UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
COATED FREE SHEET PAPER	)	701-TA-444-446 and
FROM CHINA, INDONESIA AND	)	731-TA-1107-1109 (Final)
KOREA	)	

Pages: 1 through 376

Place: Washington, D.C.

Date: October 18, 2007

HERITAGE REPORTING CORPORATION
Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
(202) 628-4888

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Thursday,
October 18, 2007

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to notice, at 9:31 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DANIEL R. PEARSON, Chairman, presiding.

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On behalf of the International Trade Commission:

Commissioners:

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SHARA L. ARANOFF, VICE CHAIRMAN
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
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Congressional Witnesses:

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THE HONORABLE BART STUPAK, U.S. CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES, 1ST DISTRICT, STATE OF MICHIGAN

Organization and Witness:

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Gold Huasheng Paper Co., Ltd. ("GHS"):

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On behalf of PT Pindo Deli Pulp and Paper Mills ("Pindo Deli")
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On behalf of Korea Paper Manufacturers' Association ("KPMA") and its members:

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I N D E X

I N D E X

P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN PEARSON: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation Nos. 701-TA-444-446 and 731-TA-1107-1109 (Final) involving Coated Free Sheet Paper from China, Indonesia and Korea.

The purpose of these investigations is to determine whether an industry in the United States is materially injured or threatened with material injury by reason of subsidized and less than fair value imports of coated free sheet paper from China, Indonesia and Korea.

The schedule setting forth the presentation of this hearing, notice of investigation and transcript order forms are available at the secretary's desk. All prepared testimony should be given to the secretary. Please do not place testimony directly on the distribution table.

All witnesses must be sworn in before presenting testimony. I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the secretary. Finally, if you will be submitting documents that contain information you wish classified as business confidential your request should comply with Commission Rule 201.6.

Madam Secretary, are there any preliminary matters?

MS. ABBOTT: No, Mr. Chairman.

CHAIRMAN PEARSON: Very well. Please announce our first congressional witness.

MS. ABBOTT: Our first witness is the Honorable Susan M. Collins, United States Senator, United States Senate, State of Maine.

CHAIRMAN PEARSON: Welcome, Senator Collins. Pleasure to have you here.

MS. COLLINS: Mr. Chairman, members of the Commission, I very much appreciate the opportunity to testify before you today as you consider for the first time ever whether Chinese subsidies are causing injury to an American industry. Our nation's manufacturers and their employees can compete against the best in the world, but they cannot compete against nations that provide huge subsidies and other unfair advantages to their producers.

Time and time again I hear from Maine manufacturers whose efforts to compete successfully in the global economy simply cannot overcome the practices of the illegal pricing and the subsidies of nations such as China. The results of these unfair practices are lost jobs, shattered factories and decimated communities.

Over the past decade China has undergone a significant economic transformation, and today, China's economy is no longer completely owned and controlled by the government. The problem is not China's economic liberalization and modernization however. The problem is that while China is becoming a key international economic player it has repeatedly refused to comply with standard international trading rules and practices.

These violations include the use of subsidies and other economic incentives that are designed to give its producers an unfair competitive advantage. I have long been a proponent of applying our nation's countervailing duty laws to China.

For the past four years I've introduced a bipartisan, bicameral bill called the Stopping Overseas Subsidies Act to ensure that the Department of Commerce treats countervailing duty petitions filed against China the same way as the Department does in cases filed against our other trading partners.

I've been concerned for many years by this unequal treatment. I was, therefore, very pleased when on November 22 of last year the Department of Commerce finally accepted the first countervailing duty petition against the nonmarket economy since the 1986 Court decision.

This is the case that you're considering today filed by NewPage Corporation, a coated free sheet paper company with operations in Maine, Ohio, Michigan, Kentucky and Maryland.

Despite its efficient state of the arts mills, the skilled and dedicated employees' strong relationships with customers, strategically located mills and distribution facilities and a growing market for its products NewPage has been forced to curb its production lines as the result of unfair foreign competition.

U.S. paper mills including several mills in my state enjoy a significant competitive advantage over producers in other parts of the world. In Maine we have an abundant supply of the primary renewable resource timber which produces a very high quality pulp for paper production. We have ample hydro electric power to run our mills and we have the best trained, most efficient and most dedicated paper workers.

With this winning combination American

producers should be able to easily succeed in the market, but instead we have witnessed large market share increases from countries like China that don't even produce their own pulp. There is a reason for that. To put it bluntly, China cheats. The government of China has targeted its domestic coated paper industry with subsidies that have directly hurt American producers like NewPage.

Let me give you some examples. The Chinese government provides low cost policy loans through government owned banks. It also provides grants for the development of new paper capacity and tax breaks based on export performance and domestic equipment purchases.

In the NewPage case the Department of Commerce found in its recent investigation that China has used a number of subsidies considered illegal under WTO rules to give its paper industry an advantage including policy loans to the paper industry, income tax reductions for foreign invested companies, exemptions and reductions of local income taxes for foreign invested companies, value added tax rebates on purchases of domestically produced equipment, tariff exemptions on imported equipment and grants to state owned enterprises.

The result is that in the United States Chinese coated free sheet imports have increased by an astonishing average 75 percent annually over the past four years despite the Chinese having to ship their products thousands of miles to reach the U.S. market. Ironically, and in contrast to U.S. paper producers, China has no natural advantage in the production of paper.

It does not have an abundant supply of the requisite inputs and must import much of its pulp that it uses to make paper. It is only because of illegal subsidization that China can compete in the paper products market in the United States and Europe. Unfortunately, this behavior is no surprise.

In its 2006 report to Congress the U.S./China Economic and Security Review Commission noted, "China has a centralized industrial policy that employs a wide variety of tools to promote favored industry. In particular, China has used a range of subsidies to encourage the manufacture of goods meant for export over the manufacture of goods meant for domestic consumption and to secure foreign investment in the manufacturing sector."

Similar conclusions are contained in the United States Trade Representatives' 2006 report to

Congress. It concludes, China continues to pursue problematic industrial policies that rely on trade distorting measures such as local content requirements, import and export restrictions, discriminatory regulations and prohibited subsidies, all of which raise serious WTO concerns.

Members of the Commission, these practices run counter to China's obligations under its 2001 World Trade Organization accession agreement. In its accession protocol, China explicitly agreed that it would be subject to the subsidy disciplines of other market countries.

In fact, it agreed to specific provisions in Article 15 of the protocol which permit WTO countries to use alternate benchmarks for measuring subsidies in China. Unfair trade practices in China and other countries have had a tremendously negative impact on many industries in Maine.

The pulp and paper industry in Maine has often been referred to as the backbone of my state's economy and for good reason. The industry contributes nearly $1.5 billion to the state's GDP every year. In total, the pulp and paper industry accounts for 22 percent of all manufacturing wages in my state. In some communities the mill can represent between 60 and

80 percent of total tax revenues.

It is often the only major employer in small towns. When machines or mills are shut down the impact quite simply is devastating. Maine has lost nearly 600 jobs in the coated free sheet, uncoated free sheet and uncoated groundwood sectors due to machine and mill closures over just the past five years alone.

This means the loss not only of those jobs directly at the mill, the jobs of the paper workers themselves, but also of jobs that are dependent on these primary jobs. The economists tell us that for every job directly lost at one of our paper mills another two to three jobs are indirectly affected including those in the transportation and service related industries.

Three producers in Maine make coated free sheet paper. NewPage has a mill in western Maine, in Rumford. Verso Paper has two mills, one in Bucksport and one in Jay. Sappi Fine Paper North America has two mills, one in Westbrook and the other in Skowhegan. All together, some 4,000 workers in Maine derive their employment from the production of coated free sheet paper.

I'm very proud of these producers and these dedicated workers. The mills are efficient and up to date, they employ sustainable forestry practices that ensure a viable long-term supply of timber while protecting our environment, but I am, I must tell you, deeply worried.

Already, Sappi has shut down one of its coated free sheet machines in Westbrook, Maine. NewPage had a temporary shut down of one of its machines in Rumford during the first quarter of this year. These mills need to have a healthy rate of return that will allow them not only to stay in business, but also to be able to invest in upgrades and the latest production technologies.

In a capital intensive industry like this one capital investment is critical to survival. I'm also concerned that without offsetting duties to counteract the unfair trade we will see a continued tidal wave of imports from China. The industry has provided you with data that shows that between now and the end of 2009 the Chinese industry will add some three million tons of new coated free sheet capacity.

This is the equivalent of one half of all American production in 2006. Given these circumstances, given the stakes, given our commitment to the principles of free and fair trade, I urge you to consider the record carefully as I know that you will do.

I believe that the evidence will show that if violations of international trading rules and practices are not properly and promptly addressed Maine's proud tradition of the pulp and paper industry could ultimately be lost to unfairly advantaged foreign competition. Again, thank you so much for undertaking this important hearing, and thank you so much for the opportunity to appear before you today. Thank you.

CHAIRMAN PEARSON: Thank you, Senator.

Does any Commissioner have a question for Senator Collins?

(No response.)

CHAIRMAN PEARSON: Okay. Well, thank you, once again. We'll let you get on with your schedule today.

MS. COLLINS: Thank you very much.

MS. ABBOTT: Our next congressional witness is the Honorable Bart Stupak, United States Congressman, United States House of Representatives, First District, State of Michigan.

CHAIRMAN PEARSON: Welcome, Congressman Stupak.

MR. STUPAK: Good morning.

CHAIRMAN PEARSON: Please proceed.

MR. STUPAK: Good morning, and thank you to the members of the ITC for allowing me the opportunity to testify in the case involving coated free sheet paper imported from China, Indonesia and Korea. My home state of Michigan, and especially in the Upper Peninsula of Michigan, we've seen firsthand the detrimental effects of unfair trade practices can have on the U.S. economy.

This uneven playing field has significantly impacted our manufacturing sector, the iron ore and steel industry and now our paper industry. Imports of coated free sheet paper from China, Indonesia and Korea have significantly increased over the past four years, and as a result have driven several American paper companies out of business.

In July, Sappi Fine Paper shut down a production line and pulp mill in Muskegon, Michigan, which resulted in the loss of 350 jobs. Senator Collins mentioned Sappi Fine Paper Mill in Maine was also shut down. NewPage Corporation Paper Company, which operates a pulp and paper mill in Escanaba, Michigan, understands the increased burdens these artificially low priced imports placed on our companies.

In early 2007, NewPage permanently shut down an entire line in its Luke, Maryland, facility resulting in the loss of 130 jobs. While NewPage continues to be one of the largest employers in my district, the number of employees that work in Escanaba has decreased over the years. We must do everything possible to ensure that companies like NewPage and Sappi Fine Paper are not hurt by unfair trade practices which jeopardize the jobs of working Americans.

This means we must enforce our trade laws. In this case it is evident that China, Indonesia and Korea have used government subsidies to expand their capacity to produce coated free sheet paper. The rate of growth in coated paper in these countries is exceeding their own demand. As a result, surplus paper is being dumped here to undersell U.S. producers.

As we saw with the steel industry, the practice of dumping is not new, and the ITC has acted to stop dumping in the past. The March 30, 2007, decision is the first time the Department of Commerce applied countervailing duties on imports from a nonmarket economy such as China.

In the mid-1980s, the Department of Commerce found it could not apply countervailing duties to Czechoslovakia, then Czechoslovakia I should say, and Poland because these countries were both nonmarket countries. For 23 years the United States has not applied antisubsidy laws to China because it was considered a nonmarket economy.

However, the Chinese economy of today is not the Chinese economy of 23 years ago. China's world trade surplus in 2003 was $45.8 billion. This year it is expected that the China trade surplus will be more than $300 billion. In fact, an estimate due out next week by the International Monetary Fund indicates that this year for the first time China will contribute more to the global economy growth than any other country.

Considering China's continued economic boom it is imperative that the International Tarde Commission follow the Department of Commerce's lead and must impose countervailing duties on nonmarket economies that illegally dump goods here in America. I support the Department of Commerce's preliminary ruling to impose duties on imports of coated free sheet paper from China, Indonesia and Korea.

Such action is necessary in order to

establish a level playing field between the United States and its trading partners. Unfortunately, the need to impose tariffs on coated paper has become even more apparent since the initial preliminary duties were assessed on China, Indonesia and Korea.

Since the Department implemented these duties, China and Indonesia have worked to circumvent the duties. Chinese and Indonesia producers are now mislabeling and mischaracterizing the coated paper being imported into the United States. According to NewPage, Chinese and Indonesia producers are importing coated free paper under the term coated groundwood, a game of semantics to circumvent our trade laws and tariffs.

China and Indonesia are still dumping coated free paper into the United States, but they're simply calling it by a different name, coated groundwood. Take a look at this. The last thing I added on your testimony was this chart. This is just since 2007. The green represents coated paper, the red represents so-called groundwood paper.

This is January 2007. Look at March 2007, decision was made. Look how much dramatically the red, the groundwood paper, has increased. All they've done is change the name and continued to dump here in the United States.

