in the ''Scope of Investigations'' section above, and we have analyzed industry support in terms of the domestic like product.

On November 15 and 16, 2006, we received submissions on behalf of Chinese and Indonesian producers of CFS questioning the industry support calculation. *See* ''Office of AD/CVD Operations Initiation Checklist for the Antidumping Duty Petition on Coated Free Sheet Paper from Indonesia,'' at Attachment II (Nov. 20, 2006) (*Indonesia Initiation Checklist*), ''Office of AD/CVD Operations Initiation Checklist for the Antidumping Duty Petition on Coated Free Sheet Paper from the Republic of Korea,'' at Attachment II (Nov. 20, 2006) (*Korea Initiation Checklist*), and ''Office of AD/CVD Operations Initiation Checklist for the Antidumping Duty Petition on Coated Free Sheet Paper from the People's Republic of China,'' at Attachment II (Nov. 20, 2006) (*PRC Initiation Checklist*), on file in the CRU. Our review of the data provided in the petition, supplemental submissions, and other information readily available to the Department indicates that Petitioners have established industry support representing at least 25 percent of the total production of the domestic like product; and more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for or opposition to the petition, requiring no further action by the Department pursuant to section 732(c)(4)(D) of the Act. Therefore, the domestic producers (or workers) who support the petition

[1] *See USEC, Inc.* v. *United States,* 132 F. Supp. 2d 1, 8 (CIT 2001), *citing Algoma Steel Corp. Ltd.* v. *United States,* 688 F. Supp. 639, 644 (1988), *aff'd* 865 F.2d 240 (Fed Cir. 1989) *cert. denied* 492 U.S. 919 (1989).

account for at least 25 percent of the total production of the domestic like product, and the requirements of section 732(c)(4)(A)(i) of the Act are met. Furthermore, the domestic producers who support the petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Thus, the requirements of section 732(c)(4)(A)(ii) of the Act also are met. Accordingly, the Department determines that the petition was filed on behalf of the domestic industry within the meaning of section 732(b)(1) of the Act. *See Indonesia Initiation Checklist* at Attachment II, *Korea Initiation Checklist* at Attachment II, and *PRC Initiation Checklist* at Attachment II.

Allegations and Evidence of Material Injury and Causation

With regard to Indonesia, Korea, and the PRC, the petitioner alleges that the U.S. industry producing the domestic like product is being materially injured and is threatened with material injury by reason of the individual and cumulated imports of the subject merchandise sold at less than fair value. The petitioner contends that the industry's injury is evidenced by reduced market share, increased inventories, reduced shipments, lost sales, reduced production, lower capacity and capacity utilization rates, decline in prices, lost revenue, reduced employment, and a decline in financial performance.

These allegations are supported by relevant evidence including import data, evidence of lost sales, and pricing information. We assessed the allegations and supporting evidence regarding material injury, threat of material injury, and causation, and have determined that these allegations are supported by accurate and adequate evidence and meet the statutory requirements for initiation. *See Indonesia Initiation Checklist* at Attachment III, *Korea Initiation Checklist* at Attachment III, and *PRC Initiation Checklist* Attachment III.

Allegations of Sales at Less Than Fair Value

The following is a description of the allegations of sales at less than fair value upon which the Department based its decision to initiate these investigations on imports of CFS from Indonesia, Korea, and the PRC. The sources of data for the deductions and adjustments relating to the U.S. price, constructed value (CV) (for Indonesia and Korea), and the factors of production (for the PRC only) are also discussed in the country-specific initiation checklists. *See Indonesia Initiation Checklist, Korea Initiation Checklist,* and *PRC Initiation Checklist.* Should the need arise to use any of this information as facts available under section 776 of the Act in our preliminary or final determinations, we will reexamine the information and revise the margin calculations, if appropriate.

Indonesia and Korea

Export Price (EP)

The petitioner calculated a single EP using the average unit values (AUVs) for import data collected by the U.S. Census Bureau for both Indonesia and Korea. The petitioner used a weighted average of two HTSUS numbers under which CFS is imported into the United States and that fall within the scope of the investigations. These HTSUS numbers contain imports of products which were most similar to the product on which the petitioner based normal value (NV) in the Indonesian and Korean petitions: 4810.14.19.00 and 4810.19.19.00.[2] In addition, these HTSUS numbers account for 48 percent of the volume of imports from Indonesia and 45 percent of the volume of imports from Korea. To be conservative, the petitioner did not make any adjustments to U.S. price.

Use of a Third Country Market and Sales Below Cost Allegation

With respect to NV, the petitioner stated that home market prices in Indonesia and Korea were not reasonably available. According to the petitioner, market intelligence in these countries is very difficult to obtain and sources of this information were either unable or unwilling to provide such data. The petitioner stated that it queried all available sources to identify Indonesian and Korean home market pricing data but was unsuccessful in its attempts. *See e.g.*, page 2 of the October 31, 2006, Indonesian petition and pages 1 and 2 of the November 9, 2006, supplement to the Indonesian petition; and page 2 of the October 31, 2006, Korean petition and page 1 of the November 9, 2006, supplement to the Korean petition.

Consequently, for Indonesia and Korea, the petitioner used statistics on Indonesia's and Korea's third-country exports based on official Indonesian and Korean export data for determining NV. In selecting the third-country market, the petitioner chose Malaysia for Indonesia, and Australia and Bangladesh for Korea because: (1) These countries represent the largest third-country markets (for Indonesia and Korea, respectively) for scope merchandise during the POI; (2) the aggregate quantity of scope merchandise sold by Indonesian exporters to Malaysia, and Korean exporters to Australia and Bangladesh, accounted for more than five percent of the aggregate quantity of the scope merchandise sold in the United States; and (3) the product sold to the Malaysian market (for Indonesia) and to the Australian and Bangladeshi markets (for Korea) is comparable to the product that served as the basis for EP. After examining this evidence, we found the selection of Malaysia for Indonesia, and Australia and Bangladesh for Korea, as the comparison market to be reasonable.

The petitioner calculated third-country price for Indonesia and Korea using quantities and FOB values from official Indonesian and Korean export statistics.

The petitioner has provided information demonstrating reasonable grounds to believe or suspect that sales of CFS in the comparison markets (*i.e.*, Malaysia for Indonesia, and Australia and Bangladesh for Korea) were made at prices below the fully absorbed cost of production (COP), within the meaning of section 773(b) of the Act, and requested that the Department conduct country-wide sales-below-cost investigations. The Statement of Administrative Action (SAA), submitted to the Congress in connection with the interpretation and application of the URAA, states that an allegation of sales below COP need not be specific to individual exporters or producers. *See* SAA, H.R. Doc. No. 103–316 at 833 (1994). The SAA, at 833, states that ''Commerce will consider allegations of below-cost sales in the aggregate for a foreign country, just as Commerce currently considers allegations of sales at less than fair value on a country-wide basis for purposes of initiating an antidumping investigation.''

Further, the SAA provides that section 773(b)(2)(A) of the Act retains the requirement that the Department have ''reasonable grounds to believe or suspect'' that below-cost sales have occurred before initiating such an investigation. Reasonable grounds exist when an interested party provides specific factual information on costs and prices, observed or constructed, indicating that sales in the foreign market in question are at below-cost prices. *Id.*

[2] The petitioner based the AUV on customs data for the period October 1, 2005, through August 30, 2006, the most recently available data for the POI at the time of the petition filing.

Cost of Production

Indonesia

Pursuant to section 773(b)(3) of the Act, COP consists of the cost of manufacturing (COM); selling, general and administrative (SG&A) expenses; financial expenses; and packing expenses. The petitioner calculated the quantity of each of the inputs into COM (except factory overhead) and packing based on the input quantities of a U.S. CFS producer during the POI, multiplied by the value of inputs used to manufacture CFS in Indonesia using publicly available data adjusted for inflation. To calculate average factory overhead, SG&A and the financial expense rate, the petitioner relied on the most current financial statements of two Indonesian producers of CFS.

Korea

Pursuant to section 773(b)(3) of the Act, COP consists of the COM; SG&A expenses; financial expenses; and packing expenses. The petitioner calculated COM (except for pulp and factory overhead) and packing expenses using input quantities based on the production experience of a U.S. CFS producer during the POI, multiplied by the value of inputs used to manufacture CFS in Korea using publicly available data. For pulp, the petitioner used input quantities from an independent study, multiplied by the costs incurred to manufacture CFS in Korea using publicly available data. To calculate average factory overhead, SG&A and the financial expense rates, the petitioner relied on the most current financial statements of six Korean producers of CFS.

Indonesia and Korea

Based on a comparison of the Malaysian market prices of CFS for Indonesia, and the Australian and Bangladeshi market prices of CFS for Korea, to the COP calculated for Indonesia and Korea, respectively, in the petitions, we find reasonable grounds to believe or suspect that sales of the foreign like products in Malaysia (for Indonesia) and Australia and Bangladesh (for Korea) were made at prices below COP within the meaning of section 773(b)(2)(A)(i) of the Act. Accordingly, the Department is initiating country-wide cost investigations relating to third-country sales to Malaysia (for Indonesia) and to Australia and Bangladesh (for Korea). We note, however, that if we determine that the home markets (*i.e.*, Indonesia and Korea) are viable, our initiation of country-wide cost investigations with respect to sales to the third country markets will be rendered moot. *See Indonesia Initiation Checklist* and *Korea Initiation Checklist.*

Normal Value Based on CV

Because it alleged sales below cost, pursuant to sections 773(a)(4), 773(b) and 773(e) of the Act, the petitioner calculated NV based on CV for Indonesia and Korea. The petitioner calculated CV using the same average COM, SG&A, financial and packing figures used to compute the COP. The petitioner then added the average profit rate based on the most recent financial statements of two Indonesian producers of CFS for Indonesia and three Korean producers of CFS for Korea. *See Indonesia Initiation Checklist* and *Korea Initiation Checklist.*

PRC

EP

The petitioner calculated a single EP using the AUVs for import data collected by the U.S. Census Bureau. The petitioner used a weighted average of two HTSUS numbers under which CFS is imported into the United States and that fall within the scope of the investigation. These HTSUS numbers containing imports of products which were most similar to the product on which the petitioner based NV in the PRC petition: 4810.14.19.00 and 4810.19.19.00.[3] In addition, the HTSUS numbers account for over 87 percent of the imports of CFS from China, by volume. To calculate EP, the petitioner deducted foreign brokerage charges from the AUV (the petitioner did not deduct foreign inland freight charges from the AUV because it was unable to establish the distances between the Chinese mills and the ports closest to them). *See PRC Initiation Checklist.*

Normal Value

The petitioner stated that the PRC was a non-market economy (NME) and no determination to the contrary has been made by the Department. In previous investigations, the Department has determined that the PRC is an NME. *See Notice of Final Determination of Sales at Less Than Fair Value: Chlorinated Isocyanurates From the People's Republic of China*, 70 FR 24502 (May 10, 2005), *Notice of Final Determination of Sales at Less Than Fair Value and Affirmative Critical Circumstances: Magnesium Metal from the People's Republic of China*, 70 FR 9037 (Feb. 24, 2005) and *Notice of Final Determination of Sales at Less Than Fair Value: Certain Tissue Paper Products from the People's Republic of China*, 70 FR 7475 (Feb.14, 2005). In accordance with section 771(18)(C)(i) of the Act, the presumption of NME status remains in effect until revoked by the Department. The presumption of NME status for the PRC has not been revoked by the Department and remains in effect for purposes of the initiation of this investigation. Accordingly, because available information does not permit the NV of the merchandise to be determined under section 773(a) of the Act, the NV of the product is appropriately based on factors of production valued in a surrogate market economy country in accordance with section 773(c) of the Act. In the course of this investigation, all parties will have the opportunity to provide relevant information related to the issues of the PRC's NME status and the granting of separate rates to individual exporters.

The petitioner identified India as the surrogate country, arguing that India is an appropriate surrogate, pursuant to section 773(c)(4) of the Act, because it is a market economy country that is at a level of economic development comparable to that of the PRC and is a significant producer and exporter of CFS. *See* Volume II of the PRC petition at pages 2–3. Based on the information provided by the petitioner, we believe that its use of India as a surrogate country is appropriate for purposes of initiating this investigation. After the initiation of the investigation, the Department will solicit comments regarding surrogate country selection. Also, pursuant to 19 CFR 351.301(c)(3)(i), interested parties will be provided an opportunity to submit publicly available information to value factors of production within 40 days after the date of publication of the preliminary determination.