So I urge the Commission to uphold the Department of Commerce's findings and clarify that coated paper includes coated groundwood and any other semantics a country tries to use to circumvent the Department of Commerce's findings so that the Chinese, Indonesia and Korean producers understand that all coated free sheet paper, regardless of what it is called, is covered under this ruling.

The U.S. should use all the tools at its disposal including tariffs, targeted antidumping provisions, to stop dumping of coated sheet paper in the United States. Doing so will uphold our trade laws, ensure American businesses, and American jobs and the American economy are protected from the unfair trade practices. Thank you again for the opportunity to testify today. If you have any questions I'll try to answer them.

CHAIRMAN PEARSON: Thank you, Congressman.

Does any Commissioner have a question for Representative Stupak?

(No response.)

CHAIRMAN PEARSON: No? Okay. Thank you very much.

MR. STUPAK: Thank you.

MS. ABBOTT: Opening remarks on behalf of Petitioners will be by Gilbert B. Kaplan of King and Spalding.

CHAIRMAN PEARSON: Good morning, Mr. Kaplan. Welcome to the Commission.

MR. KAPLAN: Thank you very much. Good morning to all of you, and thank you for your time here today. The United States coated free sheet industry is a critical part of our manufacturing industrial base.

CHAIRMAN PEARSON: You might just pull the microphone a little bit.

MR. KAPLAN: Okay. Sorry. I'll start again. You may have missed my first sentence.

CHAIRMAN PEARSON: Madam Secretary, please restart the clock.

MR. KAPLAN: Thank you. Thank you very much. The United States coated free sheet industry is a critical part of our manufacturing industrial base. In towns across this country a coated free sheet mill has been the main employer creating hundreds or thousands of jobs, and for every one job at the mill two or three more people are dependent upon it.

Until the beginning of the unfair trade practices here it was an industrial base that was constantly being updated and improved. At Luke, Maryland, one such mill, NewPage and its predecessors put in $375 million to modernize the mill. Now, we face the pervasive unfair trade in this sector.

Countervailing duty margins from China of over 20 percent at the preliminary and antidumping margins from China of close to 100 percent, dumping margins from Korea of over 30 percent, dumping and subsidy margins from Indonesia of over 10 and 20 percent, respectively.

This is the first case on Chinese subsidies to come before the Commission. The subsidies which the Department of Commerce found at their prelim included low interest loans, which allowed the build up of major CFS production facilities in China, significant tax write offs, significant grants and VAT rebates.

Chinese CFS capacity in 2006 reached 3.8 million tons, a year to year growth rate of 27 percent, and exports reached 930,000 tons, a year to year growth rate of 48 percent. Between now and 2009 almost three million more tons of capacity will be brought on in China, the equivalent of one half of U.S. production as noted at pages 94 and 95 of our brief.

And while China and the other countries have built up their market share fostered by unfair trade the United States has been forced to disinvest. First, employment in the U.S. industry has dropped by 20 percent. One out of five U.S. workers in this industry have been laid off. Wages have declined by 27 percent, and wages per hour have declined by 14 percent.

You will hear the representatives of China, Korea and Indonesia say, that's a good thing, that's just rationalization. I don't think the paper mill workers in this room and across this country would see rationalization in the face of unfair trade as a good thing. During the POI, capital expenditures in this industry fell 33 percent from 2004 through 2005, and then fell another 21 percent from 2005 to 2006, an overall decline of 54 percent.

Capital expenditures fell again by 25 percent in part year 2007. We know that paper making is a highly capital intensive industry as has been found by the Commission in prior cases. Without continual investment this industry cannot survive. To like effect, we see that over the POI the industry had net income losses of about $1.1 billion.

Why did this occur? Quite simply, the

underselling by the subject imports was pervasive and overwhelming, and it was by all three countries in enormous amounts. The Chinese undersold in 85 percent of the comparisons, Indonesia undersold in 95 percent of the comparisons and Korea undersold in 61 percent of the comparisons.

At the same time, market share of the subject imports increased and volume increased. It increased for both web and sheet form CFS. There is no way this industry can continue going on in the face of this situation. Again, this is the first case before this Commission on Chinese subsidies.

What the Commission needs to determine is whether it will allow these subsidy practices to undercut U.S. manufacturing, cause the loss of thousands of U.S. jobs, destroy mill towns across this country and erode U.S. investment. Will it take action to prevent that? Thank you.

CHAIRMAN PEARSON: Thank you, Mr. Kaplan.

MS. ABBOTT: Opening remarks on behalf of Respondents will be by Donald B. Cameron of Troutman, Sanders.

CHAIRMAN PEARSON: Welcome, Mr. Cameron.

MR. CAMERON: Nice to see you, Mr. Chairman. I'm sure the microphone is fine. Good morning. For the record, my name is Don Cameron appearing on behalf of Korean Respondents and all Respondents for purposes of this opening. At the outset, it's important to note that the record before the Commission today is far different from the record that was before the Commission at the preliminary conference.

First and foremost, subject Korean imports are less than half what they were at the preliminary conference because the Commerce Department preliminarily determined that three of the five investigated Korean producers were not dumping and that the entire Korean industry was not subsidized.

At the preliminary conference Petitioners denied that competition was at all attenuated between CFS sheets and web rolls. In fact, at one point they suggested that sheet and web were, "synonymous." That's interesting. While they subsequently clarified this, the Commission noted in its preliminary determination that it would investigate the issue of attenuation at the final stage.

Well, the record confirms exactly what we said then. Competition between subject imports and U.S. producers is highly attenuated. The attenuated competition between subject imports and domestic producers explains in large part why there is no causal linkage between subject imports and the condition of the domestic industry.

In fact, given the condition of the industry as a whole it's difficult to see how a case of present material injury can even be made. Domestic industry market share over the period has been stable, profits have increased, prices have increased. What injury? And rationalization of a 100 year old mill is not injury due to imports.

Unlike many cases that this Commission sees this is not a case of falling industry profitability. To the contrary, U.S. industry profits have increased significantly throughout the period, and NewPage just announced a $1.5 billion investment to further consolidate its position in the industry. NewPage also just announced significant price increases.

In fact, even before the latest announcement domestic prices had increased over the period. So how is it that increased domestic prices and rising profitability during a period of needed industry restructuring correspond to the theory that imports are injuring the industry? It doesn't.

This is also not a case of excess domestic capacity dragging down profitability. This is not a steel case. To the contrary, the United States industry has been operating at full practical capacity throughout the POI. There is no excess capacity here to supply the import segment of the market.

So it's peculiar that U.S. producers claim that they are being injured by subject imports at the same time that capacity utilization and profitability have increased. That's a very strange injury case. Is the U.S. industry losing market share? I don't think so. Industry market share has been stable over the period.

The reason that subject imports' volumes and prices have not translated into deteriorating domestic industry performance is: 1) the condition of the domestic industry is not deteriorating, it's getting stronger; and 2) competition between subject imports in the industry is highly attenuated so that the actual points of competition are limited.

As we noted at the preliminary conference, approximately 80 percent of U.S. shipments are in the web roll segment of the market. The record is clear that web and sheet are not interchangeable to any meaningful degree. Our witnesses will address the distinction in their testimony.

The significance of the difference between web and sheet is obvious since there's virtually no import competition in the web market. We noted at the preliminary conference that there is geographic attenuation since U.S. producers located in the east and midwest have limited market presence in the west coast. Our witnesses will discuss the reasons.

Please note, nobody said that U.S. producers don't ship to the west coast or that subject imports are exclusive to the west coast. What we said is that to the extent that subject imports are shipped to the west coast competition with U.S. producers is further attenuated.

NewPage has not made a case of present injury. What they appear to be saying is that they are threatened by subject imports as competition has become less attenuated, but that case hasn't been made either. The record doesn't support the argument that competition will be less attenuated. Capacity of Korean subject producers has been reduced, and that capacity has been closed and is permanent.

When you see Exhibit 2 of their brief of their charts later and you see that Korean chart -- I'm almost finished -- that's not subject Korean producers. I really do thank you for your time. Thank you.

CHAIRMAN PEARSON: I'm sure we'll hear more later.

MS. ABBOTT: The first panel in support of the imposition of antidumping and countervailing duties should please come forward and take your places.

Mr. Chairman, all witnesses have been sworn.

CHAIRMAN PEARSON: Okay. Mr. Kaplan, are you ready to begin?

MR. KAPLAN: Thank you, and good morning, again. This case is about increasing imports, underselling, subsidies and the disruption of global supply conditions. Korea and Indonesia have for many years been net exporters of coated free sheet paper with China traditionally a major export market.

How did China go from a significant importer of coated free sheet paper to a substantial net exporter of coated free sheet paper? The range and magnitude of government support provided to Chinese paper producers is breathtaking, and the build up of Chinese capacity is impressive as shown on Exhibit 1.

This parallels capacity increases in all the subject countries as shown on Exhibit 2. Another factor which you should consider as a condition of competition is that Chinese currency is undervalued by at least 30 percent. This is discussed in detail in our brief. The success of the China subsidies regime fundamentally changed global supply and trade flows for CFS paper.

Countries like Korea and Indonesia lost not only market share in China but elsewhere in Asia as well and moved into the U.S. The record from the preliminary investigation documents subject import increases and significant underselling already back in 2003.

By 2004, which is the first year of the period examined in the final investigation, the subject imports already held a significant share of the U.S. market, and both subject import volume and market share also increased significantly over 2004 to 2006. Subject import presence is particularly large and increasing in the highest value added products, sheets. It's not difficult to understand why subject import volume and market share have increased.

The subject imports from all three countries have consistently undersold the domestic product. Please see Exhibit 3. Margins of underselling are high in sheets again in the high value added product area, but price aggression at the top of the market has had profound implications across all product segments.

Domestic producers have been injured throughout the period by significant import volume and ongoing underselling, and injury is continuing. Hundreds of thousands of tons of capacity have been idled. Some 1,400 lost jobs are documented in the prehearing report, and those data are incomplete. Please see Exhibit 4.

In addition to production workers dropping almost 20 percent, hourly wages, the rates of wages dropped by 14 percent, an unusual and draconian affect. Capacity utilization is depressed in this very high fixed cost industry where machines are supposed to run 24/7 with down time only for maintenance.

When you consider the operations for which the Commission does not have data, U.S. capacity production and shipments have been flat. The domestic industry had net losses in every period. Restructuring contributed to large operating losses during 2004, then after stripping many millions in costs out of the production process the domestic industry reported only a 3.8 percent operating profit in 2006 and only 3.4 percent during January through June 2007.

Rates of return on investment in 2006 were only 3.1 percent, which even if you are a big fan of *T* bills is a miserable return. As seen on Exhibit 5, factory overhead has been cut, labor costs have been cut, but there is only so much we can do about raw materials, and our profits are capped by the underselling.

The condition of the industry is nowhere more apparent than in the collapse in capital investment that is evident in the prehearing report and as seen in Exhibit 6. Mr. Suwyn will discuss this. Respondents would have the Commission believe there are separate markets for sheet and web roll. They ignore the following facts documented on the record.

Much of the U.S. printing industry has both sheet and web printing capability, and both printers and converters can and do convert CFS roll to sheet form. Thus, there is flexibility within the purchaser base to use either web or sheet, and this flexibility is increasing. You will hear testimony about that from Mr. Reindl who is a printer here from Merrill, Wisconsin.

Our witnesses will expand further on these issues. We have three CEOs here of U.S. coated free sheet producers. Every one of these gentleman have laid off employees and closed down lines because of unfair trade. Thank you. With that, I'll turn it over to the CEO of NewPage, Mr. Mark Suwyn.

MR. SUWYN: Thank you. Good morning. My name is Mark Suwyn, and I appreciate the opportunity to be here today to present our case and to answer your questions. You know, these should be the best of times for NewPage. Demand for our product is growing, and our manufacturing operations, and sales and customer service teams are second to none.

Our facilities are ranked by independent experts as among the most cost efficient in the world. In just two years since we formed the company we've increased productivity and markedly reduced cost. We currently have adequate capacity to meet demands 20 percent or more above our current shipping rates as poor pricing has forced us to shut down capacity.

Given a level playing field we can successfully compete with anyone. The problem is that the playing field is not level. Dumped and subsidized imports of coated free sheets from China, Indonesia and Korea have severely harmed our business, and we're very concerned about our ability to stay in business long-term if something is not done about this unfair trade.

For products consumed in the U.S. we are the most cost competitive in the world. We are not benefitting from that position, however. The subject imports have had a dramatic impact on our market. They started out by attacking the sheet product category, which is the highest value form of coated free sheet.

Because coated free sheet in sheet form made in China, Indonesia and Korea is essentially identical to domestically made sheets they've made tremendous in roads into this market by underselling domestic producers. Obviously, the dumping and subsidies have enabled producers in these countries to sell at unfairly low prices.