The petitioner explained that the production process for CFS begins with the manufacture of groundwood free pulp, which involves the use of wood fiber as the primary raw material. The wood is then placed into digester cooking vessels and mixed with various chemicals to produce pulp which is then washed and bleached. The chemical pulp is then placed in a paper machine which spreads the pulp into a uniform flat surface and removes water from the pulp through both mechanical and thermal means. The last section of the paper machine consists of several calendaring rolls with a reel device for winding the paper into a roll, which is then sent through a coating process. *See* Volume II of the PRC petition at pages 3 through 6, and Exhibit I–5. The

[3] The petitioner based the AUV on customs data for the period April 1, 2006, through August 30, 2006, the most recently available data for the POI at the time of the petition filing.

petitioner stated that, to the best of its knowledge, Chinese producers manufacturing CFS use the same processes and machinery as U.S. producers, and many Chinese mills use Western technology and mills built by Western companies. According to the petitioner, many of the CFS mills in the PRC are fully integrated. *See* Volume II of the PRC petition at page 5.

The petitioner provided a dumping margin calculation using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C). *See* Volume II of the PRC petition at Exhibits II–5 and 14, as revised in Exhibits 3 and 4, respectively, of the November 9, 2006, supplement to the petition. According to the petitioner, the cost model provided in Exhibit II–5 of the PRC petition, as revised in Exhibit 2 of the November 17, 2006 supplement to the petition, reflects the cost of producing the type of paper (*i.e.*, 70 lb. (104g/m^3) basis weight, grade 2, double-sided CFS) that can be imported under either of the tariff categories used to derive U.S. price, categories which comprise the majority of subject merchandise imports from the PRC during the POI. *See PRC Initiation Checklist.*

To determine the quantities of inputs for each raw material used by the PRC producers to produce CFS, the petitioner relied on its own production experience because it claimed that it is not aware of any publicly available information regarding the factor inputs and factor consumption rates pertaining to Chinese producers of CFS. In accordance with section 773(c)(4) of the Act, the petitioner valued factors of production, where possible, using reasonably available, public surrogate country data. To value certain factors of production, the petitioner used *Monthly Statistics of the Foreign Trade of India*, as published by the Directorate General of Commercial Intelligence and Statistics of the Ministry of Commerce and Industry, Government of India, and compiled by *World Trade Data Atlas* (WTA). Since there were no Indian imports of one minor input, the petitioner used import data for Indonesia from the WTA to value this input. *See PRC Initiation Checklist.*

Since Indian and Indonesian import values are expressed in a foreign currency, the petitioner converted these values into U.S. dollars using the exchange rates on Import Administration's Web site, *ia.ita.doc.gov/exchange/india.txt*, for the period during which the imports were made. The petitioner then inflated the resulting amounts to a POI value using the Indian and, where applicable, Indonesian, Wholesale Price Index (WPI) for ''All Commodities.'' [4]

See PRC Initiation Checklist

The Department calculates and publishes the surrogate values for labor to be used in NME cases on its Web site. Therefore, to value labor, the petitioner used a labor rate of $0.97 per hour, published on the Department Web site, in accordance with the Department's regulations. *See* 19 CFR 351.408(c)(3) and the *PRC Initiation Checklist.*

The petitioner valued the various forms of energy used in the production of CFS based on the following sources: (1) the Indian electricity rate as reported by the U.S. Department of Energy for the year 2000, inflated to a POI value using the WPI for power, fuel, and lubrications published by the Reserve Bank of India (*see* Volume II of the PRC petition at page 9 and Exhibit II–9); (2) Indian natural gas prices charged to industrial users during a period overlapping the POI, as reported by CRISIL Research India (*see* Volume II of the PRC petition at page 9 and Exhibit II–10); (3) prices for hydrocarbon products (to value fuel oil) quoted by Bharat Petroleum Corporation, Ltd., which is, according to the petitioner, a major supplier of oil and other fuel products throughout India (*see* Volume II of the PRC petition at pages 9–10 and Exhibit II–11); and (4) the price of coal from the *TERI Energy Data Directory & Yearbook 2003/04*, inflated using the Indian WPI for power, fuel and lubricants, and converted from Rupees per metric ton to U.S. dollars per million British thermal units (*see* Volume II of the PRC petition at page 10 and Exhibit II–12). The Department revised the petitioner's value for natural gas to reflect the price in effect during the POI only. *See PRC Initiation Checklist* for further details.

The petitioner calculated surrogate financial ratios (overhead, SG&A, and profit) from the annual reports of two Indian producers of CFS: The 2004–2005 Annual Reports of Ballapur Industries, Ltd. (Ballapur) and the 2005–2006 Annual Report of Seshasayee Paper and Boards, Ltd. (Seshasayee). *See* Volume II of the PRC petition at page 10 and Exhibit I–13. The Department revised the petitioner's financial ratio calculations by including in the calculations certain financial statement line items that were omitted from the calculations and by reclassifying certain expenses used in the calculations. *See PRC Initiation Checklist.*

[4] Source: *International Financial Statistics*, IMF, October 2006.

Fair Value Comparisons

Based on the data provided by the petitioner, there is reason to believe that imports of CFS from Indonesia, Korea, and the PRC are being, or are likely to be, sold in the United States at less than fair value. Based on comparisons of EP to CV, calculated in accordance with section 773(a)(4) of the Act, the weighted-average dumping margin for CFS is 99.14 percent for Indonesia, and 71.81 percent for Korea. Based on comparisons of EP to NV, calculated in accordance with section 773(c) of the Act and adjusted as noted above, the weighted-average dumping margin for CFS from the PRC is 99.65 percent.

Initiation of Antidumping Investigations

Based upon the examination of the petitions on CFS from Indonesia, Korea, and the PRC, the Department finds that the petitions meet the requirements of section 732 of the Act. Therefore, we are initiating antidumping duty investigations to determine whether imports of CFS from Indonesia, Korea, and the PRC are being, or are likely to be, sold in the United States at less than fair value. In accordance with section 733(b)(1)(A) of the Act, unless postponed, we will make our preliminary determinations no later than 140 days after the date of this initiation.

Separate Rates and Quantity and Value Questionnaire

The Department recently modified the process by which exporters and producers may obtain separate-rate status in NME investigations. *See* Policy Bulletin 05.1: Separate-Rates Practice and Application of Combination Rates in Antidumping Investigations involving Non-Market Economy Countries (*Separate Rates and Combination Rates Bulletin*), (Apr. 5, 2005), available on the Department's Web site at *http://ia.ita.doc.gov/policy/bull05–1.pdf*. The process requires the submission of a separate-rate status application. Based on our experience in processing the separate-rate applications in the following antidumping duty investigations, we have modified the application for this investigation to make it more administrable and easier for applicants to complete: *Initiation of Antidumping Duty Investigations: Certain Lined Paper Products from India, Indonesia, and the People's Republic of China,* 70 FR 58374, 58379 (Oct. 6, 2005), *Initiation of Antidumping Duty Investigation: Certain Artist Canvas From the People's Republic of China,*70 FR 21996, 21999 (Apr. 28,

2005) (*Artist Canvas from the PRC)* and *Initiation of Antidumping Duty Investigations: Diamond Sawblades and Parts Thereof from the People's Republic of China and the Republic of Korea,* 70 FR 35625, 35629 (June 21, 2005) (*Sawblades from the PRC and Korea*). The specific requirements for submitting the separate-rate application in this investigation are outlined in detail in the application itself, which will be available on the Department's Web site at *http://ia.ita.doc.gov/ia-highlights-and-news.html* on the date of publication of this initiation notice in the **Federal Register**. The separate-rate application is due no later than January 26, 2007.

NME Respondent Selection and Quantity and Value Questionnaire

For NME investigations, it is the Department's practice to request quantity and value information from all known exporters identified in the petition. In addition, the Department typically requests the assistance of the NME government in transmitting the Department's quantity and value questionnaire to all companies that manufacture and export subject merchandise to the United States, as well as to manufacturers that produce the subject merchandise for companies that were engaged in exporting subject merchandise to the United States during the POI. The quantity and value data received from NME exporters is used as the basis to select the mandatory respondents. Although many NME exporters respond to the quantity and value information request, at times some exporters may not have received the quantity and value questionnaire or may not have received it in time to respond by the specified deadline.

The Department requires that the respondents submit a response to both the quantity and value questionnaire and the separate-rate application by the respective deadlines in order to receive consideration for separate-rate status. This procedure will be applied to this and all future NME investigations. *See Artist Canvas from the PRC,* 70 FR at 21999, *Sawblades from the PRC and Korea*, 70 FR at 35629, and *Initiation of Antidumping Duty Investigation: Certain Activated Carbon from the People's Republic of China,* 71 FR 16757, 16760 (Apr. 4, 2006). Appendix I of this notice contains the quantity and value questionnaire that must be submitted by all NME exporters no later than December 27, 2006. In addition, the Department will post the quantity and value questionnaire along with the filing instructions on the IA Web site: *http://ia.ita.doc.gov/ia-highlights-and-news.html*. The Department will send the quantity and value questionnaire to those companies identified in Exhibit I–5 of Volume I of the PRC petition and the NME government.

Use of Combination Rates in an NME Investigation

The Department will calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. The *Separate Rates and Combination Rates Bulletin,* states:

> [W]hile continuing the practice of assigning separate rates only to exporters, all separate rates that the Department will now assign in its NME investigations will be specific to those producers that supplied the exporter during the period of investigation. Note, however, that one rate is calculated for the exporter and all of the producers which supplied subject merchandise to it during the period of investigation. This practice applies both to mandatory respondents receiving an individually calculated separate rate as well as the pool of non-investigated firms receiving the weighted-average of the individually calculated rates. This practice is referred to as the application of ''combination rates'' because such rates apply to specific combinations of exporters and one or more producers. The cash-deposit rate assigned to an exporter will apply only to merchandise both exported by the firm in question *and* produced by a firm that supplied the exporter during the period of investigation.

Separate Rates and Combination Rates Bulletin, at page 6.

Distribution of Copies of the Petitions

In accordance with section 732(b)(3)(A) of the Act, copies of the public versions of the petitions have been provided to the representatives of the Governments of Indonesia, Korea, and the PRC. We will attempt to provide a copy of the public version of the petitions to the foreign producers/exporters named in the petitions.

International Trade Commission Notification

We have notified the ITC of our initiations, as required by section 732(d) of the Act.

Preliminary Determinations by the International Trade Commission

The ITC will preliminarily determine, no later than December 15, 2006, whether there is a reasonable indication that imports of CFS from Indonesia, Korea, and the PRC are materially injuring, or threatening material injury to, a U.S. industry. A negative ITC determination with respect to any of the investigations will result in those investigations being terminated; otherwise, these investigations will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: November 20, 2006.

David M. Spooner,

Assistant Secretary for Import Administration.

APPENDIX I

Where it is not practicable to examine all known producers/exporters of subject merchandise, section 777A(c)(2) of the Tariff Act of 1930 (as amended) permits us to investigate 1) a sample of exporters, producers, or types of products that is statistically valid based on the information available at the time of selection, or 2) exporters and producers accounting for the largest volume and value of the subject merchandise that can reasonably be examined. In the chart below, please provide the total quantity and total value of all your sales of merchandise covered by the scope of this investigation (see scope section of this notice), produced in the PRC, and exported/shipped to the United States during the period April 1, 2006, through September 30, 2006.

Market United States	Total Quantity	Terms of Sale	Total Value
1. Export Price Sales			
2.			
a. Exporter name			
b. Address			
c. Contact			
d. Phone No			
e. Fax No			
3. Constructed Export Price Sales			
4. Further Manufactured			

Total Sales			

Total Quantity:

• Please report quantity on a metric ton basis. If any conversions were used, please provide the conversion formula and source.

Terms of Sales:

• Please report all sales on the same terms (*e.g.*, free on board).

Total Value:

• All sales values should be reported in U.S. dollars. Please indicate any exchange rates used and their respective dates and sources.

Export Price Sales:

• Generally, a U.S. sale is classified as an export price sale when the first sale to an unaffiliated person occurs before importation into the United States.
• Please include any sales exported by your company directly to the United States;
• Please include any sales exported by your company to a third-country market economy reseller where you had knowledge that the merchandise was destined to be resold to the United States.
• If you are a producer of subject merchandise, please include any sales manufactured by your company that were subsequently exported by an affiliated exporter to the United States.
• Please do not include any sales of merchandise manufactured in Hong Kong in your figures.