Domestic producers can't compete with that, and we've lost significant business to the subject imports. Although the most direct impact has been in our sheet business, the imported products predatory pricing is also hurting our web business given the increasing interchangeability of sheet and web and the increased competition for web sales with product that had been diverted from the sheet category as they were unable to sell it there.

Based on our studies of world paper production none of the subject producers has a cost advantage over U.S. producers. Timber, for example, is far more plentiful and available in North America than it is in China. This is the critical input for pulp, and ultimately, paper, and there is very little of it in China or Korea.

In addition, because paper is very expensive to ship and most of the major U.S. markets are close to the U.S. paper mills we have a very significant freight cost advantage, particularly at $88 a barrel of oil. As noted, NewPage is cost competitive on a global basis.

The United States overall should have a comparative advantage over the subject countries to manufacture and sell coated free sheet. There is no rational economic reason for us to be losing sales and market share to imports from these countries. The only reason we're losing sales in markets is unfair trade.

Now, the increase in low price imports has led to painful restructuring in our industry as domestic producers have struggled to compete. With these shut downs thousands of people have lost their jobs, and NewPage is certainly not immune to the damaging affects of unfair imports.

Lost sales of coated free sheet forced us to close our No. 7 paper machine at Luke, Maryland, at the end of 2006, and about 130 people lost their jobs and multiply that by two or three times for the impact in the local community. Although this was an older machine it was ran very well, and it would still be running today if not for dumped and subsidized imports.

We also closed down one of our machines in Rumford, Maine, for a period of time earlier this year for the same reason. Now, many of the paper producing assets in the industry have been sold in recent years, and the formation of NewPage is the result of this phenomenon.

In addition, we recently announced plans to acquire the assets of Stora Enso North America. We see opportunity in bringing together our two companies which have similar cultures and pretty complimentary product lines. The merger will result in lower costs that increase our competitiveness.

As we stated in the press release announcing the deal we are excited about the acquisition as it is clearly part of our strategic vision to lower our overall cost and accelerate our ability to achieve financial returns above our cost of capital. This is also important in order to help us compete with illegally dumped and subsidized foreign imports.

Now, in order to acquire these assets to improve our costs we're going to incur additional substantial debt. For the reasons I've talked about including our national comparative advantage we think it's good business to borrow and invest the money in this industry, but of course, money is not free.

We incur significant interest expenses on our debt, and that's a real cost to us. Because of unfair import, competition has prevented us from achieving the necessary returns to service our debt. However, we're incurring net losses. That situation cannot continue indefinitely. One final point. The production of paper is highly capital intensive.

Producers in an industry like ours need to continually invest in their assets in order to stay competitive, particularly when the market is good. Capital expenditures for this industry as noted, however, have declined from about $275 million in 2004 to about $145 million in 2006, or by 47 percent.

Capital expenditures declined even further in the interim period from $65 million in the first half of 2006 to just $49 million during the first half of 2007 by an additional 25 percent. This is not a healthy situation. It shows an industry that is actually divesting as it gets smaller.

It is particularly troubling that this has occurred during a time of economic growth and pretty high demand. What's going to happen when the market softens? The industry cannot survive a down period if it does not reinvest in its assets when the economy is actually relatively healthy.

In conclusion, on behalf of NewPage and its 4,300 employees, I would like to thank the Commission and its staff for its hard work on this investigation. This is in many ways a life and death issue for us and our employees. The Commission has really worked hard to learn about the industry including visiting our mill in Luke, and we appreciate your efforts.

We trust that what you've learned will lead you to conclude that the coated free sheet paper industry has been injured and needs relief from dumped and subsidized imports. Thank you.

MR. GALLAGHER: Good morning, ladies and gentlemen. My name is Colin Gallagher, and I'm President of Sales and Marketing for West Linn Paper Company. I have 27 years experience in the paper industry. I joined West Linn in 2003. West Linn is located at the foot of the Willamette Falls near Portland, Oregon.

Given our proximity to timber, water and major population centers there's no better place in the world to make high grade coated paper. The West Linn mill site has been producing paper since the late 1800s. Belgrade Investments Group purchased the mill in 1997 and established West Linn Paper Company. Our owners have made significant investment in plant and equipment.

In fact, we've rebuilt two of our three paper machines in the last two years. We produce only web coated free sheet paper at West Linn. Among our brands are nature web product is specifically produced with high postconsumer waste or recycled content which appeals to customers with a focus on sustainability.

Nature web is also Forest Stewardship Council certified, which means that the pulp for this product comes from the timberland managed according to FSC standards. We supply the west coast market and encounter competition from eastern and midwest mills throughout the area. In fact, several of the U.S. coated free sheet producers have stocking locations on the west coast.

The claim that the domestic industry does not serve the west coast market is simply a fallacy. Transportation costs are significant, but not insurmountable. We at West Linn ship our coated free sheet nationwide and in particular sell significant volumes into the midwest.

Let me address another fallacy perpetrated by the Respondents in the preliminary investigation. Belgrade Investments Stern Partners also used to own Pasadena Paper Company near Houston, Texas. I was also President of Sales and Marketing for Pasadena Paper Company. Subject imports absolutely did play a part in the shut down of that facility.

Pasadena's production capacity was approximately 190,000 tons. We produce web in C2-S and C1-S, both in web and sheets, but the majority was C2-S sheets. By mid-2005, the subject imports had caused price declines of more than $100 per ton on Pasadena's C2-S sheets. Management met in July 2005 to assess the viability of continued operations given this price decline.

In late September 2005, we shut down the plant due to mandatory evacuations for Hurricane Rita. The plant was not damaged by the storm. Our analysis over the next few weeks showed that Pasadena Paper had suffered too much financial damage from imports to ride out the increased energy cost that followed the storm.

While the timing of the closure was force for the hurricane the underlying weakness of the company's performance was driven by import competition. It's not easy being part of a decision process that ultimately terminated 350 workers. Thankfully, our workers were certified for trade adjustment assistance which is only possible if import competition is a factor in losing their job.

So how is West Linn, which produces only web rolls, affected by the imports? I can tell you that when we learned of this petition last fall there was no hesitancy on our part to support the petition. Yes, our customers operate web presses, and web roll volume from the subject countries is fairly small at this time, but high levels of sheet imports at very aggressive price levels affects the entire U.S. coated free sheet market.

Many of our customers also operate sheet presses. They can use sheet over web for many print jobs. In fact, we have recently been approached by accounts that currently by sheet from the subject countries to see if we can supply them web if an order is imposed. Over the period of investigation our web prices have been constrained by depressed coated free sheet.

Sheet should be the highest price coated free sheet, but when the imports target the very top of the market we are all affected. We had three printer accounts acquire the subject imported web rolls resulting in both lost sales volume and price pressure to retain remaining volume. In addition, two merchants came to us in 2005 reporting the subject suppliers were promising to gain U.S. market share in web rolls.

Those merchants wanted to know specifically how West Linn was prepared to address this competition and their price levels. The west coast is not a large web market. West Linn risks losing a great deal of west coast sales within a very short period of time if duties are not imposed on unfair imports.

Please do not let another U.S. coated free sheet mill go under because it has been systematically undermined by low priced imports that are benefitting from foreign government subsidies and dumped into the U.S. market. Thank you for the opportunity to address this critical issue for our company.

MR. KAPLAN: Thank you, Mr. Gallagher. Thank you. Sorry. I'd now like to ask Mr. Tim Needham from Smart Papers to address the Commission.

MR. NEEDHAM: Good morning, Mr. Chairman and members of the Commission. I'm happy to be here this morning and glad to have the opportunity to provide you with my perspective on how unfair dumped and subsidized imports have damaged our company and our employees.

My name is Tim Needham, and I am Chairman of Smart Papers. Our mill is located in Hamilton, Ohio, and is the founding mill site of the former Champion Paper International. Smart Papers came into existence in 2001 when a private equity group acquired the facility from International Paper and created Smart Papers.

Smart is an independent specialty manufacturer of unique, premium, cast coated, recycled map coated and uncoated papers. We currently have three paper machines, 23 cast coating converting lines, and employ 530 workers and produce 100,000 tons of paper per year. We produce a wide variety of coated free sheet papers in web or rolls, sheet or rolls and in sheets and we sell throughout North America.

Champion Paper invented the cast coating process in our mill 70 years ago, a process that takes a coated free sheet paper in webs, adds substantially more coating and casts it against a very hot, smooth, highly polished drum. This results in a mirrored gloss, ultra smooth, highly introspective coated surface for high definition printing, labels and digital imaging.

Even today limited mills worldwide have this technology. Smart Papers is the largest producer of cast coated papers in the world under the Chrome Coat brand name. Smart Papers has struggled over the past several years. This is due in part to foreign imports. In 2004, we had to shut down our No. 10 paper machine, 150 inch machine which produces coated, one side presheet label paper.

This machine had the capacity of producing 65,000 tons per year of web and sheet of coated free sheet paper. Low priced imports from Asia on this coated free sheet label paper drove the pricing levels down by $300 per ton, a 25 percent price reduction, to the point where we could no longer make this type of product profitably.

We tried to raise prices to cover our cost, but imports prevented us from making these increases. We had to shut the machine down, quit manufacturing, sold the well-known brand label, and after 50 years of manufacturing and selling this product successfully throughout North America we closed it down and 200 employees lost their jobs.

Now, I'm concerned about our cast coated product line which has clearly and specifically been targeted by the Asian paper producers. Smart Papers has a solid advantage with respect to cast coated papers. We have the highest quality, the state of the art coating formulas, a wide selection of product and a significant shipping advantage.

Nevertheless, the Indonesian producers tried early on this case to get the Commerce Department to remove cast coated papers out of the scope of the case. Fortunately for us this attempt failed. Commerce reviewed the data and determined that cast coated papers is clearly within the scope of the case.

I remain concerned, however, that the Indonesian and Chinese producers will do whatever it takes in pricing to get market share. This is what happened to us in the coated free sheet label paper, and if the same thing happens in the cast coated world it would put our employees and shareholders at risk. Our cast coating operation remains burdened by the price undercutting by Asian producers.

We are aggressive about keeping our cost down, and we are an efficient manufacturing operation. Nevertheless, our total sales have fallen over the course of the last four years, and we have suffered an operating loss in 2005 and 2006. We need to be able to continue to invest in our facility, but we have not made any major capital expenditures in 2004, 2005, 2006 and 2007.

Our industry has tremendous and numerous real natural advantages, we have technological advantages, and we need to enforce the trade laws so we can utilize those advantages. We are asking for fair trade versus free trade. Thank you very much.

MR. KAPLAN: Thank you, Mr. Needham. I'd now like to turn it over to Mr. Jim Tyrone, also from NewPage Corporation.

MR. TYRONE: Good morning. My name is Jim Tyrone, I'm Senior Vice President of Sales and Marketing for NewPage Corporation. The Respondents in this investigation have argued that it was necessary for U.S. merchants to turn to subject imports to supply their needs because they could not get sufficient quantities of paper from domestic producers.

They cited evidence that domestic producers have put their customers on allocation and would not sell merchandise to them. This issue is a red herring that should not distract this investigation. First, to the extent there have been brief periods in which the supply of coated free sheet paper was tight it was primarily the result of capacity shut downs caused by dumped and subsidized imports.

Second, domestic producers have sufficient capacity to supply additional quantity of sheet. We've been forced to close or divert some of coated free sheets sheet capacity because we have lost sales of sheets, capacity that could be reinstated. There is a significant amount of similar ramp up capacity available throughout the industry.

If orders are imposed and the volume of imports is reduced the domestic industry is well-positioned to regain lost market share in the sheet segment of the market. Third, since 2004 we have put our customers on allocation for coated free sheet only once for a brief period of time early that year. The allocation was used as a way to maintain service levels and balance machine capacity to effectively meet and protect our customer commitment based on their forecasts with us.

I am unaware of any customer who was unable to purchase sufficient quantities of coated free sheet from us during that time. In 2006, after the Pasadena Paper Company shut down their capacity because of the dumped and subsidized imports we set up an allocation process. However, we never had to implement it. In short, Respondent's lack of domestic supply argument simply doesn't hold water.

In fact, as we speak we are currently underutilizing our coated free sheet sheets capacity using it for other paper production because of lack of demand for sheets. That demand is being filled by the illegally supplied subject imports. Moreover, earlier this year we proposed a significant increase in supply of coated free sheet sheets for Unisource in the western U.S., precisely the area where they argue they cannot source domestic product.

They declined our proposal. The Respondents have also argued that they are unable to supply the U.S. market with coated free sheet web rolls for various reasons, among them, that web rolls are more difficult to ship than sheets. This argument is factually incorrect. In fact, it is easier and less costly to ship web rolls than sheets.

In NewPage's experience rolls are structurally more solid so they need less blocking and bracing to protect them during shipment. Moreover, rolls are easier to load into containers because they are the same size, whereas sheets are shipped in different size configurations called skids and are more difficult to load.

I would also note that both sheet rolls and web rolls are imported to the United States, so transportation is not a barrier to imports of roll product. Thank you.