Constructed Export Price Sales:

• Generally, a U.S. sale is classified as a constructed export price sale when the first sale to an unaffiliated person occurs after importation. However, if the first sale to the unaffiliated person is made by a person in the United States affiliated with the foreign exporter, constructed export price applies even if the sale occurs prior to importation.
• Please include any sales exported by your company directly to the United States;
• Please include any sales exported by your company to a third-country market economy reseller where you had knowledge that the merchandise was destined to be resold to the United States.
• If you are a producer of subject merchandise, please include any sales manufactured by your company that were subsequently exported by an affiliated exporter to the United States.
• Please do not include any sales of merchandise manufactured in Hong Kong in your figures.

Further Manufactured:

• Further manufacture or assembly costs include amounts incurred for direct materials, labor and overhead, plus amounts for general and administrative expense, interest expense, and additional packing expense incurred in the country of further manufacture, as well as all costs involved in moving the product from the U.S. port of entry to the further manufacturer.

[FR Doc. E6–20020 Filed 11–24–06; 8:45 am]
BILLING CODE 3510–P

DEPARTMENT OF COMMERCE

International Trade Administration

[C–570–907, C–560–821, C–580–857]

Notice of Initiation of Countervailing Duty Investigations: Coated Free Sheet Paper From the People's Republic of China, Indonesia, and the Republic of Korea

AGENCY: Import Administration, International Trade Administration, Department of Commerce

DATES: *Effective Date:* November 27, 2006.

FOR FURTHER INFORMATION CONTACT: David Layton or David Neubacher (the PRC), Dana Mermelstein or Sean Carey (Indonesia), and Eric Greynolds or Darla Brown (Korea), AD/CVD Operations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 482–0371 and (202) 482–5823, (202) 482–1391 and (202) 482–3964, and (202) 482–6071 and (202) 482–2849, respectively.

Initiation of Investigations:

SUPPLEMENTARY INFORMATION:

The Petitions

On October 31, 2006, the Department of Commerce (the Department) received petitions filed in proper form by NewPage Corporation (petitioner). The Department received from petitioner information supplementing the petitions throughout the 20-day initiation period.

In accordance with section 702(b)(1) of the Tariff Act of 1930, as amended (''the Act''), petitioner alleges that manufacturers, producers, or exporters of coated free sheet paper (CFS) in the People's Republic of China (the PRC), Indonesia, and the Republic of Korea (Korea) received countervailable subsidies within the meaning of section 701 of the Act and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that petitioner filed these petitions on behalf of the domestic industry because it is an interested party as defined in sections 771(9)(C) of the Act and petitioner has demonstrated sufficient industry support with respect to each of the countervailing duty investigations that it is requesting the Department to initiate (*see* ''Determination of Industry Support for the Petitions'' section below).

Scope of Investigations

The merchandise covered by each of these investigations includes coated free sheet paper and paperboard of a kind used for writing, printing or other graphic purposes. Coated free sheet paper is produced from not-more-than 10 percent by weight mechanical or combined chemical/mechanical fibers. Coated free sheet paper is coated with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating. Coated free sheet paper may be surface-colored, surface-decorated, printed (except as described below), embossed, or perforated. The subject merchandise includes single- and double-side-coated free sheet paper; coated free sheet paper in both sheet or roll form; and is inclusive of all weights, brightness levels, and finishes. The terms ''wood free'' or ''art'' paper may also be used to describe the imported product.

Excluded from the scope are: (1) Coated free sheet paper that is imported printed with final content printed text or graphics; (2) base paper to be sensitized for use in photography; and (3) paper containing by weight 25 percent or more cotton fiber.

Coated free sheet paper is classifiable under subheadings 4810.13.1900, 4810.13.2010, 4810.13.2090, 4810.13.5000, 4810.13.7040, 4810.14.1900, 4810.14.2010, 4810.14.2090, 4810.14.5000, 4810.14.7040, 4810.19.1900, 4810.19.2010, and 4810.19.2090 of the Harmonized Tariff Schedule of the United States (HTSUS). While HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of these investigations is dispositive.

Comments on Scope of Investigations

During our review of the petitions, we discussed the scope with petitioner to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the regulations (*Antidumping Duties; Countervailing Duties; Final Rule,* 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department encourages all interested parties to submit such comments within 20 calendar days of the publication of this notice. Comments should be addressed to Import Administration's Central Records Unit (CRU), Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determinations.

Consultations

Pursuant to section 702(b)(4)(A)(ii) of the Act, the Department invited representatives of the relevant foreign governments for consultations with respect to the countervailing duty petitions. The Department held consultations with representatives of the government of the PRC on November 9 and November 20, 2006. *See* the November 9 and November 20, 2006, memoranda to the file regarding the consultations with officials from the PRC (public documents on file in the CRU of the Department of Commerce, Room B–099). The Department held consultations with representatives of the governments of Indonesia and Korea on November 16, 2006. *See* the November 16, 2006, memoranda to the file regarding the consultations with officials from Indonesia and Korea (public documents on file in the CRU). On November 20, 2006, the Government of Indonesia (GOI) filed a letter reiterating their concerns regarding one of the issues the GOI raised at consultations.

Determination of Industry Support for the Petitions

Section 702(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 702(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for (1) At least 25 percent of the total production of the domestic like product and (2) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for or opposition to the petition. Moreover, section 702(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for

more than 50 percent of the total production of the domestic like product, the Department shall: (i) Poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the ''industry'' as the producers as a whole of a domestic like product. Thus, to determine whether the petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The International Trade Commission (ITC) is responsible for determining whether ''the domestic industry'' has been injured and must also determine what constitutes a domestic like product in order to define the industry. While the Department and the ITC must apply the same statutory definition regarding the domestic like product, they do so for different purposes and pursuant to separate and distinct authority. *See* Section 771(10) of the Act. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the domestic like product, such differences do not render the decision of either agency contrary to law.[1]

Section 771(10) of the Act defines the domestic like product as ''a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this subtitle.'' Thus, the reference point from which the domestic like product analysis begins is ''the article subject to an investigation,'' *i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition.

With regard to domestic like product, petitioner does not offer a definition of domestic like product distinct from the scope of the investigations. Based on our analysis of the information presented by petitioner, we have determined that there is a single domestic like product, coated free sheet paper, which is defined in the ''Scope of Investigations'' section above, and we have analyzed industry support in terms of the domestic like product.

On November 15 and 16, 2006, we received submissions on behalf of Chinese and Indonesian producers of CFS questioning the industry support calculation. *See* ''Office of AD/CVD Operations Initiation Checklist for the Countervailing Duty Petition on Coated Free Sheet Paper from Indonesia,'' at Attachment II (Nov. 20, 2006) (*Indonesia CVD Initiation Checklist*), ''Office of AD/CVD Operations Initiation Checklist for the Countervailing Duty Petition on Coated Free Sheet Paper from the Republic of Korea,'' at Attachment II (Nov. 20, 2006) (*Korea CVD Initiation Checklist*), and ''Office of AD/CVD Operations Initiation Checklist for the Countervailing Duty Petition on Coated Free Sheet Paper from the People's Republic of the PRC,'' at Attachment II (Nov. 20, 2006) (*PRC CVD Initiation Checklist*), on file in the CRU. Our review of the data provided in the petition, supplemental submissions, and other information readily available to the Department indicate that petitioner has established industry support representing at least 25 percent of the total production of the domestic like product; and more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for or opposition to the petition, requiring no further action by the Department pursuant to section 702(c)(4)(D) of the Act. Therefore, the domestic producers (or workers) who support the petition account for at least 25 percent of the total production of the domestic like product, and the requirements of section 702(c)(4)(A)(i) of the Act are met. Furthermore, the domestic producers who support the petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Thus, the requirements of section 702(c)(4)(A)(ii) of the Act also are met. Accordingly, the Department determines that the petition was filed on behalf of the domestic industry within the meaning of section 702(b)(1) of the Act. *See Indonesia CVD Initiation Checklist* at Attachment II, *Korea CVD Initiation Checklist* at Attachment II, and *PRC CVD Initiation Checklist* at Attachment II.

Injury Test

Because the PRC, Indonesia and Korea are each a ''Subsidies Agreement Country'' within the meaning of section 701(b) of the Act, section 701(a)(2) of the Act applies to these investigations. Accordingly, the ITC must determine whether imports of the subject merchandise from the PRC, Indonesia and Korea materially injure, or threaten material injury to, a U.S. industry.

Allegations and Evidence of Material Injury and Causation

Petitioner alleges that the U.S. industry producing the domestic like product is being materially injured, or is threatened with material injury, by reason of the individual and cumulated allegedly subsidized imports of the subject merchandise from Indonesia, the PRC, and Korea. With regard to the PRC and Korea, the allegedly subsidized imports exceed the negligibility threshold provided for under section 771(24)(A) of the Act. With respect to Indonesia, while the allegedly subsidized imports from Indonesia do not meet the statutory requirement of four percent over the most recent 12-month period for which import data are available, in its analysis for threat (*see* section 771(24)(B) of the Act), petitioner alleges and provides supporting evidence that these imports will imminently account for more than four percent of all CFS imports of the subject merchandise and, therefore, are not negligible. *See* section 771(24)(A)(iv) of the Act.

Petitioner contends that the industry's injury is evidenced by reduced market share, increased inventories, reduced shipments, lost sales, reduced production, lower capacity and capacity utilization rates, decline in prices, lost revenue, reduced employment, and a decline in financial performance. The allegations of injury and causation are supported by relevant evidence including U.S. Customs import data, lost sales, and pricing information. We have assessed the allegations and supporting evidence regarding material injury and causation and have determined that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. *See PRC CVD Initiation Checklist, Indonesia CVD Initiation Checklist,* and *Korea CVD Initiation Checklist.*

Initiation of Countervailing Duty Investigations

Section 702(b) of the Act requires the Department to initiate a countervailing duty proceeding whenever an interested party files a petition on behalf of an industry that (1) alleges the elements necessary for an imposition of a duty under section 701(a) of the Act and (2) is accompanied by information reasonably available to petitioner supporting the allegations. The Department has examined the countervailing duty petitions on CFS from the PRC, Indonesia, and Korea and found that they comply with the requirements of section 702(b) of the

[1] *See USEC, Inc.* v. *United States*, 25 CIT 49, 55–56, 132 F. Supp. 2d 1, 7–8 (Jan. 24, 2001) (*citing Algoma Steel Corp.* v. *United States*, 12 CIT 518, 523, 688 F. Supp. 639, 642–44 (June 8, 1988)).

Act. Therefore, in accordance with section 702(b) of the Act, we are initiating countervailing duty investigations to determine whether manufacturers, producers, or exporters of CFS in the PRC, Indonesia, and Korea receive countervailable subsidies. For a discussion of evidence supporting our initiation determination, *see PRC CVD Initiation Checklist, Indonesia CVD Initiation Checklist,* and *Korea CVD Initiation Checklist.*

We are including in our investigations the following programs alleged in the petitions to have provided countervailable subsidies to producers and exporters of the subject merchandise in the PRC, Indonesia, and Korea:

I. The PRC
- A. *Grant Programs*
- B. *Policy Loans*

Uncreditworthiness—Petitioner has provided a reasonable basis to believe or suspect that, in accordance with 351.505(a)(6) of the Department's regulations, that Shandong Chenming Paper Holdings Ltd. was uncreditworthy in 2004 and 2005 and Ningxia Meili Paper Industry Co., Ltd. was uncreditworthy from 2003 through 2005. See Memorandum from Susan Kuhbach, Director, to Stephen J. Claeys, Deputy Assistant Secretary regarding Initiation of Countervailing Duty Investigation: Coated Free Sheet Paper from the People's Republic of China; Shandong Chenming and Ningxia Meili Uncreditworthiness Allegation (November 20, 2006).