MR. KAPLAN: Thank you, Mr. Tyrone. I'd now like to introduce Mr. Richard LaCosse from the United Steel Workers.

MR. LACOSSE: Thank you very much for the opportunity to be here today. My name is Richard LaCosse, I am International Vice President of the United Steel Workers or USW. USW is the single largest industrial union in the United States, and we are the dominant union representing 130,000 workers in the paper and forestry industries.

Our figures show that over 95 percent of coated free sheet paper making capacity in the U.S. is unionized, and USW is the predominant union in 90 percent of those mills.

USW represents workers in the following mills producing coated free sheet paper: Appleton Coated in Combined Locks, Wisconsin; Fraser Papers in Madawaska, Maine; Gladfelter in Spring Grove, Pennsylvania; International Paper in Cortland, Alabama; DuPage in Wickless, Kentucky, Rumford, Maine, Gwynn Oak, Maryland and Escanaba, Michigan; Mohawk Paper Mills in Cohoes, New York; Sappi in Skowhegan, Maine, Muskegon, Michigan, and Cloquet, Minnesota; Smart Papers in Hamilton, Ohio; and Stora Enso in Kimberly, Wisconsin, and Stevens Point, Wisconsin.

I am here today to convey the USW's strong support for these cases. Our workers understand firsthand the impact that unfair trade has had on American companies and American manufacturing jobs. All too many times I have had the horrible job of telling workers that a mill was closing or shutting down.

Unless you experience it you cannot appreciate the look of utter dejection and panic on these peoples' faces when hit with the prospect of losing their employment. It's particularly hard to do when we know it's because of unfair trade and unfair subsidy. We play by the rules. All too often our trading partners don't.

I have worked in the paper industry my entire life. I began my career in 1969 at what is now a NewPage paper mill facility in Escanaba, Michigan, and have served in various positions in our union over the last 35 years. I have gone from a shop steward and local union officer through the ranks of our union to my current position of USW International Vice President with responsibility for our paper sector.

USW keeps close tabs on what's going on with our foreign competition. The import data from China, Indonesia and Korea shows that imports of coated free sheet paper have increased over the past several years. These imports are coming in at prices that undercut American producers who then have to either lose business or have to follow with price cuts of their own to keep their customer.

Poor profitability has taken its toll on U.S. producers and U.S. workers and has contributed to the closure of capacity and significant layoffs. These include: An 85,000 ton production line at Sappi's Westbrook, Maine, facility in 2003; a 105,000 ton production line and a 110,000 bulk mill owned by Sappi in Muskegon, Michigan, in July of 2005; a 60,000 ton paper machine at Smart Papers' Hamilton, Ohio, facility in March of 2004; a 100,000 ton paper machine at NewPage's Luke, Maryland, mill which occurred at the beginning of this year.

I have with me today two representatives from that mill, Barry Stafford, 3rd Vice President of Local 676, and Greg Harvey, 1st Vice President of

Local 676. Gentlemen, I'd ask that you stand so we can recognize you. In addition to these line shut downs, Pasadena Paper in Houston, Texas, closed its mill and exited the coated free sheet business entirely in October of 2005.

We have also seen a number of jobs at Fraser Paper's Madawaska mill decrease by 220 over the past three years representing 26 percent of the workforce there. All told, this has resulted in the reduction of coated free sheet paper capacity in this country of about 500,000 tons and has cost the industry thousands of jobs.

The injury suffered as a result of dumped and subsidized paper goes well beyond these job loss figures. In my capacity of leading the USW's paper sector in the U.S. I am well aware of the sacrifices the coated free sheet producers have asked of their workforce for the past several years.

When the U.S. industry is prevented from earning a significant rate of return they lack the financial resources to improve pay and benefits for their workers. In fact, over the past three years the average wage rate in the coated free sheet industry has actually declined. Hours worked has declined by 15 percent and total wages have declined by 27 percent.

Management has also made demands to reduce pension and increase the shares that workers are required to pay for their healthcare costs. I want to emphasize that once a worker is laid off from coated free sheet mill, it's extremely difficult to find new employment. Generally speaking, jobs in the paper industry have been in a steady decline, so there are very few openings in the industry, to begin with.

Moreover, paper mills are quite often located in remote regions to be close to raw materials and energy sources and are generally far away from cities. Frequently, a mill will be the largest employer in the region. If one of these mills closes, or a pulp or paper machine is shut down, it has a devastating impact on the entire town and the town's economy.

Finally, a majority of workers in the mill sector of the industry are over 50 years of age. The difficulties that such workers have in obtaining reemployment are already known.

It is not just the direct jobs that are lost. The Commerce Department estimates that for every direct job in the paper industry, it supports 2.2 additional jobs.

All of this is hard to accept when it's the result of foreign government subsidies and other unfair trade practices.

I urge you to take a strong stand against unfair trade and to vote to impose duties that will help level the playing field for U.S. workers.

I appreciate your time today, and I look forward to answering any questions you may have. Thank you.

MR. GALLAGHER: Thank you, Mr. LaCosse.

I would now like to introduce Rick Reindl from Merrill, Wisconsin.

MR. REINDL: Good morning. My name is Rick Reindl. I am a co-owner with my wife, Lynn, of Reindl Printing in Merrill, Wisconsin. My wife and I founded Reindl Printing in 1979. Prior to that, my wife and I were both teachers in the Merrill area. I taught printing at Merrill Senior High School for nine years prior to opening our business.

I have a bachelor of science degree in industrial education, specifically, graphic arts, from the University of Wisconsin - Stout.

We are a general commercial printer and employ about 120 people. We operate both sheet-fed presses and web-offset presses and work with clients throughout the United States. I feel very strongly that something must be done to stop unfair trade practices in the coated free sheet paper market.

The distributors I work with always quote much lower prices for subject imports than for domestically produced products. This is despite the fact that I am in the middle of a major producing region in the Midwest. Appleton Coated, Stora Enso, Rusal, and NewPage mills are all within 100 miles. The lower prices for these imports have made it necessary for us to put pressure on domestic suppliers to be more price competitive.

Given the price difference, it is difficult to justify buying domestic paper. Subject imports are essentially identical to domestic paper, and while we want to support domestic manufacturing, there is really very little difference other than price.

As a general commercial printer, we print just about everything, including packaging, advertising, and annual reports. It used to be that there was a bright line between print jobs that would be done on a sheet-fed printing press and jobs that would be done on a web-offset press, but the differentiation between web roll and sheet is increasingly blurring. In fact, sheets and web rolls are interchangeable for most projects; it just depends on how the project is designed.

Web-offset press technology is continuously improving and can now do many things that sheet-fed presses do. In addition, printers who operate only a sheet-fed press operation are now able to use web rolls by installing a roll sheeter. This enables them to use web rolls for sheet-fed applications.

I frequently see competition between web roll and sheets. In fact, I recently lost a bid for a large project against a competitor whose bid was based on imported sheets, even though my bid was based on a domestic web roll. Although sheets should be more expensive than web roll, my competitor was able to underbid me using imported sheets because the price of imported sheet was lower than the price of domestic web roll.

As a final point, I understand the Printing Industry Association, or PIA, is opposing this case and telling people that printing will go offshore if duties are imposed on the coated free sheet paper. I am dismayed by the PIA's position.

First, if imports are being sold unfairly, that must be stopped.

Second, I disagree with PIA's view that

printers will go offshore if duties are imposed. I just don't think that's true. Printing is a very time-sensitive and service-oriented business. The amount of second, third, and fourth day delivery we do is growing significantly. Many of our jobs are large volume and are delivered by truck. I don't think that most printers could move offshore and stay in business.

Because I disagree so strongly with PIA's position on this case, we recently discontinued membership in PIA.

In conclusion, I am very concerned about the future of domestic paper manufacturing. We need a steady, reliable supply of paper in this country, and U.S. producers are closing more and more capacity because they cannot compete with imports.

When is this going to stop? When there is no more domestic production left?

What is going on in the market right now is simply not fair, and something needs to be done to stop it. Thank you.

MR. GALLAGHER: Thank you, Mr. Reindl.

I would now like to introduce Dr. Kenneth Button, are economic witness.

MR. BUTTON: Good morning. I'm Kenneth

Button, senior vice president of Economic Consultant Services, LLC. I'm appearing on behalf of the domestic industry to present testimony regarding the prices of the subject imports and their impact on the financial performance of the domestic industry.

The pricing data on the record of this investigation reveal substantial and pervasive underselling by subject imports from all three countries. The prehearing report states that the subject imports undersold the domestic industry in 78 percent of all comparisons.

The Chinese Respondents themselves admit that there is underselling with respect to both sheet products and web products. Imports from China undersold the domestic industry in 85 percent of all comparisons, with an average margin of 20 percent.

Imports from Indonesia undersold the domestic industry in 95 percent of all comparisons, with an average margin of 22 percent.

The subject imports from Korea undersold the domestic industry in 61 percent of all comparisons, with an average margin of 22 percent.

The subject imports' underselling causes injury to the domestic industry in four separate significant ways.

First, subject imports undersell the U.S. producers such that customers switch from U.S. product to the subject product, causing lost sales volume and market share for the products involved.

Second, subject imports' underselling causes customers to put pressure on their domestic suppliers either to reduce the U.S. price to a level closer to the subject imports or, commonly in this case, to refrain from instituting price increases as a condition for retaining the customer's business.

Third, the subject imports undersell nonsubject suppliers, which then either lose volume to the subject imports or which reduce their own prices to keep the customer. Either way, the U.S. customer is now acquiring product at a lower price, a fact that is communicated across the market and which puts downward pressure on the overall market price level and the prices that the U.S. producers are able to receive.

Fourth, we note the example for Mr. Reindl that of a U.S. printer who bid a job, assuming the use of domestic web roll but lost to a competing U.S. printer who bid the same job more cheaply but based on its using subject import sheet. Thus, the U.S. web producer lost volume to subject import sheet.

In all four of these circumstances, the domestic producers are negatively affected by subject imports' low prices and underselling.

What has been the impact of the subject import underselling on the U.S. industry prices? U.S. industry prices were significantly suppressed and, in some cases, depressed by the severe impact on the industry's financial performance.

First, let's examine the trend in the U.S. industry prices over the POI. Respondents claim that their pervasive underselling has not had price effects because the U.S. industry prices, on average, showed increases over the POI. In fact, the actual price increase achieved was meager, at best.

From 2004 to 2005, the average unit value of U.S. producers' commercial shipments increased by only 5.3 percent.

From 2005 to 2006, the U.S. AUV increased by merely 1.9 percent, and, in part-year 2007, the increase was just 0.6 percent.

In a period of increasing apparent consumption, and with inflation running over three percent, real price increases should have been expected. Clearly, the prices have been suppressed.

What has been the impact on the financial performance of the U.S. industry? Fundamentally, underselling by subject imports has prevented the domestic industry from increasing its prices to levels that cover its rising input costs and permitting profitability adequate to cover the industry's cost of capital.

The U.S. industry has worked very hard to reduce its cost structure and has engaged in a wide-ranging and painful restructuring in order to do so. Some costs, such as raw material costs, are largely beyond the control of the U.S. producers. Over the POI, raw material costs per ton of product increased by 13 percent. However, U.S. producers have been effective in improving labor productivity by 23 percent and in cutting labor costs per ton by 15 percent.

Similarly, factory overhead per ton was reduced by 13 percent, both through cost-cutting measures and because of the restructuring-related asset valuations that cut fixed asset costs and, hence, depreciation. Depreciation fell from $88 per ton in 2004 to $64 per ton in part-year 2007.

Moreover, the U.S. industry cut its SG&A expenses per ton by 11 percent over the POI. Nonetheless, despite all of the industry's best efforts, total COGs and SG&A per ton declined by less than one percent.

Nonetheless, it seems that the U.S. industry has done a pretty good job in becoming more efficient and cost competitive. However, in assessing these results, the Commission should keep in mind two very important facts.

First, the industry began the POI in a financial hole. In other words, at the start of the POI, the industry was operating at a severe loss on the operating income level due to the impacts on the U.S. demand arising from the dot-com bust and the 9/11 attacks.

The U.S. CFS industry has to get out of that financial hole and then begin to make a reasonable return on its investments. Its operating margin rose from a negative 6.3 percent in 2004 to merely 3.8 percent in 2006, and it fell to 3.4 percent in part-year 2007.

This average industry level of operating return is simply unsustainable, especially for the four of the 10 U.S. producers who still suffer operating losses. The industry's return on investment, its ROI, in 2006, as calculated in the prehearing report, was only 3.1 percent, and that was the best result of the POI. How many of us here today would be willing to accept a 3.1 percent long-term return on our investments? Inflation alone last year was three percent, and Treasury bonds were offering nearly five percent.

Worse still, that return is before paying interest to lenders, who provided the debt financing for the restructuring that permitted the industry to reduce its costs, which, in turn, permitted the achievement of even this level of profitability.

In order for these U.S. producers to remain in business, they must be able to achieve a financial return sufficient to service their debt. Unfortunately, in every segment of the POI, the industry suffered a loss at the net income level.