- C. *Preferential Tax Programs for Encouraged Industries Including the Paper Industry*
- 1. *Tax Incentives for Foreign Investment Enterprises (FIEs)*
- 2. *Tax & Tariff Incentives for Select Industries*
- D. *The ''Two Free, Three Half'' Program*
- E. *Income Tax Exemptions Program for FIEs Located in Certain Geographic Locations*
- F. *Local income tax exemption and reduction program for ''productive'' FIEs*
- G. *Income tax exemption program for export-oriented FIEs*
- H. *Corporate Income Tax Refund Program for Reinvestment of Fie Profits in Export-oriented Enterprises*
- I. *Debt-to-equity Infusion for APP China*

Equity Infusion/Debt-for-Equity Swap-Petitioner has provided a reasonable basis to believe or suspect that, in accordance with section 351.507(a)(7) of the Department's regulations, Asia Pulp and Paper's (APP's) subsidiary, APP China, was equityworthiness from March 2001 through the year of the debt-to-equity swap. *See PRC CVD Initiation Checklist.*

- J. *Subsidies to Input Suppliers*
- 1. *Preferential Tax Policies for FIEs Engaged in Forestry and Established in Remote Underdeveloped Areas*
- 2. *Preferential Tax Policies for Enterprises Engaged in Forestry*
- 3. *Special Fund for Projects for the Protection of Natural Forestry*
- 4. *Compensation Fund for Forestry Ecological Benefits*

II. Indonesia
- A. *Provision of Standing Timber For Less Than Adequate Remuneration*
- B. *Government Ban on Log Exports*
- C. *Subsidized Funding for Reforestation (Hutan Tanaman Industria or HTI Program)*
- 1. *''Zero-Interest'' Rate Loans*
- 2. *''Commercial Rate'' Loans*—Petitioner has provided a reasonable basis to believe or suspect that, in accordance with 351.505(a)(6) of the Department's regulations, that Asia Pulp & Paper (APP), a member of the Sinar Mas Group (SMG) and a cross-owned supplier of logs to PT. Pabrik Kertas Tjiwi Kimia Tbk. (TK) has been uncreditworthy since 2001. *See Indonesia CVD Initiation Checklist.*

III. Korea

Industry-Wide Programs
- A. *Preferential Lending by the KDB and Other GOK Authorities*
- B. *Export Industry Facility Loans (''EIFLs'')*
- C. *Reduction in Taxes for Operating in Regional and National Industrial Complexes*
- D. *Funding for Technology Development and Recycling Program*
- E. *Export and Import Credit Financing from the Export-Import Bank of Korea*
- F. *Sale of Pulp for less than Adequate Remuneration*
- G. *Sale of Pulp from Raw Material Reserve for less than Adequate Remuneration*
- H. *Duty Drawback on Non-physically Incorporated Items and Excess Loss Rates*
- I. *Direction of Credit*
- J. *Tax Programs under Restriction of Special Taxation Act (RSTA)*
- 1. *RSTA Article 71*
- 2. *RSTA Article 60*
- 3. *RSTA Article 63–2*

Company-Specific Programs
- A. *Shinho Paper (Shinho)-GOK-Led Bailouts in 1998, 2000, and 2002*
- 1. *Equity Infusion*—Petitioner has provided a reasonable basis to believe or suspect that, in accordance with 351.507(a)(7) of the Department's regulations, that Shinho was unequityworthy in 1998, 2000, and 2002, the years in which the government-provided equity infusions were provided. *See Korea CVD Initiation Checklist.*
- 2. *Extension of Debt Maturities and Reduction or Elimination of Interest Obligations*
- 3. *Debt Forgiveness*
- 4. *New Loans*—Petitioner has provided a reasonable basis to believe or suspect that, in accordance with 351.505(a)(6) of the Department's regulations, that Shinho was uncreditworthy from 1998 through 2005. *See Korea CVD Initiation Checklist.*
- B. *Kye Sung Paper (Kye Sung)-GOK-Led Bailout of Subsidiary in 2004*

Equity Infusion/Debt-for-Equity Swap—Petitioner has provided a reasonable basis to believe or suspect that, in accordance with sections 351.505(a)(6) and 351.507(a)(7) of the Department's regulations, Poongman Paper, Kye Sung's CFS producing affiliate, was uncreditworthy and unequityworthy in 2004, the year in which the debt-for-equity swapped occurred. *See Korea CVD Initiation Checklist.*

We are not including in our investigation the following programs alleged to benefit producers and exporters of the subject merchandise in the PRC, Indonesia, and Korea:

I. The PRC

Currency Manipulation

Petitioner alleges that the GOC-maintained exchange rate effectively prevents the appreciation of the Chinese currency (RMB) against the U.S. dollar. Therefore, when producers in the PRC sell their dollars at official foreign exchange banks, as required by law, the producers receive more RMB than they otherwise would if the value of the RMB were set by market mechanisms.

Petitioner has not sufficiently alleged the elements necessary for the imposition of a countervailing duty and did not support the allegation with reasonably available information. Therefore, we do not plan to investigate the currency manipulation program.

II. Indonesia

Accelerated Depreciation Program

We are not including in our investigation the Accelerated Depreciation program alleged to benefit producers and exporters of the subject merchandise in Indonesia. Petitioner alleges that this program allows a few select industries with high fixed capital costs to significantly accelerate the depreciation of their capital assets, creating a tax advantage for capital intensive industries, such as the paper production industry. The Department, however, has recently determined that the Accelerated Depreciation program is not countervailable because it is non-specific, in accordance with section 771(5A) of the Act. *See Final Affirmative Countervailing Duty Determination: Certain Lined Paper Products from Indonesia*, 71 FR 47174 (August 16, 2006), and accompanying Issues and Decision Memorandum at 10. Although petitioner argues that the Department should reconsider its determination of non-countervailability, no new information or evidence of changed circumstances was provided to warrant reconsideration of our finding of non-specificity.

III. Korea

Infrastructure Expansions and Improvements for Operating in Regional and National Industrial Complexes

Petitioner alleges that the GOK developed plans to establish an exclusive plant complex for the paper industry in the military equipment industrial complex in Gunjang, North Cholla province by 2001. Petitioner alleges that the complex, known as the Gunjang National Industrial Complex and established by the Ministry of Trade, Industry, and Economy, is undergoing large-scale infrastructure expansions and improvements, including upgrading access roads, railroad connections and expanding harbor facilities.

Petitioner provided insufficient information regarding the existence of a benefit or specificity. In particular, we find that petitioner did not provide sufficient evidence that any CFS producers are operating in the Gunjang National Industrial Complex.

Application of the Countervailing Duty Law to the PRC

Petitioner contends that there is no statutory bar to applying countervailing duties to imports from the PRC or any other non-market economy country. Citing *Georgetown Steel*, petitioner asserts that the court deferred to the Department's conclusion that it did not have the authority to conduct a CVD investigation, but did not affirm the notion that the statute prohibits the Department from applying countervailing duties to NME countries. *See* Petition, Part I, at 8 (*citing Georgetown Steel Corp. v. United States*, 801 F.2d 1308 (Fed. Cir. 1986) (*Georgetown Steel*)). Petitioner further argues *Georgetown Steel* is not applicable as the countervailing duty law (section 303 of the Tariff Act of 1930) involved in the court's decision has since been repealed and the statute has been amended to provide an explicit definition of a subsidy. *See* section 777(5) of the Act. In addition, petitioner argues that the Chinese economy is entirely different from the economies investigated in *Georgetown Steel* and the Department should not have any special difficulties in the identification and valuation of subsidies involving a non-market economy, such as the PRC, that would not arise in a market economy countervailing proceeding.

Finally, petitioner contends that the PRC's accession to the World Trade Organization (WTO) allows the Department to investigate countervailing duties in that country. Petitioner notes that the WTO Subsidies and Countervailing Measures Agreement (SCM Agreement), similar to U.S. law, permits the imposition of countervailing duties on subsidized imports on member countries and nowhere exempts non-market economy imports from being subject to the provisions of the SCM Agreement. As the PRC agreed to the SCM Agreement and other WTO provisions on the use of subsidies, petitioner argues the PRC should be subject to the same disciplines as all other WTO members.

Petitioner has provided sufficient argument and subsidy allegations (*see* ''Initiation of Countervailing Duty Investigations'') to meet the statutory criteria for initiating a countervailing duty investigation of CFS paper from the PRC. Given the complex legal and policy issues involved, and on the basis of the Department's discretion as affirmed in *Georgetown Steel*, the Department intends during the course of this investigation to determine whether the countervailing duty law should now be applied to imports from the PRC. The Department will invite comments from parties on this issue.

Distribution of Copies of the Petitions

In accordance with section 702(b)(4)(A)(i) of the Act, a copy of the public version of the petitions has been provided to the Governments of the PRC, Indonesia, and Korea. We will attempt to provide a copy of the public version of the petitions to each exporter named in the petitions, as provided for under 19 CFR 351.203(c)(2).

ITC Notification

We have notified the ITC of our initiations, as required by section 702(d) of the Act.

Preliminary Determinations by the ITC

The ITC will preliminarily determine, within 25 days after the date on which it receives notice of these initiations, whether there is a reasonable indication that imports of subsidized CFS from the PRC, Indonesia, and Korea are causing material injury, or threatening to cause material injury, to a U.S. industry. *See* section 703(a)(2) of the Act. A negative ITC determination will result in the investigations being terminated; otherwise, these investigations will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: November 20, 2006.

David M. Spooner,

Assistant Secretary for Import Administration.

[FR Doc. E6–20025 Filed 11–24–06; 8:45 am]

BILLING CODE 3510–DS–P

APPENDIX B

CONFERENCE WITNESSES

CALENDAR OF PUBLIC CONFERENCE

Those listed below appeared as witnesses at the United States International Trade Commission's conference:

Subject: Coated Free Sheet Paper from China, Indonesia, and Korea

Inv. Nos.: 701-TA-444-446 (Preliminary) and 731-TA-1107-1109 (Preliminary)

Date and Time: November 21, 2006 - 9:30 a.m.

The conference in connection with these investigations was held in the Main Hearing Room (room 101), 500 E Street, SW, Washington, D.C.

OPENING REMARKS: Petitioner (Gilbert B. Kaplan, King & Spalding LLP)
Respondent (Donald B. Cameron, Kaye Scholer LLP)

In Support of the Imposition of Antidumping Duties:

King & Spalding LLP
Washington, D.C.
on behalf of

NewPage Corporation

James C. Tyrone, Senior Vice President, Sales and Marketing,
NewPage Corporation

Douglas K. Cooper, Vice President, General Counsel and Secretary
NewPage Corporation

Holly Hart, Legislative Director
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union (USW), AFL-CIO

Tom Caldwell, President
United Steelworkers Local 00676-**, Luke, Maryland

In Support of the Imposition of Antidumping Duties (continued):

Harry Stafford, Chief Shop Steward
United Steelworkers Local 00676-**, Luke, Maryland

Kenneth R. Button, Ph.D., Senior Vice President
Economic Consulting Services, LLC

Rebecca L. Woodings, Consultant
King & Spalding LLP

Bonnie B. Byers, Consultant
King & Spalding LLP

Gilbert B. Kaplan, Esq.)
Stephen A. Jones, Esq.) – OF COUNSEL

In Opposition to the Imposition of Antidumping Duties:

Kaye Scholer LLP
Washington, D.C.
on behalf of

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

Taehyon ("Ted") Cho, Deputy Manager
Moorim USA

Rick Anderson, Vice President of Purchasing
PaperlinX North America (Spicers Paper and Kelly Paper)

Daniel Klett, Economist
Capital Trade, Inc.

Donald B. Cameron, Esq.)
Julie C. Mendoza, Esq.) – OF COUNSEL

In Opposition to the Imposition of Antidumping Duties (continued):

White & Case LLP
Washington, D.C.
on behalf of

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

Allan R. Dragone, Chief Executive Officer
Unisource Worldwide, Inc.

Terry E. Hunley, External Advisor
Global Paper Solutions, Inc.

David E. Bond, Esq.)
Frank H. Morgan, Esq.) –OF COUNSEL
Scott S. Lincicome, Esq.)