In 2006, the industry had a net income margin of a negative 1.3 percent, which was virtually unchanged, a negative 1.1 percent in part-year 2007.

Korean Respondents emphasize the success of the U.S. industry's restructuring, as it brought improved efficiency and lower-cost structure. But these were achieved by the use of debt financing, which is a real cost that must be paid back. It's hard to say that the restructuring was successful if the industry is denied the opportunity to repay the debt used to finance it.

Because of the wide-ranging and central nature of the restructuring to the U.S. industry's economic circumstance, the use of debt financing is a significant condition of competition for this industry. The Commission, therefore, should include the industry's financial performance at the net income level as a relevant indicia of injury in this investigation. Thank you.

MR. KAPLAN: Thank you, Mr. Button.

Could I ask the timekeeper how much time we have?

MR. BISHOP: You have 13 minutes remaining.

MR. KAPLAN: Thank you. I'll make a brief statement regarding threat.

Subject imports meet the requirements for cumulation, inasmuch as they are fungible, sold in the same channels of distribution, and are sold in the same geographical markets as the domestic like product. In addition, subject imports from each subject country increased in 2006 and, over the period of investigation, undersold the domestic like product in a large majority of price comparisons.

Cumulated imports pose a clear and imminent threat of further material injury to the U.S. CFS industry. According to RISI, there is unused production capacity in each of the three subject countries. Production capacity in the three countries, on a combined basis, also has increased since 2004.

For confidentiality reasons, I cannot characterize the precise magnitude of this increase, but I invite the Commission to pay particular attention to the increase in CFS production capacity in the subject countries in relation to U.S. consumption.

Note also that RISI projects that production capacity in each of the three subject countries will increase further in 2008, 2009, and 2010.

In China alone, as discussed at pages 94 through 95 of our prehearing brief, between 2006 and 2009, nearly three million tons in new CFS production capacity will come onstream, and this does not include additional capacity at any of the 10 Chinese producers identified in the petition as being producers of CFS but who have not responded to the Commission's foreign producer questionnaire.

Shandung Shaming, a significant Chinese CFS producer that participated in the Commission's preliminary investigation but declined to answer the

Commission's questionnaire in the final investigation, is on record as planning to increase its exports of CFS, and, as pointed out in our brief, the president of the Sinar Mass Group, the Indonesia-based owner of Asia Pulp and Paper, has stated that the company "will continue endeavoring to expand exports of CFS."

An APP entity recently announced a new production line in China of approximately 1.5 million tons, which is an enormous CFS plant. This is described in our brief.

In 2003, the Chinese government imposed an antidumping duty on coated free sheet paper from Korea. This has caused much of the Korean production that would have been intended for the Chinese market to be diverted to the United States.

Korea's exports to the United States have grown from 23.5 percent of Korea's total exports in 2003 to 27.7 percent in 2006, making the United States the single largest market, by far, for Korean CFS exports.

As for whether subject imports are entering at prices that are likely to increase demand for further imports, all three countries had high underselling margins and a large majority of sales being undersold.

In addition, purchaser questionnaire responses indicate that price is a critical factor in purchasing decisions and that any printer who orders standard-sized sheets and is looking for the best price will purchase from the subject countries.

As for subsidies found by the Department of Commerce, the Indonesian producers received a net subsidy margin of 21.24 percent to offset the government's provision of raw materials, timber, at less than adequate remuneration.

In the case of China, Commerce found that 13 different types of subsidies are being conferred on Chinese CFS producers. Given the magnitude of the net subsidy margins involved -- 20.35 percent for Gold East, 10.9 percent for Shandung Shungmin, and 18.16 percent for other Chinese producers -- it is clear that this array of subsidies has enabled China producers to expand significantly their CFS production and export capabilities.

Finally, the Commission's data show that each of the subject countries is heavily export oriented, particularly as regards exports to the United States.

The data you have collected show that exports account for a very significant share of each subject country's total shipments and the World Trade Atlas export data we provided in Exhibit 39 to our prehearing brief show that the United States is, by far, the largest CFR export for both China and Korean and is the third-largest and a growing export market for Indonesia.

Korea has the highest percent of its sales of any country coming to the United States.

In conclusion, the trends in subject import volumes and pricing, substantial increases in production capacity, the United States' role as a key export market for each subject country, and the announced intention of CFS suppliers to further increase exports of CFS all pose an imminent threat of material injury to the U.S. coated free sheet paper industry.

Thank you, and, with that, I'll conclude our opening affirmative presentation, and we would be happy to respond to any questions, and I would like to save the rest for rebuttal.

CHAIRMAN PEARSON: Let me start by welcoming this panel to today's proceedings. Some of you have traveled long distances. We certainly appreciate the efforts that you've made to be here today and to get prepared for this session.

By luck of rotation, I get to ask the first questions.

So, Mr. Suwyn, let me begin with you. I'm going to quote a couple of sentences from King & Spaulding's prehearing brief from October 9, pages 76 and 77, where it reads: "There is need for additional capital to be raised by the industry. However, there is little commercial rationale for investing additional capital in an industry that will continue to lose money as a result of low prices caused by unfairly traded imports."

I read that, and then I read that NewPage has made a decision to invest a considerable amount of money by buying Stora Enso. So I'm having a hard time putting those two together. Could you comment, please?

MR. SUWYN: Yes. Let me help you put it together. It's an intelligent investment, we believe, in two fronts. First of all, the most impactful way to lower your costs are to take facilities that are compatible, multiple facilities, they have eight mills; we have four, so we will now have twelve mills, and rationalize the product between those mills.

When you do that, you can take your costs down significantly. When Mead and Westvaco merged together, they took $95-a-ton out of their costs by running the right product on the product machine, and being able to rationalize the product line.

Now, if you're in an environment where you're not going to be able to ship any more, and imports are going to continue to unfairly take but market share, then the way you do that is: You take the costs and you shut machines down.

So one of the possible outcomes of this acquisition that we're making is that in order to get our costs down, we will have to shut down machines; and, therefore, we'll have to let a lot of people go.

The better way to do it is to have a fair-trading situation where you not only put them together and run the right product on the right machine, also to take your costs down, but you can actually sell the product. Now you have lower costs and greater volume, and that's going to lead to a significant improvement in the bottom line.

I'll give you just a key example. I have my product up in Rumford, Maine that I take over to Chicago, and they make a product in Wisconsin that they ship over to New York. When you rationalize this, the products that are going to be used in New York and New Jersey are made in Rumford, and they'll supply the Chicago and Minneapolis and Milwaukee area from their mills in Wisconsin. And particularly when you're in the $85- and $88-a-barrel oil, those shipping costs can become very significant factors.

The reason that we're doing this is: If we don't do this, and we're kind of stuck at the level that we're at right now, we're going to run out of cost-reduction things to do. And if the illegal imports keep driving prices down on a relative basis, then we simply look at what's the next one of our own lines to shut down.

This way we're going to have a much bigger foot print, and much more flexibility to try to drive our costs down to accommodate that; or, in a much better world and a fair-level playing field, to be able to grow and then improve our bottom line to get capital reinvestment.

You'll notice that we're not putting money into new machines. All we're doing is buying someone else's facility at, quite frankly, a fairly attractive price, and then trying to rationalize things together to get our costs lower, so that we can stay in this business longer while we have this kind of a poor market price.

CHAIRMAN PEARSON: You mentioned a fairly attractive price, and I have not checked to see what information is in the public domain, and I don't know exactly what we have on the record. But Mr. Hammon earlier mentioned a billion-and-a-half dollars of investment. I'm not sure if that was related directly to NewPage's decision to buy Stora Enso.

Are you able to say anything about that on the record, or would you prefer to address it in the post-hearing?

MR. SUWYN: I can put some details on the confidential record. But I would simply say that these facilities were purchased for a dramatically higher price by Stora Enso six or seven years ago.

The market situation that we've been describing this morning has led those facilities to be, if you will, devalued such that we're purchasing them at a much, much lower price, and not because the facilities aren't great. They are as good as they ever were or better because they've put they put a lot of money into them to keep them up.

But you've got a horrible market situation where you can't earn your cost of capital; and, therefore, this is an attractive way for us to lower our costs to try to survive longer if we don't get a level playing field, or to get to our cost of capital if we do.

CHAIRMAN PEARSON: Okay. But, what I've heard this morning from this panel, really sounds very much like a doom- and gloom situation for the industry. In that context, it is a little bit surprising to see the owners of NewPage looking at the industry and thinking: We're going to put a bunch of additional capital in here because --

MR. SUWYN: Obviously --

CHAIRMAN PEARSON: -- we see doom and gloom, or because we see opportunity? Help me understand that.

MR. SUWYN: Well, think of the scenario of the last man standing. We believe that standing alone today, we have the most favorable costs in the industry.

We're not making our costs of capital today, but we have better costs than other people. When we take these two organizations and put them together, we're going to have even lower costs. We'll take another probably $50-a-ton out of our average costs, which means, in this kind of competitive unfair environment, we at least can make more money than we're making today if we can drop our costs by another $50-a-ton.

When you do that, and look at the price we're paying, that's a reasonable thing to do. It's not a great thing to do.

The second thing is: We're obviously making some assumption that we will eventually be able to achieve a fair trade in our country. If we can, then, this, in fact, is going to be our ability to grow towards our cost of capital.

What we're not doing, as I would re-emphasize is: We're not putting in a new machine because we know that we can't make money on a new machine. But with someone else's existing machines, and then rationalize those machines, we believe we would have the possibility, even in this market, to make an okay return, not a great return.

CHAIRMAN PEARSON: I appreciate the point you made earlier about the synergies of combining two firms. I understand completely how that can work.

MR. SUWYN: We've been on the record, as we believe, that we can take about $265 million of costs out of the combined companies by merging them together, and that obviously is going to lower our costs per ton rather considerably.

CHAIRMAN PEARSON: And that type of rationalization is something that, of course, we see across many industries.

MR. SUWYN: Correct.

CHAIRMAN PEARSON: It's by no means the first time that we've had that sort of situation in front of us.

You've talked a lot about paper machines that have been closed. But, yet, as we look at the confidential portion of the record, we see that production capacity in the United States has expanded during this period of review, and actual production, by the U. S. industry also has expanded.

Can you tell me anything about the investments that have led to that expansion and capacity and output?

MR. SUWYN: I can because, as you know, costs have been going up that we can't control at a very rapid rate, going from five years ago, we were all dealing with $20- or $30-a-barrel oil, and now we're dealing with $88.

People were buying pulp for $300 or $400 a ton, and they're paying $700 or $800 a ton today, and all the other associated costs that keep going up.

So, faced with that, and not having the ability to recover that in the marketplace in pricing, you have to find some way to just drive your costs down at a continuing basis.

Today, for example, we have a number of productivity programs that are all aimed at getting more product out of that machine, higher quality, better yields, running a little bit faster, et cetera.

Now, today what I have to do, which I did in January of this year, when I realized that those -- running faster, making more products, et cetera, I then have to identify my high-cost machine and shut it down. Because in a commodity market like this, where you have this kind of predatory pricing, I can't go out and sell those extra tons that I make.

So, as I learn how to run my machines better and faster, and make more, I have to shut another mill down. I have to put more people out of work because I can't sell any more in this kind of a market with this kind of pricing.

So what we did, for example, we shut down Loop 7. That was a hundred and some thousand tons; and I had to learn how to make those on my other existing machines by investing more money and more capital to drive more. But when I do that, I can make a product maybe $5- to $10-a-ton lower cost on a different machine.

Well, that's been going on throughout the whole industry. And the industry, I think, has to be congratulated for those kinds of survival techniques. But one of the things --

CHAIRMAN PEARSON: I would agree that the industry deserves some congratulations for that. But if I understand you correctly, you are linking expanded productivity in the United States with the need to shut down some machines.

So are we seeing the machine shutdowns in the United States largely in response to that domestic productivity growth because that's a separate issue from foreign competition?

MR. SUWYN: Here's my sense the difference, and that is: If I work hard, and my people work hard, and they make productivity improvements, and let's say that I now have 50,000 more tons on an annualized basis that can be produced, in a fair-trade market, I could sell those 50,000 tons because I wouldn't be competing against dumped, and illegally dumped.

I can't do that. So what I do is I keep making all these productivity improvements, and investing my money to do that, and I can't get any more. So I have to, in fact, keep shutting things down and getting smaller and smaller.

It doesn't take a rocket scientist to

project that out and see what happens. At some point in time, you're down to the point where you've got no more to go, and then you just shut down and go home.

CHAIRMAN PEARSON: Okay. Thank you.

My time has expired. Madame Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. I join the Chairman in welcoming this morning's panel here today, and thank you to all of the industry witnesses who have taken time out of your real jobs to answer our questions.

Let me start with a question for Mr. Gallagher. Mr. Gallagher, can you tell us when Pasadena Paper closed down what happened to its machines? Are they just sitting there idle, or have they been sold?