REBUTTAL/CLOSING REMARKS:

Petitioners (Gilbert B. Kaplan, King & Spalding LLP)
Respondent (Frank H. Morgan, White & Case LLP)

APPENDIX C

SUMMARY DATA

Table C-1
Coated free sheet paper: Summary data concerning the U.S. market, 2003-05, January-September 2005, and January-September 2006

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2003	2004	2005	2005	2006	2003-05	2003-04	2004-05	2005-06
U.S. consumption quantity:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
Indonesia	***	***	***	***	***	***	***	***	***
Korea	***	***	***	***	***	***	***	***	***
Subtotal	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. consumption value:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
Indonesia	***	***	***	***	***	***	***	***	***
Korea	***	***	***	***	***	***	***	***	***
Subtotal	***	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. imports from:									
China:									
Quantity	96,440	145,112	175,548	139,411	236,698	82.0	50.5	21.0	69.8
Value	80,579	128,326	165,399	129,494	223,231	105.3	59.3	28.9	72.4
Unit value	836	884	942	929	943	12.8	5.8	6.5	1.5
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Indonesia:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Korea:									
Quantity	378,212	430,444	417,113	323,261	366,772	10.3	13.8	-3.1	13.5
Value	322,695	364,866	366,553	285,609	322,475	13.6	13.1	0.5	12.9
Unit value	853	848	879	884	879	3.0	-0.7	3.7	-0.5
Ending inventory quantity	46,649	50,032	46,858	50,212	54,982	0.4	7.3	-6.3	9.5
Subtotal (subject):									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All nonsubject sources:									
Quantity	989,659	1,076,558	944,088	679,274	709,087	-4.6	8.8	-12.3	4.4
Value	938,932	1,004,241	957,728	686,193	707,787	2.0	7.0	-4.6	3.1
Unit value	949	933	1,014	1,010	998	6.9	-1.7	8.8	-1.2
Ending inventory quantity	63,325	70,890	69,411	70,494	74,940	9.6	11.9	-2.1	6.3
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***

Table continued on next page.

Table C-1--Continued
Coated free sheet paper: Summary data concerning the U.S. market, 2003-05, January-September 2005, and January-September 2006

(Quantity=short tons, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per short ton; period changes=percent, except where noted)

	Reported data					Period changes			
				January-September					Jan.-Sept.
Item	2003	2004	2005	2005	2006	2003-05	2003-04	2004-05	2005-06
U.S. producers':									
Average capacity quantity	4,741,656	4,855,056	4,834,098	3,627,401	3,897,321	1.9	2.4	-0.4	7.4
Production quantity	4,272,195	4,359,562	4,597,794	3,416,090	3,503,202	7.6	2.0	5.5	2.6
Capacity utilization (1)	90.1	89.8	95.1	94.2	89.9	5.0	-0.3	5.3	-4.3
U.S. shipments:									
Quantity	3,925,471	4,171,009	4,264,514	3,159,277	3,318,788	8.6	6.3	2.2	5.0
Value	3,309,111	3,480,184	3,698,083	2,767,416	2,976,205	11.8	5.2	6.3	7.5
Unit value	$843	$834	$867	$876	$897	2.9	-1.0	3.9	2.4
Export shipments:									
Quantity	226,847	256,176	289,055	213,320	215,081	27.4	12.9	12.8	0.8
Value	172,706	197,355	232,409	169,942	182,539	34.6	14.3	17.8	7.4
Unit value	$761	$770	$804	$797	$849	5.6	1.2	4.4	6.5
Ending inventory quantity	676,439	600,337	656,751	661,641	621,468	-2.9	-11.3	9.4	-6.1
Inventories/total shipments (1)	16.3	13.6	14.4	14.7	13.2	-1.9	-2.7	0.9	-1.5
Production workers	7,390	7,112	7,464	7,382	7,095	1.0	-3.8	4.9	-3.9
Hours worked (1,000s)	16,287	15,924	16,749	12,670	12,276	2.8	-2.2	5.2	-3.1
Wages paid ($1,000s)	428,406	425,539	423,757	323,343	315,827	-1.1	-0.7	-0.4	-2.3
Hourly wages	$26.30	$26.72	$25.30	$25.52	$25.73	-3.8	1.6	-5.3	0.8
Productivity (tons/1,000 hours)	261.4	272.7	273.7	268.8	284.3	4.7	4.3	0.4	5.8
Unit labor costs	$100.62	$98.00	$92.43	$94.92	$90.49	-8.1	-2.6	-5.7	-4.7
Net sales:									
Quantity	4,204,339	4,410,525	4,581,891	3,386,014	3,552,716	9.0	4.9	3.9	4.9
Value	3,507,971	3,637,023	3,932,692	2,930,489	3,156,664	12.1	3.7	8.1	7.7
Unit value	$834	$825	$858	$865	$889	2.9	-1.2	4.1	2.7
Cost of goods sold (COGS)	3,217,458	3,515,029	3,679,581	2,743,559	2,827,631	14.4	9.2	4.7	3.1
Gross profit or (loss)	290,513	121,994	253,111	186,930	329,033	-12.9	-58.0	107.5	76.0
SG&A expenses	271,260	249,202	250,270	187,850	205,059	-7.7	-8.1	0.4	9.2
Operating income or (loss)	19,253	(127,208)	2,841	(920)	123,974	-85.2	-760.7	-102.2	-13570.3
Capital expenditures	209,396	263,708	172,777	118,916	129,466	-17.5	25.9	-34.5	8.9
Unit COGS	$765	$797	$803	$810	$796	4.9	4.1	0.8	-1.8
Unit SG&A expenses	$65	$57	$55	$55	$58	-15.3	-12.4	-3.3	4.0
Unit operating income or (loss)	$5	($29)	$1	($0)	$35	-86.5	-729.8	-102.1	-12938.2
COGS/sales (1)	91.7	96.6	93.6	93.6	89.6	1.8	4.9	-3.1	-4.0
Operating income or (loss)/ sales (1)	0.5	(3.5)	0.1	(0.0)	3.9	-0.5	-4.0	3.6	4.0

(1) "Reported data" are in percent and "period changes" are in percentage points.
(2) Undefined.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

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

APPENDIX D

QUESTIONNAIRE RESPONSES REGARDING THE DOMESTIC LIKE PRODUCT

The Commission's questionnaires in this preliminary phase investigation requested comments regarding the differences and similarities between coated free sheet paper and uncoated free sheet paper in terms of the Commission's like product factors, including (1) characteristics and uses; (2) interchangeability; (3) manufacturing processes; (4) channels of distribution; (5) customer and producer perceptions; and (6) price. The following comments were received:

Coated Free Sheet Paper AND Uncoated Free Sheet Paper

Characteristics and Uses

***

"CFS has coatings that enhance print performance and appearance. Regarding print performance, less ink is required to achieve the desired effect on CFS versus uncoated free sheet. Regarding appearance, the superior ink retention on CFS results in enhanced graphic reproduction relative to UFS, particularly important in commercial and publication printing. For a given basis weight (grammage), the uncoated free sheet will normally be bulkier than its CFS counterpart.

Uncoated free sheet is used in a great deal of printer and copy paper and other business products. This is a small market, e.g. color printer paper in the case of CFS. CFS, unlike uncoated free sheet, serves primarily in the commercial printing market."

***

"*** produces two general types of coated papers: cast-coated and matte coated.

In cast-coated papers, the Company produces coated-one-side and coated-two-side cover stock and folding board and coated one-side label papers. In matte coated papers, the Company produces coated-two-side papers in text and cover.

Cast-coated papers are premium triple coated papers and are well recognized for their very smooth, glossy, ink receptive surface and are used for applications where the customer requires the very best in print image reproduction and quality. End uses include corporate brochures, product brochures, annual reports, folders, greeting cards, high quality folding boxes and premium product labeling.

Matte-coated papers are noted for their excellent printing quality with a non-glossy surface which allows for less surface reflection of light for easier readability of print. Matte papers are less expensive than cast-coated papers and are used for brochures, covers, flyers, mailers and cards.

These two products are primarily distinguished from uncoated papers of like weight and thickness in that their coated surfaces allow for superior printed image production."

***

"*** produced and sold the following types of uncoated product over the past three years: carbonless and thermal basestock, workbook, and offset. In 2005, the only uncoated sold by *** was carbonless and thermal basestock. These products are similar in physical properties to uncoated free sheet that is then coated on *** off-machine coater.

The end use of carbonless is multi-part forms and the end-use of thermal is a variety of variable printing applications including lottery, label, and receipts. The end use for workbook is elementary and high school workbooks that accompany textbooks and the end use of offset can be any printing application or envelopes."

***

"Similarities: Same machinery, same base stock, same furnish.
Differences: Different optics and smoothness, no coating/coating."

***

"The primary difference between coated and uncoated is the improved print characteristics that coated paper provides. Customer applications requiring superior printability often require a coated paper."

***

"Most of products go to offset and digital process."

***

"Producers of envelopes, copy paper, forms, school supplies, catalogues, brochures, and magazines prefer to use uncoated papers in the production of their products. End uses for coated paper include products that require high-end graphics. Print quality and aesthetics of the sheet are better in coated free sheet. Bags, envelopes, and labels can be made from both."

Interchangeability

***

"The two are interchangeable. Uncoated free sheet is the preferred paper for printing on laser or ink-jet applications. Coated is used for higher graphic applications."

***

"Uncoated free sheet and cast-coated and matt-coated papers are interchangeable in that they will both print, convert, fold, glue, bind, collate, etc. however, there are significant differences in print quality, surface feel and appearance and premium "use" of the final end-use product as a result of the print performance and look of coated papers."

***

"There is no interchangeability between the end use of coated free sheet and the end use of carbonless and thermal basestock. At a basic level coated or uncoated product could be used for workbook, however since workbooks are used for student practice and generally disposed of after one class year, it is not typical to utilize coated free sheet in that application. Both coated free sheet and offset can be used for commercial printing applications; however, coated is generally used for applications where higher quality graphics are required such as annual reports, brochures, and catalogs. Offset is used for envelopes, direct mail and catalogs."

***

"Both can be printed but the coated paper will have much better ink holdout and print fidelity."

***

"Somewhat interchangeable."

***

"Most of our customer applications either require a coated paper or an uncoated paper. There is seldom the opportunity for a customer to interchange these two grades."

***

"The visual appearance of printing on CFS will look substantially different than the same images printed on uncoated free sheet. The image quality on the coated paper is readily seen to be superior to the uncoated version. These products are not used interchangeably in the market."

Manufacturing Processes

***

"*** has *** paper machines and ***. Coated free sheet is produced (i) "in-line" on *** of its paper machines (***) and also (ii) ***.

***..

With the exception of applying the clay coating (either "in line" or on the "off machine" coater) to produce coated papers, the manufacturing process is essentially the same for producing coated and uncoated products on these two paper machines. The same materials, labor, and equipment are used with no significant modifications required.

***.

The off-machine coater uses blade coating technology to coat uncoated basestock."

***

"Our coated products are first made on our paper machines as base stock. This base stock is then run through an off-machine coater."

***

"You need to make uncoated free sheet paper before making coated free sheet paper. This can be done on the same paper machine with off-machine coating but it must be on different machines where there is on-machine coating. Additional raw materials and equipment are required to manufacture coated free sheet paper. Coating materials include clay, calcium carbonate, latex, starch, plastic pigment, optical brighteners and various dyes. Equipment includes a coater (either on-machine or off-machine); a coating make down facility which includes tanks, pumps, and mixers; and supercalenders which provide the final smoothness and gloss characteristics to the coated surface."

***

"Machinery and raw materials (see II-3c above)."

***

"The base paper for uncoated and coated free sheet is made on similar paper machines. Coated paper goes through a coating and supercalendaring process."

***

"The manufacturing processes for making uncoated free sheet papers and the basestock for coated free sheet papers are similar and are often produced on the same paper making equipment. However, the application of coating to the basestock and post coating finishing/calendering requires special coating application equipment. This coating and surface calendering equipment is found both "in-line" on the paper machine as well as "off-line" as individual stand-alone coating equipment.

Paper coating equipment must be supported with specialized coating preparation equipment which holds, mixes and supplies coating material to the coating process. Coating preparation and coating process equipment require labor specifically trained in operating this type of equipment."

***

"Uncoated Process: Paper is made on the paper machine the{n} cut and wrapped.

Coated Process: Paper is coated after it is made on the paper machine, then it may be calendered. It is then cut and wrapped."

Channels of Distribution

***

"Both products can be sold direct to printers and converters or through merchants and brokers."

***

"The majority of coated free sheet paper (approx. 80%) is sold direct to customers with the balance (20%) sold through distribution. By contrast, uncoated free sheet paper is sold primarily to two customer segments: 1) Book publishers (10% direct; 90% distribution); 2) Envelope customers (100% direct)."

***

"Both coated free sheet and uncoated free sheet use multiple channels of distribution. Coated free sheet is sold both direct to large volume purchasers (magazine, catalog and book publishers, printers, corporations, etc.) as well as through intermediaries (paper merchants and / or brokers). Approximately 70% of all coated free sheet volume is sold through distribution as reported by AF&PA. Uncoated free sheet is also sold both direct and through distribution. In many cases the channels are similar to coated but uncoated would also feature more volume going to channel partners that are more prominent or more appropriate to uncoated (envelope converters, forms printers, superstores, etc.) than you would find with coated free sheet."

***

"Usually uncoated is sold to specific market customers and it is not inventoried. Coated paper is stocked for sale. The majority of coated papers are sold through merchants."

***

"*** sells all of its coated free sheet products through distributors. Workbook and offset are also sold through distributors. Carbonless and thermal basestock are sold directly to the carbonless and thermal manufacturer."

***

"No difference (primarily merchants)."

Customer and Producer Perceptions

***

"Our coated products are marketed into the commercial print, magazine and catalog segments. The uncoated free sheet is just used to fill machine capacity."

***

"Coated paper has more hold-out and is glossier. Uncoated is more stiff."

***

"Customer and producer perceptions regarding CFS and UFS are dependent on intended end use. The common general perception is that CFS is a superior product that commands a price premium because it prints better than UFS products in all product grades."

***

"Uncoated carbonless and thermal basestock are sold under an annual contract to one customer. Uncoated workbook or offset are less profitable products that are produced to "fill capacity" that otherwise would be idle."

***

"In general the majority of "customers" (either direct purchasing customers in the case of printers and publishers or influencers of purchase decisions such as corporations or advertising agencies) view coated free sheet to be a higher quality and superior product category. Coated free sheet by nature is used for more prestigious applications (annual reports, corporate collateral, high end catalogs and magazines, high impact direct mail) whereas uncoated free sheet is more often found in lower quality applications where color reproduction is not as critical. Large volume simple direct mail applications, xerographic reproduction, directories, envelopes, flyers, books (non coffee table), financial printing, newsletters, business forms and lower end catalogs and magazines are examples of uncoated free sheet in use.

Additionally, any printed communication requiring substantial four color reproduction would generally be viewed as most appropriate for coated free sheet. Uncoated applications lend themselves to black and white reproduction as the product is not capable of the ink holdout found in coated free sheets."

***

"Coated free sheet is used for superior printing graphics. Uncoated free sheet is typically used for 'personalized' pieces and in manufacturing processes that are more productive on uncoated products."

Price

***

"In 2005, uncoated free sheet rolls sold for around $700/ton. During that same time period, two-sided coated free sheet sold for around $840/ton. One-sided coated free sheet sold for around $820/ton."

***

"Pricing for the uncoated carbonless and thermal basestock, which is the vast majority of uncoated sales tonnage for *** is based on annual or multi-year contracts and has remained fairly stable or declined slightly over the period 2003 to 2006. Pricing for other uncoated grades *** sells is lower, or in the case of workbook and offset sold in 2003 and 2004, significantly lower ($200/ton) than coated pricing. *** is not in the ongoing business of selling offset, but some is sold on a spot basis through our distributors when demand for our coated free sheet products are soft and its pricing reflects that. By way of illustration, market pricing for 20-lb. offset is lower than market pricing for coated free sheet products by a range of 2%-15%."

***

"In general, pricing of our coated free sheet products is higher than our uncoated free sheet products because of higher production costs and higher-end, end-use applications."

***

"While market vagaries and short term supply and demand imbalance can temporarily impact pricing levels, coated free sheet historically demands a higher price than uncoated free sheet. As an example, according to RISI, average price on a No. 3 60lb. coated free sheet web product for the third quarter 2006 was $925/ton. Also according to RISI, average price on a No.3 50lb. uncoated free sheet web product was $847/ton in the third quarter 2006. The historical price premium for coated free sheet paper has eroded as a result of pressure of imports from Asia."

***

"Coated paper is priced less than uncoated (potentially 30-35% less)."

***

"Uncoated free sheet is sold for approximately $750. Coated free sheet is sold for approximately $950 per ton."

The Commission's questionnaires in this preliminary phase investigation requested comments regarding the differences and similarities between coated free sheet paper and **coated groundwood paper** in terms of the Commission's like product factors, including (1) characteristics and uses; (2) interchangeability; (3) manufacturing processes; (4) channels of distribution; (5) customer and producer perceptions; and (6) price. The following comments were received:

Coated Free Sheet Paper AND Coated Groundwood Paper

Characteristics and Uses

***

"Differences: Basis weights, lignin content, reversion, smoothness.
Similarities: Both used for catalogs and magazines."

***

"Coated free: generally brighter, smoother, better print quality, stronger physical specifications. Coated groundwood: generally lower brightness, lower basis weight, lower physical specifications, tendency to yellow prematurely."

***

"CFS is manufactured from pulp that may not contain more than 10 percent, by weight, groundwood content. This "chemical" pulp (also known as kraft pulp because it is produced using the kraft process) is produced using chemical agents to break down cellulose content. The raw material for CGW is groundwood pulp. This pulp is produced using mechanical means (physical grinding) to break down cellulose content.

As a result of these different raw material inputs, a key difference between CGW and CFS paper, at the same basis weight, is superior strength (tear, fold) for CFS. Regardless of basis weight, CFS paper is more permanent, being less likely to yellow upon exposure to light, heat, and environmental pollutants, a property necessary for archivability. Finally, CFS paper is inherently brighter than CGW, a desirable property for high quality graphic reproduction.

Differences in production processes also result in differences in physical attributes of the product. Coated groundwood products tend to be of lighter basis weights and possessing of a rougher printing surface when compared to coated free sheet. This results in poorer dot definition and ink holdout yielding an inferior printed image and overall net impact.

Thus, CFS serves in more durable applications (books, annual reports), and prestige multi-color publications (e.g., fashion and photography magazines, high-end catalogues, high-impact advertising)."

***

"Coated freesheet (CFS) is considered to be higher quality than Coated Groundwood (CGW) in several ways. First, the absence of groundwood fiber in CFS allows for a smoother printed surface, leading to better reproductive fidelity of photographic images. Second, the lack of groundwood fiber allows for a whiter, bluer shade, and generally a higher brightness. However, CFS basis weights are generally limited to the higher basis weight ranges (38#/3300 sq ft to 100#/3300 sq ft). Because of the opacity of the groundwood fiber, CGW is generally available in much lighter basis weights (down to 26#/3300 sq ft). Thus, the end uses of the two papers are somewhat mutually exclusive. For catalogs,

***–*continued*

for instance, the high volume catalogers generally use CGW for the body of their books, so ad to take advantage of the lower basis weights available which dramatically reduce postal costs. For low volume catalogs, and for catalogs that feature very high priced merchandise (jewelry, for instance), and for catalogs that require very high reproductive fidelity, will generally use CFS. For magazines, the same type of delineation applies. For instance, the mass market newsweeklies (Time, Newsweek, etc.) typically use CGW in order to save on postal costs. The high-end magazines, especially those that rely on photographic excellence, typically use CFS (Architectural Digest, National Geographic, etc.). many of the magazines that use CGW for the body of the book use CFS for the covers. General commercial print, which includes short run magazines and catalogs, brochures, annual reports, and other short run projects, typically uses CFS, with very little CGW utilized in this sector."

Interchangeability

***

"The products are not interchangeable unless the user is willing to sacrifice the properties cited above - strength, permanence and brightness (appearance). Such might be the case for short-lived publications such as weekly magazines, but is not the case for the bulk of the CFS market."

***

(Response not legible)

***

"Little interchangeability. Similar basis weights are only 45, 50, 60 lb. The high end groundwoods are used in catalogs and magazines similar to lightweight free sheet."

***

"There are high brightness CGW grades that have attempted to substitute directly for CFS (No. 4 CGW, Hybrid CGW). These grades have been moderat3ely successful. More typical is a cataloger or magazine that progresses through a product life cycle, where the initial publications are typically short run, on heavy weight CFS. As the catalog or magazine becomes more successful, and then more mature, it typically reduces basis weight and at some point switches to CGW."

Manufacturing Processes

***

"Bleached kraft pulp principally used in free sheet coated paper. Groundwood pulps principally found in groundwood coated paper."

***

"The major difference is in the production of the fiber for the two grades. Both grades use Kraft fiber, but CGW grades also incorporate >10% groundwood or Thermo-Mechanical Pulp fiber. This fiber is mechanically prepared, with much of the lignin remaining in the fiber. This leads to higher opacity at lower basis weights, but interferes with brightness, whiteness and smoothness of the finished product. Groundwood equipment is much like it sounds: logs are ground against grindstones to separate the fibers. TMP is similar, but chips are used and they are treated with steam to enhance the efficiency of the grinding process. Kraft paper is chemically prepared, with essentially all lignin being removed, and then burned in a recovery process that allows for 95% + recovery of cooking chemicals."

***

"The pulp-making process for groundwood and free sheet is very different, involving different facilities, different processes, and some different materials (both use wood fiber, but CFS also requires chemicals). Coated groundwood paper and coated free sheet paper can be manufactured on the same paper machines, for example by ***. There is some transition time resulting from changes in fiber supply and styling (brightness, shade, etc).

The *** mills do not have the capability of producing groundwood fiber and do not make groundwood paper. As noted above, these mills do not have groundwood pulp capability and there is no commercial market for groundwood pulp."

***

"Coated groundwood is made in one process with in-machine coating. Coated freesheet is coated offline. Only one of our machines, ***, a small machine, can make both."

Channels of Distribution

***

"Both CFS and CGW are distributed through the same four channels: direct to customer, direct to printer, sold to broker, sold to merchant. The difference between broker and merchant is that the broker never takes physical possession of the product. CGW is sold more often direct and through brokers. CFS is sold more often through merchants."

***

"Coated groundwood is primarily sold direct to customers/endusers/or publishers. Coated free sheet is sold predominantly through merchant distribution."

***

"Both coated free sheet and coated groundwood use multiple channels of distribution. In some cases product is sold direct to large volume purchasers (printers, publishers, corporate end users, office superstores, etc.) while substantial volume is also managed through intermediaries (i.e., Paper merchants and/or brokers). Coated groundwood would evidence a higher percentage sold direct as the product applications are more heavily weighted to applications that lend themselves to a direct sales channel but

***–*continued*

substantial volume also flows through distribution. AF&PA data for 2005 would show 58% of coated groundwood sold direct versus only 30% of coated free sheet sold direct."

***

"Same."

Customer and Producer Perceptions

***

"Coated groundwood is more yellow, rougher surface, lighter weight, and weaker. Coated free sheet is stronger, archival quality, and has a smoother surface."

***

"The marketplace views coated free sheet to be a higher quality product than coated groundwood and more suitable for more prestigious applications. Customers view coated free sheet as the preferred substrate for applications such as annual reports, corporate collateral, high end catalogs and magazines, and high impact direct mail. Coated groundwood carries a lower price point and is generally found in larger volume less prestigious applications where appearance and reproduction quality are of lesser importance than coated free sheet applications. Lower end, large volume catalogs and magazines, newspaper inserts, and lower impact direct mail would be examples of end use applications for coated groundwood. As such customers and producer perceptions would view coated groundwood products as of lower quality than coated free sheet.

The differences in production process required to manufacture the two products also results in difference in physical attributes of the product that reinforces the above perceptions. (As noted above, coated groundwood products tend to be of lighter basis weight and possessing of a rougher printing surface when compared to coated free sheet, which results in poorer dot definition and ink holdout yielding an inferior printed image and overall net impact.)"

***

"Customer and producer perceptions are similar to those discussed in a).

***

"Free sheet coated is perceived as better quality than groundwood coated."

Price

***

"Coated groundwood is generally priced below coated free sheet products in the marketplace. As an example, in August 2006, RISI reports that prices for coated free sheet products ranged from $950/ton to over $1,500/ton, with prices for coated groundwood products ranging from $825 to $940/ton. There

***–*continued*

are major product differences between coated groundwood and coated free sheet, and they are not considered comparable."

***

"Typical pricing differentials for equivalent basis weights are as follows (note that many key basis weights for CFS and NOT offered in CGW, and vice versa):

a. CFS No. 3 > CGW No. 4 by $100/ton
b. CGW No. 4 > CGW No. 5 by $100/ton"

***

"Groundwood coated is less expensive than free-sheet coated."

***

"Price is weight dependent but on similar products (45 lb 86 bright), coated free sheet is typically 10% more than coated groundwood."

The Commission's questionnaires in this preliminary phase investigation requested comments regarding the differences and similarities between coated free sheet paper and **kraft paper** in terms of the Commission's like product factors, including (1) characteristics and uses; (2) interchangeability; (3) manufacturing processes; (4) channels of distribution; (5) customer and producer perceptions; and (6) price. The following comments were received:

Coated Free Sheet Paper AND Kraft Paper

Characteristics and Uses

***

"None of the *** mills manufacture kraft paper. We consider kraft paper to be rough, heavy-weight paper serving primarily in packaging applications."