MR. GALLAGHER: They've been disassembled and sold primarily for parts. At this point, the land has been sold to some refineries that were in that area, and everything within the facility has been sold either in parts or incomplete at auction.

VICE CHAIRMAN ARANOFF: So, as far as you're aware, that capacity hasn't been taken over by anyone else in the domestic industry, that's just gone?

MR. GALLAGHER: That's correct. And without putting in a new paper machine, it could not be started.

VICE CHAIRMAN ARANOFF: Okay. Thank you.

Let me ask all of the representatives of the domestic producers who are here today: On page 8 of the Korean Respondent's brief, they have a quote from the Chairman of Sappi, who says: He believes that 95 percent capacity utilization is practically full capacity for this industry.

Would you all agree or disagree with that statement, and can you explain why?

MR. SUWYN: I'll offer my explanation. I won't pretend to interpret for Mr. Vonas (ph) what he meant when he said that, so let give my own interpretation.

When you have a large complex operation like that, the issue you have is: What do you consider the capacity? Do you consider the capacity running a 100 percent of the time with no down time, and no interruptions, or do you consider it, on average, what you tend to run over the year?

In our particular case, for example, we have a machine at Woodcliff, Kentucky that we're taking a 30-day outage in order to be able to repair and put in some new equipment to try to reduce our costs even further. So, this particular year, our, if you will, effective capacity is going to be about 3 percent or 4 percent less because we've taken some machines down.

So our "stated capacity" I don't know that we've ever run as much as the named plate capacity is because you have these down times and mechanical interruptions, et cetera, that impact that over time.

So my sense is what he is saying is that if you can run at 95 percent year after year, you're essentially utilizing everything you have. And I don't know if it's 95 percent or 97 percent, but that's probably a reasonable estimate. And all you're doing here is estimating how much down time will you take during the year.

VICE CHAIRMAN ARANOFF: Okay. I don't know if any of the others wanted to comment on that, otherwise I'll just move on.

In NewPage's brief, you've argued that the domestic industry could increase its output by bringing back on line machines that have been taken off the line, but you also argued that once a machine has been shut down for several months, it's very difficult and expensive to put it back into production.

Mr. Suwyn, can you reconcile those comments for me and tell me whether even if subject imports were not a factor in the market, it would ever make economic sense to bring back on line machinery that you found to be your oldest and most inefficient?

MR. SUWYN: It would. We have three steps we would take, if in fact we began to get some relief from these actions.

Number one is that a machine in a pulp mill, and a paper machine, generally you'd have to run flat out in that they don't dial back very well because everything is all kind of interactive.

So if I've got a machine that's designed to make 200,000 tons, I can't run it very well at 150,000 tons. What I have to do is: I have to either make pulp and sell that on the outside. That's not what my business is, but I have to do that to keep it running, or I'll make uncoated free sheet copier-type paper and sell that.

Now that's not the business I'm in. But in order to keep that machine running, if I don't have a home for coated product, I'll simply lift the coaters and I'll make uncoated and try to sell that. I don't make very much money at it, if at all. In some years, I lose money on it, but it's better than shutting down the machine.

The first thing I would do is: I would quit making pulp. I would turn all that pulp into coated paper. The second thing I would do is: I would quit making uncoated. So I'd now be able to considerably raise the output of my machines by making all coated instead of making uncoated and selling it into different markets.

Then, the third thing I would do is: I would take capital investment -- actually, there's four. The third thing I'd do is make some capital

investments that I know I can do to speed some machines up to make even more. And then, finally, in my case, I could still start Loop 7 back up, if I had the demand, because I've kept it oiled and I haven't dismantled it.

And I also have two other machines at Loop that I shut down prior to this that I couldn't start up any more. It would be way too costly to start those. But in the case of Loop 7, I have the ability to go back and do that.

Well, all those actions that I highlighted almost all the older domestic producers have the capability of doing that as well: Quit making pulp, quit making uncoated, ramp up the machines that they've already got that they haven't done because there's no home for it; and then, finally, there are some machines I'm sure out there that, with some capital, could start up again.

VICE CHAIRMAN ARANOFF: Okay. So we should make a distinction in terms of machines that are closed down between those that have been kept in working order, which has a cost --

MR. SUWYN: Yes.

VICE CHAIRMAN ARANOFF: -- and those that have been completely turned off. If you just completely turn off and don't maintain a machine, how long before you can't start it back up again?

MR. SUWYN: I'm not an expert to be able to quote on that. But I think, in our case for example, in Loop 7, what we do is: Once a week, or once every two weeks, we'll kind of turn things over just to keep things lubricated, so that things don't kind of rust, et cetera.

I suspect if you shut it down and just shut the door and walked away, I doubt if a year later you could start it up without some significant costs. You'd have to probably replace some bearings and do some other things. But if you just have somebody turn the machine on, and turn it over once every two weeks or so, then the start-up cost is not going to be overwhelming. You wouldn't have to buy a lot of new equipment in order to start it up.

VICE CHAIRMAN ARANOFF: How long can you keep doing that, turn it on once every week or two, and don't stand by?

MR. SUWYN: When you lose faith. You lose faith and say, you know what, this market is going to continue to deteriorate and imports are going to continue to flood in. So, at some point, you just stop and say --

VICE CHAIRMAN ARANOFF: But, from a mechanical standpoint, is there a limit to how long that's going to work? Like if you run your dishwasher once a month, even after a while, that's not going to keep it operating.

MR. SUWYN: You're talking years. I know of a coated paper machine that has been shut down for quite a while, probably three or four years, not ours, but a competitor's, and they're still turning it over once a month with the hope that some day maybe it could start again.

So I know it can go on for years, but I can't give you an exact date.

VICE CHAIRMAN ARANOFF: Okay, thank you for that.

MR. NEEDHAM: Can I respond to that please?

VICE CHAIRMAN ARANOFF: Sure.

MR. NEEDHAM: There is a mill in upstate New York that's been shut for three years. It is restarting currently, and they're been going through a process.

Our No. 10 machine -- look, we've been in the active process of restarting the machine. Champion and Smart (ph) have removed nine machines over the years, but we have not removed our No. 10 machine. So that is something that we are actively looking at. It would take us anywhere from six to nine months to do a complete restart of the machine.

VICE CHAIRMAN ARANOFF: Okay. Let me just continue with Mr. Suwyn for a moment, and then I actually want to pursue that Mr. Needham.

The claim Respondents argue in their brief that the closure of the Loop 7 machine was announced at least as early as 2002, as part of the Mead-Westvaco integration strategy, and that this is evidence that it really had nothing to do with competition from subject imports. Can you comment on that?

MR. SUWYN: I can't. Perhaps Mr. Tyrone can because he was there. We had nothing to do with the mill or the company at that point in time, so I can't comment.

All I know is that we kept working on expanding and lowering costs, and getting better productivity. Then we started being able to make more but we couldn't sell it at a rational price. So I had to find my highest cost machine and shut it down. Unfortunately, Loop 7 was my highest-cost machine, so it was then shut down.

The decision to shut it down was made in about October or November of last year, and it was implemented at the end of December, but that's when the decision was made.

VICE CHAIRMAN ARANOFF: Okay. Mr. Tyrone, can you recall anything from back in 2002?

MR. TYRONE: On my good days, yes. What I would say is that we absolutely shut down some machines when we bought Mead and Westvaco together. We, in fact, shut down the No. 6 machine in Loop, but we had no plans to shut down No. 7, in the context of what we were doing.

I'll also add that many, if not all, of those machines would likely be running today if it weren't for the competition that had already begun at that point in time and continues to this day.

VICE CHAIRMAN ARANOFF: Thank you very much.

I appreciate those answers.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman. I also join my colleagues in welcoming all of you here today, and I much appreciate you taking the time to be with us.

If I could just follow-up on the Vice Chairman's question for you, Mr. Suwyn, which is: Because the plant shut downs have been such a large part of the argument about the impact on the industry of subject imports, could you provide to the Commission any contemporaneous documentation for when the decision was made to close Loop 7 that would go to the thinking of the company as it relates to the prices, what was happening in the market? Obviously, that will be treated confidentially.

MR. SUWYN: I'll be happy to just relate the situation. When we purchased the company in May 2005, we really renewed and accelerated the whole productivity efforts because we recognized that we're in a situation where costs are going up and prices are way below where they were say five years before, and that costs are going up.

So when you do that, you learn how to make more and more product on a single machine to drive the costs down of making that product. As we did that, we began to bump into the fact that we were beginning to make more and more, and not have a home for it because we couldn't get down to the prices that a lot of the imports were at.

So we began to bump into those situations and we then began to look around and say: How do we adjust?

As I indicated earlier. we started selling more pulp. We started selling more uncoated, but we soon ran out of that ability as well, so we had to find which mill to shut down. We had our manufacturing people do a thorough analysis of all of our operations and identify which machine was the highest cost, and therefore had to be taken down.

The challenge we had was severalfold. First of all, there's a great work force there. They were just working like mad to continue to take their costs down as well. And we had at least one or two products that were made on that machine that some of our customers particularly loved, and we had to learn how to make those products on one of our other machines because we cut them off in terms of not being able to make that product.

So that's the analysis that went on there.

As I recall, it was about October of last year when we had it all laid out in front of us, and had to make the decision that there's just no relief in sight from pricing- and volume standpoints. Therefore, we've got to make that tough decision and go.

So we then --

MR. KAPLAN: I'll just mention that if we --

COMMISSIONER OKUN: Mr. Kaplan, you need to put your microphone on.

MR. KAPLAN: I thought it was on.

COMMISSIONER OKUN: There you go.

MR. KAPLAN: In response to putting on the record anything we have on this, we will be happy to do so.

COMMISSIONER OKUN: Okay. The Respondents have also raised similar points with respect to the other closures during that time, with I think the point being that everyone can blame imports after the fact if you have to make a tough decision to close a line down, and for purposes of our analysis, whatever information you can supply as a company to indicate what the thinking of the company was; and I would add that, in response, I think the Chairman had asked you about the investment.

If there was anything with regard to the new investments, to help us understand the company's thinking at the time, as opposed to statements made after the fact, I'd find that particularly helpful.

MR. KAPLAN: Can I mention one thing?

COMMISSIONER OKUN: Yes.

MR. KAPLAN: This came up with respect to Pasadena very substantially at the Staff Conference at the time of the pre-loan, and that's one reason we asked Mr. Gallagher to join us here today to straighten out that record.

Also, in the post-conference brief, at the time of the preliminary, we put in a newspaper article with one of the executives, I don't believe that it was Mr. Gallagher, that specifically said to the press, at the time, that imports were a big reason they were closing that plant.

You know that was a very large plant closure which the Respondents were all over, or it was for some other reason, and I think we have addressed that.

COMMISSIONER OKUN: Okay. Well, I would say to the extent, in the post-hearing, you can again provide as much documentation that you can of information that would have been available to the companies prior to making this decision, as opposed to statements made after the fact, I would appreciate that very much.

Then I wanted to ask all the producers here to talk a little more about the impact of pricing, and what was going on with pricing, and your volumes, during the period of investigation?

The one thing I'm trying to understand is what type of decisions you made? Because if I just look at the record as a whole, and obviously, you don't see all of the information from everybody else, but if I look at the information as a whole, prices went up, and we can argue how much they went up, and whether it was enough?

And I know that you've asked us to focus on the raw material costs going up, but overall costs did not, and shipments went up even when imports increased. So I'm trying to understand where you felt the pressure and how you responded?

Because it's often the case when a company -- and in other cases that I've seen here, the company decides it's going to keep its prices, but it will lose volume to do that. It is going to stand on that, and I would see those changes in market share.

In other cases, they decide to keep their volume, but lower prices to meet the subject import prices. I'm having a hard time, in this record, seeing what happened on that.

Mr. Suwyn, I'll start with you, but I'd like to hear from everybody on that.

MR. SUWYN: I'd be glad to, but let me just give you some numbers. These are numbers that we in fact have published, so they're not confidential.

The challenge you have to understand is this, I think, to make sure that we understand how commodity markets work. In commodity markets, when costs go like that, particularly when you have very modest or small margins to begin with, then you've got to find a way to get prices to go up at the same rate. If you can't, you die because your margins are almost non-existent to start with.

So if costs are going like that and you can't control that, then you've got to get prices up or otherwise on a relative basis, they're going down, if you will, in terms of margins getting squeezed further.

COMMISSIONER OKUN: Can I ask you to clarify one thing on that because I just want to make sure that I understand it, which is: When you're looking at costs, and I think you started to address this earlier, which is the Commission would often try to look -- I mean we look at all the bottom lines, but we also look at the costs of goods sold as an indicator.

What you, I think, are talking about is: You're focused on raw material costs.

MR. SUWYN: No, I'm talking about the impact on total costs.

COMMISSIONER OKUN: Okay.

MR. SUWYN: During that time period and I'll try to give you some relative numbers.

In 2005, inflation for us was $127 million. That was the impact on our costs of all inflation. That wasn't just raw materials. It was labor costs and everything else, $125 million.