***

"Kraft paper is used in the bag end-use market. It can be coated, uncoated, bleached, or unbleached (all kraft paper produced at *** mill is bleached). Coated free sheet is used primarily for catalogs, magazines and general commercial printing."

Interchangeability

***

"Kraft paper and coated free sheet paper are generally not interchanged. Kraft typically does not print as well as coated free sheet. Coated free sheet generally isn't strong enough for bag applications."

***

"None of the *** mills manufacture kraft paper. We do not view kraft paper to be at all interchangeable with CFS."

Manufacturing Processes

***

"Kraft paper is made on the same equipment, although kraft paper is produced from pulp containing much greater amounts of softwood (primarily pine)."

***

"None of the *** mills manufacture kraft paper. Pulp for kraft paper does involve a chemical process, but the underlying raw material is primarily softwood fiber. On the other hand, pulp for CFS is produced using primarily hardwood fiber, which provides for a smoother paper surface as is required for CFS. We cannot further describe kraft paper manufacturing."

Channels of Distribution

***

"Kraft paper is typically sold directly to bag converters. Coated free sheet is sold directly to printers and converters and through brokers and merchants."

***

"Kraft paper does not compete with coated free sheet and as such operates in part through different supply chain participants. Kraft paper would typically be sold direct to converters with distribution playing a much smaller role than one would find in the coated free sheet distribution channel. Coated free sheet employs a direct sales channel as well as product sold through distribution with substantial volumes in both."

Customer and Producer Perceptions

***

"There is virtually no comparability between these two product categories as the end use applications have little or no crossover. As such customers of Kraft papers would rarely if ever purchase coated free sheet papers and as such would have limited information upon which to base perceptions. Kraft papers and board is used primarily in containerboard and/or packaging applications. As noted above coated free sheet does not service these applications."

***

"Kraft paper doesn't print as well, but it is stronger and doesn't tear easily."

Price

***

"*** does not sell kraft paper. These products differ substantially as described above."

***

"Coated kraft has sold between $760 and $900 per ton on average between 2003 and 2006. Coated free sheet has sold between $700 and $850 per ton during that same time."

The Commission's questionnaires in this preliminary phase investigation requested comments regarding the differences and similarities between **one-sided coated free sheet paper AND two-sided coated free sheet** in terms of the Commission's like product factors, including (1) characteristics and uses; (2) interchangeability; (3) manufacturing processes; (4) channels of distribution; (5) customer and producer perceptions; and (6) price. The following comments were received:

One-sided Coated Free Sheet Paper AND Two-sided Coated Free Sheet Paper

Characteristics and Uses

***

"Differences: Exclusively used for labels (C1S), packaging
Similarities: Same commercial printing applications, same distribution, same components."

***

"Coated one-side and coated two-side products have the same physical characteristics except that coated one-side has coating on only one side. Coated one-side is typically used in applications requiring high quality printing on one-side and gluing on the other. Applications include cut and stack labels, in-mold labels, packaging, posters, and signage. Coated two-side products are generally used for commercial printing applications, books, annual reports, brochures, catalogs, direct mail, and ad inserts."

***

"Primary difference between coated 1-side and 2-side is the application of the coating. Customer's application determines whether they need a coated 1-side or coated 2-side."

***

"By most measures these papers are identical except for the fact one side of the C1S paper has no coating. This will impact the mechanical properties of the paper; tear and stiffness, for example, will differ for C1S and C2S papers of the same basis weight. The coated side of a C1S paper may have the identical coating present on its surface as its C2S counterpart, thus giving the same optical characteristics and same print characteristics. The uncoated side however, will have the same limitations cited previously when comparing CFS versus uncoated free sheet."

***

"Pretty similar."

***

"Coated one-sided free sheet paper has coating applied to one side of the sheet and is generally used in specific applications where printing is applied to the one coated side for applications such as product labels, covers, folders, posters and product packaging.

Coated two-sided free sheet paper has coating applied to both sides of the sheet and is generally used in specific applications where both sides of the sheet are printed for applications such as magazines, brochures and annual reports."

***

"One-sided coated free sheet is used for applications such as labels, box wraps, posters, bags, and envelopes. Two-sided is used primarily in printing catalogs, brochures, and magazines."

Interchangeability

***

"There is generally limited interchangeability between the two products due to the lesser printability of the uncoated side of C1S. As a label for example, the uncoated side, cable of absorbing an adhesive, is affixed to a container. Or, the uncoated side of the C1S paper may be laminated to another substrate, thus providing the superior printability of the coated side and the bonding of the uncoated side to a new material, for example a piece of cardboard, giving a new product with superior bulk and stiffness characteristics."

***

"Generally, coated one-side sheets are specified in applications where the application only requires one-sided printing and does not require the use of a coated two-side sheet."

***

"One side is same; other side refer to coated vs. uncoated (see II-3e)."

***

"Coated one-side products are not interchangeable for most coated two-side commercial print applications that require the same characteristics on both sides of the sheet for two-sided printing. Coated two-side products can be interchangeable for some typical C1S uses such as labels, packaging, and posters."

***

"When only one side needs to be printed the two products are interchangeable as long as the customer doesn't mind the side to side surface difference."

***

"They generally are not interchanged."

***

"Coated 1-side and coated 2-side are typically not interchangeable due to the requirements/specifications for the customer's end-use application."

Manufacturing Processes

***

"C1S: Off machine coated, one side only has a light wash coating.
C2S: Both sides coated."

***

"Same machinery."

***

"The manufacturing process for coated 1-side and 2-side is the same."

***

"A coater can be used to manufacture either C1S or C2S product, although there may be some transition time (1-2 hours)."

***

"The manufacturing process is similar, with coating equipment for one side of the sheet being taken "off-line" and not operated when producing a coated one-side sheet."

***

"Coated one-side and coated two-side product are produced on the same equipment with the same labor and materials with no modification."

***

"The manufacturing processes are similar. One-sided coated free sheet is not fully coated on the backside. Two-sided coated is fully coated on all sides."

Channels of Distribution

***

"Same (primarily merchants)."

***

"Both are sold direct or through merchant and broker channels."

***

"Same distribution channels, label stock is usually direct."

***

"Distribution channels are the same for coated one-side and coated two-side sheets."

***

"*** sells both coated one-side and coated two-side products through distributors. Most competitors sell coated one side direct to large label converters."

***

"Both one sided coated free sheet and two sided coated free sheet use multiple channels of distribution. Approximately 70% of all two sided coated free sheet volume is sold through distribution as reported by AF&PA, while one sided coated free sheet is less dependent upon merchant distribution. The majority of one sided coated free sheet is sold directly by the manufacturer to a variety of customers (litho laminators, converters, commercial printers, pressure sensitive OEMs, metallizer OEMs). While less common, a significant volume of product is also sold through distribution, predominantly to commercial printers."

***

"Both coated 1-side and coated 2-side are sold to companies that provide value-added converting. Example-U.S. Playing Card takes our coated 1-side and produces playing cards (ex. -Poker cards)."

Customer and Producer Perceptions

***

"In many cases, customers and producers would have similar perceptions of quality and product attributes between these two products. Both are used extensively by the commercial printing community and quality is measured by a combination of appearance and runnability attributes.

Coated one side products are also used by converters and label manufacturers and are often specified into a production process. As such these products required "qualification" to a more formal degree throughout the supply chain than what is typically associated with coated two side free sheet."

***

"Customer requirements drive the type of product they purchase. For someone requiring a coated 1-side, their perception of coated 2-side would be that it is over engineered for their application."

***

"There are specific application driven by whether graphics are required on one or both sides of the sheet."

***

"C1S is perceived to be technically more challenging because of the downstream converting processes."

***

"One-sided coated free sheet is used in packaging applications, e.g., pet food packaging. Two-sided coated free sheet is generally used in printing and publishing applications."

***

"Same."

***

"C1S: Perceived as a cheaper product due to only one functional side.
C2S: Viewed as a full value product."

Price

***

"Pricing for coated one-side rolls is similar or slightly below pricing for #3 coated two-side. Pricing trends for these two product lines generally run parallel to each other."

***

"Prices between coated 1-side and coated 2-side vary, however coated 2-side is a value added grade that commands a premium over coated 1-side."

***

"Coated one side generally sells for 10-15% less than coated two side."

***

***.

***

"Very similar."

***

"Between 2003 and 2005, one-sided coated free sheet sold between $725 and $840 per ton during the same period."

***

"Coated one side and coated two side products are priced similarly in the marketplace. The average price for a No. 3 60lb. coated free sheet web grade for the third quarter was $***/ton. There is little industry data available for C1S specific pricing, but *** average pricing for the first three quarters of 2006 is a good measurement given *** stronghold within the C1S marketplace in North America. The average price for the first three quarters for *** 70lb. *** web product was $***/ton; on the 70lb. *** C1S web product the average pricing was $***/ton, and on the 70lb. *** web product the average pricing was $***/ton."

APPENDIX E

ADDITIONAL TABLES[1]

[1] As discussed in part I of this report, the industry typically uses the term "roll" to refer to "web rolls" only while "sheeter" rolls are included within the "sheet" category. The reporting categories of roll and sheet included in Commission questionnaires did not, however, make a distinction between or clarify "web rolls" and "sheeter rolls." (For further information *see* Chinese respondents and Unisources' respondents' postconference brief, exh. 8, and Korean respondents' postconference brief, exh. 5.) Some questionnaire respondents, therefore, may have included sheeter rolls in the roll category while others reported them as sheets. To the extent that there is inconsistent reporting, the data presented in tables E-2 through E-4 (and possibly E-1) are unreliable. Further, as discussed in part IV of this report, there also is substantial double-counting of the data reported in responses to the importer questionnaires.

Tables E-6 and E-7 present official Commerce statistics for both CFS paper rolls and sheets. Within the HTS, however, sheeter rolls are placed in the HTS reporting numbers for "rolls." Commerce data on rolls and sheets are also presented in exh. 3 of Korean respondents' postconference brief. These figures are comparable to those shown in tables E-6 and E-7 except that the figures in respondents' brief do not include a relatively small volume of imports entered under several HTS reporting numbers which (although not clearly classified as either rolls or sheets in the HTS) could, according to the Commission staff, be so divided (or assigned). Finally, as indicated in the table notes, the data in tables E-6 and E-7 (and in Korean respondents brief) do not include data that are believed to be misclassified for China under two additional HTS reporting numbers. *See* part IV of this report for a discussion of misclassification.

Table E-1
Coated free sheet paper: U.S. producers' shipments, by rolls, sheets, and sides coated, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Quantity (*short tons*)		
Rolls coated on one side	164,937	161,764	209,576	148,288	205,461
Rolls coated on both sides	2,970,359	3,075,192	3,141,240	2,326,078	2,443,795
Subtotal rolls	3,135,296	3,236,956	3,350,816	2,474,366	2,649,256
Sheets coated on one side	***	***	***	***	59,770
Sheets coated on both sides	***	***	***	***	684,382
Subtotal sheets	981,578	1,053,204	1,007,458	752,145	744,152
All other CFS paper	0	0	0	0	0
Total CFS paper	4,116,874	4,290,160	4,358,274	3,226,511	3,393,408
			Value (*1,000 dollars*)		
Rolls coated on one side	161,252	156,588	202,697	143,375	195,351
Rolls coated on both sides	2,278,690	2,360,032	2,545,857	1,911,406	2,069,824
Subtotal rolls	2,439,942	2,516,620	2,748,554	2,054,781	2,265,175
Sheets coated on one side	***	***	***	***	85,384
Sheets coated on both sides	***	***	***	***	721,036
Subtotal sheets	1,081,320	1,111,306	1,080,775	810,860	806,420
All other CFS paper	0	0	0	0	0
Total CFS paper	3,521,262	3,627,926	3,829,329	2,865,641	3,071,595
			Unit value (*per short ton*)		
Rolls coated on one side	$978	$968	$967	$967	$951
Rolls coated on both sides	767	767	810	822	847
Subtotal rolls	778	777	820	830	855
Sheets coated on one side	***	***	***	***	1,429
Sheets coated on both sides	***	***	***	***	1,054
Subtotal sheets	1,102	1,055	1,073	1,078	1,084
All other CFS paper	--	--	--	--	--
Total CFS paper	855	846	879	888	905

Table continued on next page.

Table E-1
Coated free sheet paper: U.S. producers' shipments, by rolls, sheets, and sides coated, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
	Share of quantity (*percent*)				
Rolls coated on one side	4.0	3.8	4.8	4.6	6.1
Rolls coated on both sides	72.2	71.7	72.1	72.1	72.0
Subtotal rolls	76.2	75.5	76.9	76.7	78.1
Sheets coated on one side	***	***	***	***	1.8
Sheets coated on both sides	***	***	***	***	20.2
Subtotal sheets	23.8	24.5	23.1	23.3	21.9
All other CFS paper	0.0	0.0	0.0	0.0	0.0
Total CFS paper	100.0	100.0	100	100	100

Note.–Data for *** includes their purchases of CFS paper (*see* table III-2 for the volume of their *** merchandise) and data for ***, and *** included their U.S. exports, which amounted to slightly over *** short tons annually for *** and *** short tons for ***. ***.

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

Table E-2
Coated free sheet paper: U.S. importers' shipments from China, by rolls, sheets, and sides coated, 2003-05, January-September 2005, and January-September 2006

* * * * * * *

Table E-3
Coated free sheet paper: U.S. importers' shipments from Indonesia, by rolls, sheets, and sides coated, 2003-05, January-September 2005, and January-September 2006

* * * * * * *

Table E-4
Coated free sheet paper: U.S. importers' shipments from Korea, by rolls, sheets, and sides coated, 2003-05, January-September 2005, and January-September 2006

Item	Calendar year			January-September	
	2003	2004	2005	2005	2006
			Quantity (*short tons*)		
Rolls coated on one side	***	***	***	***	***
Rolls coated on both sides	***	***	***	***	***
Subtotal rolls	18,201	19,729	20,642	15,808	13,836
Sheets coated on one side	8,006	10,566	6,414	4,283	5,821
Sheets coated on both sides	426,595	471,317	425,016	333,866	343,519
Subtotal sheets	434,601	481,883	431,430	338,149	349,340
All other CFS paper	0	0	0	0	0
Total CFS paper	452,802	501,612	452,072	353,957	363,176
			Value (*1,000 dollars*)		
Rolls coated on one side	***	***	***	***	***
Rolls coated on both sides	***	***	***	***	***
Subtotal rolls	13,756	15,046	16,802	12,702	11,558
Sheets coated on one side	7,557	9,829	6,396	4,307	5,820
Sheets coated on both sides	412,552	458,716	415,938	326,417	344,221
Subtotal sheets	420,109	468,545	422,334	330,724	350,041
All other CFS paper	0	0	0	0	0
Total CFS paper	433,865	483,591	439,136	343,426	361,599
			Unit value (*per short ton*)		
Rolls coated on one side	***	***	***	***	***
Rolls coated on both sides	***	***	***	***	***
Subtotal rolls	$756	$763	$814	$804	$835
Sheets coated on one side	944	930	997	1,006	1,000
Sheets coated on both sides	967	973	979	978	1,002
Subtotal sheets	967	972	979	978	1,002
All other CFS paper	--	--	--	--	--
Total CFS paper	958	964	971	970	996
			Share of quantity (*percent*)		
Rolls coated on one side	***	***	***	***	***
Rolls coated on both sides	***	***	***	***	***
Subtotal rolls	4.0	3.9	4.6	4.5	3.8
Sheets coated on one side	1.8	2.1	1.4	1.2	1.6
Sheets coated on both sides	94.2	94.0	94.0	94.3	94.6
Subtotal sheets	96.0	96.1	95.4	95.5	96.2
All other CFS paper	0.0	0.0	0.0	0.0	0.0
Total CFS paper	100.0	100.0	100	100	100

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

Table E-5
Coated free sheet paper: U.S. importers' U.S. shipments of imports from all other sources, by product type, 2003-05 and January-September 2005-06

* * * * * * *

Table E-6
Coated free sheet paper (rolls): U.S. imports, by source, 2003-05 and Jan.-Sept. 2005-06

Source	2003	2004	2005	Jan-Sept 05	Jan-Sept 06
	Quantity (short tons)				
China	3,322	733	6,537	5,070	13,680
Indonesia	17,076	6,616	6,578	4,426	17,898
Korea	75,355	89,819	90,514	68,495	90,854
Subtotal (sub)	95,753	97,168	103,629	77,992	122,431
Finland	146,710	175,447	150,838	98,298	144,930
Canada	165,512	200,605	210,353	157,275	96,997
Germany	27,097	96,433	43,906	38,195	15,326
Japan	3,297	2,994	4,166	3,592	2,450
Italy	83,672	75,267	72,699	57,801	47,991
Austria	7,779	14,363	4,403	4,265	1,234
Spain	13,446	1,623	8	8	41
All other	63,370	50,994	38,410	28,565	36,744
Subtotal (n/s)	510,883	617,726	524,783	387,997	345,713
Total	606,635	714,894	628,412	465,989	468,144
Total	606,635	714,894	628,412	465,989	468,144
	LDP value ($1,000)				
China	2,426	1,002	6,778	5,089	12,339
Indonesia	13,814	5,245	5,534	3,669	14,712
Korea	65,569	77,737	79,241	59,391	78,934
Subtotal (sub)	81,809	83,985	91,553	68,149	105,985
Finland	110,386	133,845	118,028	76,424	114,474
Canada	131,777	156,993	175,848	132,263	79,937
Germany	26,650	84,700	43,179	37,203	17,424
Japan	16,708	11,974	14,606	11,375	11,103
Italy	75,061	70,000	72,716	57,334	47,604
Austria	7,015	13,543	4,247	4,145	1,468
Spain	14,333	1,835	20	20	80
All other	69,421	56,161	56,846	41,184	55,104
Subtotal (n/s)	451,350	529,053	485,489	359,948	327,193
Total	533,160	613,037	577,041	428,098	433,178
Total	533,160	613,037	577,041	428,098	433,178
	LDP unit value ($/short ton)				
China	$730.32	$1,368.17	$1,036.83	$1,003.67	$902.00
Indonesia	$809.01	$792.80	$841.26	$828.92	$822.01
Korea	$870.13	$865.49	$875.45	$867.09	$868.80
Average (sub)	$854.38	$864.33	$883.46	$873.80	$865.67
Finland	$752.41	$762.88	$782.48	$777.47	$789.86
Canada	$796.18	$782.60	$835.97	$840.97	$824.12
Germany	$983.52	$878.33	$983.44	$974.04	$1,136.96
Japan	$5,067.54	$3,999.70	$3,505.84	$3,166.76	$4,531.48
Italy	$897.08	$930.02	$1,000.23	$991.94	$991.93
Austria	$901.75	$942.90	$964.57	$972.02	$1,188.97
Spain	$1,065.98	$1,130.83	$2,439.92	$2,439.92	$1,955.85
All other	$1,095.49	$1,101.32	$1,479.99	$1,441.77	$1,499.66
Average (n/s)	$883.47	$856.45	$925.12	$927.71	$946.43
Average	$878.88	$857.52	$918.25	$918.69	$925.31

Source: USDOC (HTS 4810.13.1900, 4810.13.2010, 4810.13.2090, 4810.13.5000, and 4810.13.7040).

Note.--HTS 4811.59.2000 and 4811.90.8000 not classified as either rolls or sheet.

Table E-7
Coated free sheet paper (sheets): U.S. imports, by source, 2003-05 and Jan.-Sept. 2005-06

Source	2003	2004	2005	Jan-Sept 05	Jan-Sept 06
	Quantity (short tons)				
China	51,327	31,544	102,791	71,311	205,736
Indonesia	14,920	26,703	22,840	15,044	29,342
Korea	302,857	340,625	326,598	254,766	275,918
Subtotal (sub)	369,103	398,873	452,229	341,120	510,996
Finland	36,909	42,850	34,648	24,398	30,429
Canada	99,611	94,411	88,949	68,418	31,764
Germany	64,800	63,601	64,508	33,641	89,889
Japan	94,364	95,544	97,635	75,994	66,719
Italy	1,694	3,475	10,354	3,514	23,292
Austria	62,879	41,856	35,801	20,257	44,558
Spain	3,039	27,258	39,741	27,993	41,255
All other	115,480	89,836	47,669	37,062	35,467
Subtotal (n/s)	478,777	458,831	419,305	291,277	363,374
Total	847,880	857,704	871,534	632,398	874,370
Total	847,880	857,704	871,534	632,398	874,370
	LDP value ($1,000)				
China	39,095	23,871	87,648	60,371	184,805
Indonesia	11,558	21,440	20,596	13,230	25,775
Korea	257,127	287,128	287,312	226,217	243,542
Subtotal (sub)	307,780	332,439	395,556	299,818	454,122
Finland	34,042	38,091	32,143	22,425	27,481
Canada	113,115	102,469	97,194	74,777	34,568
Germany	57,988	63,129	67,725	35,231	88,483
Japan	111,686	116,770	130,010	99,442	80,209
Italy	2,817	5,952	14,663	6,222	28,296
Austria	60,941	35,657	37,060	19,363	46,228
Spain	3,829	27,879	37,359	26,909	36,158
All other	103,164	85,242	56,086	41,877	39,172
Subtotal (n/s)	487,582	475,189	472,240	326,245	380,594
Total	795,362	807,627	867,796	626,063	834,716
Total	795,362	807,627	867,796	626,063	834,716
	LDP unit value ($/short ton)				
China	$761.70	$756.74	$852.68	$846.59	$898.26
Indonesia	$774.70	$802.88	$901.76	$879.45	$878.44
Korea	$849.00	$842.94	$879.71	$887.94	$882.66
Average (sub)	$833.86	$833.45	$874.68	$878.92	$888.70
Finland	$922.31	$888.94	$927.70	$919.13	$903.12
Canada	$1,135.56	$1,085.34	$1,092.70	$1,092.94	$1,088.26
Germany	$894.88	$992.58	$1,049.87	$1,047.24	$984.36
Japan	$1,183.56	$1,222.16	$1,331.59	$1,308.54	$1,202.19
Italy	$1,662.69	$1,712.52	$1,416.19	$1,770.74	$1,214.82
Austria	$969.18	$851.90	$1,035.15	$955.85	$1,037.47
Spain	$1,260.21	$1,022.79	$940.05	$961.28	$876.43
All other	$893.35	$948.86	$1,176.58	$1,129.93	$1,104.45
Average (n/s)	$1,018.39	$1,035.65	$1,126.24	$1,120.05	$1,047.39
Average	$938.06	$941.62	$995.71	$989.98	$954.65

Source: USDOC (HTS 4810.14.1900, 4810.14.2010, 4810.14.2090, 4810.14.5000, 4810.14.7040, 4810.19.1900, 4810.19.2010, and 4810.19.2090).

Note.--HTS 4811.59.2000 and 4811.90.8000 not classified as either rolls or sheet.

APPENDIX F

PRICING DATA INCLUDING SALES OF IMPORTED PRODUCT REPORTED BY FIRMS THAT ARE NOT THE IMPORTER OF RECORD

Table F-1
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 *sold to merchants/distributors*, including firms that are not the importer of record, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-2
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 *sold directly to end users*, including firms that are not the importer of record, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-3
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 *sold to merchants/distributors*, including firms that are not the importer of record, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-4
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 *sold directly to end users*, including firms that are not the importer of record, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-5
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] *sold to merchants/distributors*, including firms that are not the importer of record,[2] and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-6
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] *sold directly to end users*, including firms that are not the importer of record, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table F-7
Coated free sheet paper: Instances of underselling/overselling and the range and average of margins for products 1-3, including firms that are not the importer of record, January 2003-September 2006

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APPENDIX G

NONSUBJECT IMPORT PRICING DATA

Table G-1
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 1 *sold to merchants/distributors*, and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table G-2
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 1 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table G-3
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 2 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table G-4
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 2 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table G-5
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 3 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table G-6
Coated free sheet paper: Weighted-average f.o.b. prices and quantities of domestic and nonsubject imports of product 3 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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APPENDIX H

PRICING DATA ON A DELIVERED BASIS

Table H-1
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 1 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-2
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 1 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-3
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 2 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-4
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 2 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-5
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 3 *sold to merchants/distributors* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-6
Coated free sheet paper: Weighted-average delivered prices and quantities of domestic and imported product 3 *sold directly to end users* and margins of underselling/(overselling), by quarters, January 2003-September 2006

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Table H-7
Coated free sheet paper: Instances of underselling/overselling and the range and average of margins for products 1-3, on a delivered sales basis, January 2003-September 2006

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