That's up from a normal level in prior years in the $30- to $35-million-per-year range. So we scrambled like mad, and were able to get $90 million of cost reduction. But that meant we were $35 million short of the impact of inflation.

So we had to cover that hopefully with pricing, and prices went up a little bit during that time period, but they didn't go up to cover the change in inflation.

What you hope happens in this kind of an environment is that prices go where inflation goes, and your productivity goes to your bottom line, and you improve your profitability. Not the case.

In 2006, inflation was up about $98 million. We worked very, very hard and we got our productivity and cost reductions to about 90, so, once again, we're somewhat short.

The fact that prices rose during that time period, my belief is a function of survival to survive inflation, while oil and pulp and chemicals and everything else were going at an exorbitant rate. If we hadn't gotten any kind of that price -- but relative to the margins of the business, okay, we're woefully short of having anywhere near the point where we ought to reinvest.

What we're doing is scrambling like mad to survive. How you do that is just the things we talked about earlier, which is: You run like mad, try to get some productivity, shut down another machine, send some people home, run like mad, et cetera.

In a normal, I'll call fair environment where people had the ability to dump and be subsidized, prices would have gone up significantly higher to reflect that rapid rate of inflation.

COMMISSIONER OKUN: How much do you think prices should have gone up?

MR. SUWYN: I'll just give you an example, kind of a grade mark of the product, a 60-pound No. 3

web, the average price for that product in the United States for ten years prior to I think 2004 or 2003, was about $1,050 per ton. That's when we had pulp about $400 a ton, and $30 and $25 barrel oil, et cetera.

Now, we have $88 a barrel oil. We have pulp about $700 or $800 a ton. We have all the other chemicals and other things that come out of those higher raw materials, and prices are below $900. That is not a normal marketplace. That's a marketplace where in fact you have dumping and you have subsidizes going on because otherwise you can't survive those kinds of increases in inflation.

So costs are way up and the average price is down to over $150 a ton.

COMMISSIONER OKUN: Okay. My red light has come on, Mr. Chairman, so I do want to hear from the other producers and Mr. Button, but I'll do that on my next round. Thank you.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Good morning. I, too, welcome all of you to this hearing today.

I want to start with a basic issue: As I understand the Respondent's argument that we are facing attenuated competition that the domestic industry basically produces web-rolls and some sheets, and that the subject imports are basically sheets.

What I want to understand in the industry is: The people who are using this product, and I'm assuming that's folks like Mr. Reindl back there, do most printing presses have the ability to use both web-rolls and sheeter-rolls, or sheets, or just how big an issue is this attenuated competition argument?

MR. KAPLAN: I will ask Mr. Reindl to answer that.

But I would like just to say, consistent with what I can say with the APO issues, but they are BPI issues. We put a lot of information on the record about the fact that many, many printers now have both kinds of presses: web presses and sheet presses.

The effect of that is if you get an order, you can decide whether you're going to use web or sheet, based on the prices going on in terms of the feed stock essentially. That's been a factor we highlighted in our analysis.

But I think Mr. Reindl --

MR. REINDL: The ability for sheet-fed printers to purchase web-rolls exists every day. They can have that sheeted internally. If they have sheeting equipment, there is a big movement in the industry of sheet-fed printers to install roll sheeters right on their sheet-fed presses.

In turn, with that, they can purchase web rolls and have them sheeted in the process of sheet-fed printing.

COMMISSIONER LANE: Do people like you, who have printing presses and printing companies, mostly have machines, either separate machines or the same machine, that will use both products: the sheeter-rolls or the sheets, and the web-rolls?

MR. REINDL: I don't have a statistic saying the number, but it is becoming much more common for printers to have the ability to do both.

We, in our environment, have web presses that use web-rolls and we also have sheet-fed presses. Those sheet-fed presses, we also purchase paper that has been sheeted from rolls in the market after it's bought through the distributor network.

COMMISSIONER LANE: Okay. Who converts that from sheeter-rolls to the sheets before you buy it?

MR. REINDL: Before we buy it, it is sent to a converter and the converter will sheet it.

COMMISSIONER LANE: Do converters do both sheeter-rolls, cut those into sheets, and the web-rolls?

MR. REINDL: Yes, they do.

COMMISSIONER LANE: Okay. Let's take a catalog year. Is this done by sheets, or is it done by web-rolls?

MR. REINDL: I would have no idea.

COMMISSIONER LANE: What could lt be done by?

MR. REINDL: Either one.

COMMISSIONER LANE: So it really doesn't make any difference to the end product whether it starts off as a web-roll or a sheet-roll?

MR. REINDL: That's correct.

COMMISSIONER LANE: So, basically, the person who wants this material printed, it really depends upon how much they're willing to pay, and what kind of paper they can purchase to meet those objectives?

MR. REINDL: That's correct.

COMMISSIONER LANE: Okay. I think I have a good understanding now of that issue.

Now let's go a little bit to the employment in the industry. There has been a significant decline in domestic workers over the period of investigation. Can you explain if this decline is related to the competition from subject imports? And if it is, should the Commission take that into consideration, as evidence of injury to the employees' side of the domestic industry, Mr. Kaplan?

MR. KAPLAN: Yes, I would definitely say that the employment declines are related to the unfair trade practices.

I think we've, from the public record, talked broadly here today about two instances of that. One with respect to Pasadena, and one with respect to the Loop 7 Mill.

And there are other instances in the record that show a clear inter-relationship between the unfair trade and the employment declines.

MR. TYRONE: If I might add to that, we have a listing in our brief of the certifications for trade-adjustment assistance for workers in this industry, which is a clear indication that imports have been a cause of the separation of these workers from their employment.

COMMISSIONER LANE: Okay. I want to get a better understanding of the drop in the average hourly wages. It doesn't appear that this could be related to reduced overtime because the average hours worked for employees are almost the same in 2006 and 2004.

So can you explain why average hourly wages have declined so much?

MR. KAPLAN: My general sense, without going into confidential data, is that there has been a tremendous amount of pressure unfortunately for the unions, and the workers, in terms of getting wages, benefits and everything else down as much as possible, and that has had a real effect on this industry.

COMMISSIONER LANE: So have there been -- I'm sorry, I forgot your name and can't say it.

MR. LaCOSSE: LaCosse.

COMMISSIONER LANE: Mr. LaCosse, have the workers actually taken a reduction in the hourly wage that they are receiving, or are these numbers an average, and that's why it looks lower?

MR. LaCOSSE: In some cases, people have been asked to take a reduction in wages because we're being told at the facilities when we're in the collective-bargaining process that the employers are saying: We just can no longer compete and pay these wages if we're going to continue to run these facilities.

So we're really faced with two choices: We either reduce their labor costs through the collective-bargaining process, or we see our membership declining even further because they're going to shut the machinery down. They just can't run it at the costs that they're faced with.

COMMISSIONER LANE: Okay, thank you.

Mr. Suwyn, I have a question, I think I remember from the conference, that the Respondents made the argument: Because NewPage was bought by Serbius, that Serbius was going to buy NewPage and then sell it.

Could you provide for me, probably post-hearing, what the experience has been of Serbius's investments when they bought companies as to whether or not they hold them, or whether or not they sell them?

MR. SUWYN: We can give you some factual data post-hearing. I would simply say that their tendency is not to buy and run, as to buy and sell. They don't tend to flip companies. But we can give you some factual data.

COMMISSIONER LANE: Okay, thank you.

Mr. Chairman, I'll ask it on my next round.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman. I, too, want to express my appreciation to the witnesses for coming today and presenting their testimony.

Mr. LaCosse, you stated that there has been a loss of capacity of $500,000, I think, at times in recent years in the industry's capacity. Our data does not show such declines in capacity like this. So I wanted to know what might explain this discrepancy?

MR. LaCOSSE: All I can tell you is that this is the information we received from our research department from within our union.

I do know that we have, through a combined number of reasons, seen our rolls drop by 60,000 members in the past few years. We can certainly answer that in a brief, as to how we came about getting that information.

COMMISSIONER WILLIAMSON: Thank you. We've talked about the decline in employment as a sign of injury. I was also wondering how much the decline in employment may be related to the retirement of older, less efficient equipment that required more labor to operate it? You are a industry witness, Mr. Suwyn?

MR. SUWYN: I think, from my understanding, the pressure to bring down the employment in this industry is directly related, over the period of investigation, to the intensive import pressure.

That's what we've heard over and over again in talking to industry witnesses. And from touring these facilities, we've seen that any ability to keep going on and doing business with a full work force has really been cut back by the fact that every ounce of savings has to be achieved in order to stay in this business.

So I'm not sure those two instances are really that different from one another. What you have is a situation where you've got to cut costs; and you've got to cut employees in order to try to remain competitive and stay in this game.

MR. TYRONE: It is inarguably true that when we shut down a facility, we shut down our least efficient, or lease productive piece of equipment. So that would probably also mean that we would have more labor on that piece of equipment.

It's also undeniably true that were it not for the level of imports, with the subsidized and dumping product coming in, all seven, No. 7 in the Loop, albeit the least-productive pieces of equipment that we had would be running today.

COMMISSIONER WILLIAMSON: Okay. The reason I had asked the question was because I know there has been an increase in labor productivity over the last couple of years, so I wanted to know how that related to the process?

MR. SUWYN: I might just add that a lot of it ends up being the choice you have to make.

If you're in a situation where you don't have the ability to take prices up at the rate that inflation is going up, and you have to cover that, then everything you do has to be to drive costs down in order to be able to survive.

If you're in a situation where other people are having to react to the same inflation pressures that you are, then you have the ability, in some cases, as you speed that machine up, to make more, and being able to sell more, and then you keep the people.

But if all your effort has to be is to drive that cost down no matter what, then you tend to put your investments in things that drive costs down, as opposed to getting costs down by being able to sell more. And that option, quite frankly, hasn't been around for quite a few years because the imports are growing at a rate, and a price, that doesn't allow you to do that.

COMMISSIONER WILLIAMSON: Thank you.

MR. BUTTON: Commissioner, it would be ironic, in this particular industry, to have a situation where the industry's success, so to speak, in reducing factory overhead per ton, and reducing labor per ton, were held against it as we do with the price-suppression situation.

Whereas, in a situation, which I described in my testimony, is held relatively flat, but it wasn't that way without a lot of effort by the domestic industry, and a lot of sacrifice on behalf of the workers.

So, as to the raw materials, if I might refer you to Exhibit 5 that you have with you I believe, you'll see that raw-material costs have been going out, and direct labor down, and factory overhead down.

Now, the traditional cases in which I have been participating here at the Commission, is that you don't typically see that. You see all the costs going up. So when you ask the question: How much should prices go up? the industry is reduced, through its cost-containment efforts, how much it has to go up? But it still needs to go up to a point where they can get a financial return to stay in business.

So, even though they have a positive-operating margin, as we see here of just over 3 percent, four of the companies of the ten are still having operating losses. I know you take the industry as you find it, but remember that's part of the background.

The amount of price increase that would be required is the amount that lets them cover those costs, and also cover the cost of financing the permitted reductions in labor and overhead costs they're restructuring that have had some of the beneficial costs that we've seen.

COMMISSIONER WILLIAMSON: Thank you for that explanation. Let me turn to you, Mr. Button. On page 27 of the industry brief, there's a claim that the debt financing was required to keep numerous paper mills in operation, and therefore the Commission should attach particular relevance to the net income measure of the U.S. industry's financial performance. And I was wondering if you could identify prior cases where the Commission has focused especially on net income, and whether those circumstances were similar to the present case.

MR. BUTTON: I'll be happy to do that in the post-brief if I might. I don't have the research available with me here.

COMMISSIONER WILLIAMSON: Thank you. This is also one, what is the typical business cycle for this industry? Is there a different cycle for the demand for paper and, say, for a capital investment, and where are we in the cycle?

MR. BUTTON: Well, I'll just describe it quite generally and then let the industry members here speak perhaps more authoritatively. The overall belief here is that the demand for the products generally follows that of the economy as whole, for advertising, magazines, a variety of things. Such as that is, you've seen historically the dot-com bust, the 9/11 attacks and all of that, had effects on the demand levels.

At this time, the demand is in a recovery stage, so it is cycling up. From the industry's perspective, then this would be a period in which it certainly would hope that it would be having healthy financial returns as it gets ready for the inevitable future, rainy day if the cycle trends down. But the industry members more specifically deal with their products.

MR. TYRONE: I think that's a very accurate description of the cycles that we see. They're not phases of the moon. They are absolutely tied to the economy. And to dramatize the kinds of changes that we can see, back before the dot-com bubble burst, there were magazines that were effectively the size of telephone books. Some of those are effectively the size of Cliff Notes today, and we see those kinds of cycles largely tied to the economy.

COMMISSIONER WILLIAMSON: What about in terms of --

MR. BUTTON: I'm sorry. Just to make a quick thing and ask the industry to comment, there has been some suggestion by some that the rise of the internet did itself cause a reduction in the amount of demand for the product, so I think the industry, however, has some comments as to why that's not really the case.

MR. SUWYN: Just to comment that in this particular industry segment, obviously not the case right now in newspapers, but in our particular part of the industry, the internet is proving to be our friend. It is very synergistic with the markets that we serve, and the reason is that as people get more and more sophisticated, the retailers do, in terms of what you like, what color of sweaters you tend to buy, et cetera, they now need to get to you to tell you hey, I've got one of those, and the problem is there's no way to get your attention.

They can't get you on TV anymore because you keep flipping channels on two or three hundred. They can't call your home anymore. We are all so busy, we don't stop and look, wander through stores very much, near as much as we used to. The best way to get your attention is your mailbox, and that's why you've seen in the last several years the mailbox, in terms of catalogs and direct mail and other things, going up.

Now you've got the challenge, you're the retailer, you're trying to get your attention, you're walking back from the mailbox, and you're already either literally or mentally deciding what to throw away without looking at it. And if it's kind of a low quality printing, if it's on copier paper, et cetera, that's going in the trash without you even looking at it, because you've got to much in your hands.

But if it's a beautiful, shiny, very high quality picture that captures your eye that's got that sweater in the color that you want, there's a chance you're going to look at that, and what the catalogers tell us is that most of the decisions to -- that are made upon the catalog and then ordered on the internet.

COMMISSIONER WILLIAMSON: I think I've got your point. I'm sorry --

MR. SUWYN: And so as a result, our direct mail catalogs and other things are growing very well.

COMMISSIONER WILLIAMSON: Thank you. I'll come back to you about the question about the cycle for investment. Thank you.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I'd like to join my colleagues in thanking the panel for appearing today and for providing testimony, and I'd like to start with Mr. Suwyn, and ask you a question that I believe was not asked in the context of the discussion of web rolls versus sheet, but it relates to that discussion, and that is, how difficult is it from a producer's point of view to shift from sheet production to web roll production?

MR. SUWYN: Very modest. Generally what you're doing is you're trying to make the sheeter roll that's going to be made into sheets with a little bit different texture, because it now has to go through the printing press in a different way than the web does, but that change is very simple, very easily done, and so I can go from one to the other very simply on my production machine.

In addition, as I think was indicated, the quality of all rolls has gotten to be so high that there are customers who take our web rolls and sheet them, and they can do that. The difference is that if it's a web roll and it was sold as such, and they run into a problem in their sheet press that it doesn't run too well, that's not my problem. If they buy a sheeter roll and sheet it and run it through there, they are on the phone to me right away saying, hey, what are you selling me?

So, but people, quite frankly, do that all the time, and the reason is, the differences between the two are modest. It's mainly the surface that you put on the paper, but the basic paper and the basic ingredients and everything else are the same.

COMMISSIONER PINKERT: Now, turning to the brief that was filed by NewPage, it is stated there that the domestic industry's restructuring has been accomplished to a significant degree through debt financing, and I believe we've heard that today as well. Are all of the domestic producers of this merchandise carrying a heavy debt load, or is that limited to certain producers, to your knowledge?

MR. SUWYN: Well, I don't, quite frankly, have up to speed in terms of everyone. I can tell you that Verso, recently purchased by Apollo, carries a very significant debt load. We have reduced our debt load rather dramatically since we purchased it, although we will significantly take on additional debt to purchase the Stora facilities. I don't, quite frankly, I don't have a good visibility in terms of Sappi or everybody else's capitalization, but certainly the case of Verso and ourselves, we're fairly highly leveraged.

COMMISSIONER PINKERT: Mr. Button?

MR. BUTTON: Thank you. Based on the confidential record, we'd be happy to put together a response to that question for the brief.

COMMISSIONER PINKERT: Let's stay with Mr. Button for a second here. In your judgment, how does the debt load, the debt burden, affect the operations of the domestic industry and the market for this product in the United States?

MR. BUTTON: Debt is a form of finance. You can choose equity or debt. In the situation of an industry that is under a lot of pressure, for example, price pressure from subject imports, you maybe having real trouble finding equity investors who want to walk into a situation of that kind of high risk. For those who credit, those who can provide debt, it's a more likely source that you're going to find it.

This market, it needed to restructure and it needed capital to do it. Therefore, it didn't have a lot of places it could go. So it did go to the debt market to provide capital that can be used for the restructuring. So it became a critical part of the industry, and it's what I've described as kind of a survival plan, or just the way it actually did occur. Therefore, there is then a cost of finance that they have to pay, and it is part of their cost of capital, and it has to be paid through adequate prices.

So it affects the market in a couple of ways. One, the provision of the debt permits the domestic producers to continue to expand, improve their pricing, and restructure their capacities. That's a very good important part, but also it is indeed a cost that has to be paid back, and it's a real cost that can't be ignored.

MR. KAPLAN: If I could just add, a lot of the standard names in the paper industry are not in this industry anymore because the competition to manufacture this product in the face of the increasing imports has been so large, you look at the possibility of a reasonable rate of return on their equity investments, and a lot of the standard names in paper that are known in this country for a long time are out of this industry because it's just unattractive.

It's just, who wants to make paper when you see millions of tons coming on board in China, Indonesia and Korea. Why bother? Do something else.

Distribute boxes of pencils or something. Whatever you're going to do, but let's not try to make something. These guys went out into the debt market as best they could, borrowed money, tried to stay in this industry, and I think they should be rewarded for it.

COMMISSIONER PINKERT: Now, Mr. Suwyn, we heard from Mr. Button a minute ago about the direct impact of the debt on the costs of the company. Are there any indirect impacts? In other words, are costs increased indirectly because of the highly leveraged position of the company?

MR. SUWYN: Obviously, I have an interest bill to pay, and so that's why we've worked very hard in the two and a half years to take our debt from about 1.85 down to, we'll be way below 1.4 by the end of the year. So we've taken that debt down, and the reason we do that is because it reduces our interest expense. It's a regular cost of doing business.

At the time that we took our debt, debt tends to be less expensive from a capitalization standpoint than equity, and so it allowed us to be able to buy that without putting up all kinds of equity that expects an extraordinarily high return. So it was financially the right way to approach that.

Recognize that MeadWestvaco didn't sell these facilities because they were thrilled with them.

Stora is not selling their North American facilities because it's a star. To Gil's point, it's a very difficult market. The challenge is how fast can you work, how much change can you make, how fast can you take cost down, et cetera, and rationalize capacity, and we're doing all of that stuff to in fact make this as successful as we can be, but we are fighting an uphill battle because of the fact that the illegal imports are becoming such a major factor in setting the price of the product across the country, regardless of what's happening to the inflation rate.

So, it's a factor. I don't see it as an onerous fact. Obviously, no bank's -- certainly not today, maybe a couple years ago, but no bank's going to go out and loan us money if they don't think we have the ability to pay it back, so it's not as if we're stretching ourselves beyond what is reasonable.

COMMISSIONER PINKERT: Does the debt financing have an impact on the target capacity utilization for your company?

MR. SUWYN: No, the tradeoff you have to run, and we do this almost monthly, or certainly quarterly, is that you make the judgment, should I invest $10 million in another piece of equipment or an upgraded piece of equipment to get more productivity, or should I pay down $10 million worth of debt. So those are real live changes and discussions we have to make, and we've been doing that.

The facts are, though, that we have actually made more capital investments per year since we took over the company than MeadWestvaco was making in it because we have to invest money to keep driving the cost down, and the tradeoff is, if I can make an investment here that has a 25 percent return, then I'll be able to pay more debt down next year and the year after after that because of the return I am getting on it.

But those are choices we make every day in terms of how fast can you invest money to take costs down versus how fast can you pay debt off, and that's just a normal part of doing business, but we've actually increased the amount of capital investment in order to drive cost down, rather than stopped all capital investment in order to pay debt down. We don't feel, at this level, for example, my debt in my view is not onerous.

I don't stay up at night wondering what I'm going to do with that, because it's coming down at a very study pace. On the other hand, to make it very clear, my owners are not thrilled with the return because the returns are still very puny, but at least I am reducing that debt.

COMMISSIONER PINKERT: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN PINKERT: Sappi has closed a couple paper machines, one in 2004 and the other 2005, so more or less contemporaneous with some of the other closures that we've discussed here today. In their comments, when they made those closures, and I confess here I'm quoting from the Respondents' brief rather than having gone back to the source documents, but in conjunction with the Westbrook PM number 14 closure, which was in 2004, Sappi reported that this mill was built in 1920, that it was outdated and it was the highest cost mill that the firm had, and it transferred the production of that mill to the mill in Muskegon.

And then, in regard to the 2005 closure of the Muskegon paper machine number 4, Sappi reported that that plant had been built in 1924 and 'is simply not able to compete with more modern, cost-efficient machines in the U.S. and other countries.' So in these statements, Sappi is not emphasizing competition from imports. It makes a reference to cost-efficient machines from other countries, but only in the context where they give first mention to more cost-efficient machines from the United States.

So as I read these comments, Sappi doesn't seem to be looking at the subject imports and finding them to be a problem that is worthy of mentioning as they have had to close plants. Can you comment on that, please? Why would Sappi see the world differently than the firms in front of us apparently do?

MR. KAPLAN: One thing I'd like to do which I can't do in the public session is refer to some other statements from Sappi that are in other places in the record. I think that's not the entire picture of what Sappi said, but I'm going to have to do that in the post-conference brief because some of that comes from confidential sources, which are in our brief.

CHAIRMAN PEARSON: Okay, that's fine. Please do that in the post-hearing. Does anyone -- for the record, Mr. --

MR. SUWYN: I would just simply, because I'll let him provide the official, real quotes, but Mr. van As, who is the chairman and CEO of Sappi until very recently is quite in the public press about the fact that prices are horrible, do not respond to inflation, that they need to go up dramatically, and I have heard him talk about the role of imports in North America here that results in that.

So he is as knowledgeable and understanding of this dynamic as anyone. Now, what he commented in terms of why he shut his machines down, I can't comment. That's obviously something that's within his own decision-making, so I don't know. My comments in terms of -- that I stated of the marketplace here are very clear.

MR. GALLAGHER: Commissioner Pearson, if I might?

CHAIRMAN PEARSON: Yes, please.

MR. GALLAGHER: The age of the machines or the age of a facility is not the determining factor on whether or not it can be cost-competitive. The investment or reinvestment in the facility and what you are able to do in it -- our facility probably is the oldest one that any of the mills here represent. Maybe Mr. Needham's might be a little older, but we were originally built in the 1800s.

The fact is that in the last 10 years, we had new owner ship who elected to put some money into the facility. We've worked hard on the cost side of the equation that Mr. Suwyn talked about, and that's enabled us to make that facility be cost-competitive on the web side of the business. But we had to make enough money, and being that we are privately owned, we have to make enough money to get a return to justify being able to make those investments.

Without that, then we can't reinvest, and ultimately become uncompetitive and go out of business.

MR. JONES: Chairman Pearson, may I just add for the record that --

CHAIRMAN PEARSON: Mr. Jones, yes?

MR. JONES: -- on page 73 of our prehearing brief in table 14, we list the mills that have been certified, the workers and the mills and the companies, certified for trade adjustment assistance, and two of the Sappi mills have been certified for trade adjustment assistance, thereby attributing the closure of the mill to import competition.

CHAIRMAN PEARSON: Yes, but I can certainly understand pressures on a firm if they are going to close a mill to try to get trade adjustment assistance if possible, because they want to do everything they can for the workers, and so I appreciate what you are saying, but still, they were not leading with that as an issue for why they were closing the mills in their public statement.

MR. NEEDHAM: We probably are the oldest mill here. We were one of the inventors of coated free paper. By Champion, I mean Champion International was. They invested in this mill year after year because it was the founding site. We bought the mill. It was in very good shape. We do have several major projects in the planning on looking ahead in energy and other areas, and it really is your business plan, and our business plan is specialty papers. We constantly look at where we can be unique and special in this market.

So I would suggest, and I don't know Sappi's business plan, but I think it's their business plan, what particular segment of the market they are looking at that causes them to make those comments.

CHAIRMAN PEARSON: Okay, and going back to what you were saying, Mr. Gallagher, it is correct to understand that these machines are amenable to major rebuilds, correct, such that if you are willing to go in and spend quite a few million dollars on them, you can bring them up to current standards basically, and then they have an effective lifetime measured in decades?

MR. GALLAGHER: That's correct, yes.

CHAIRMAN PEARSON: [****]

MR. SUWYN: Let me just, without going into he said/she said, et cetera, I personally solicited support from every producer, and the predominant rationale for not supporting was that they had significant operations or growing operations in China, and therefore were concerned that they would be retaliated against if they signed on and were supportive of this action, and that was basically the direct feedback I had from the CEOs of the companies that I talked to, in each case, for a little different facility they have over there.

And so that was by far the primary reason that I was given when I personally solicited them.

MR. KAPLAN: And I've talked to a lot of people about this kind of question, and I have heard on a regular basis concern about financial retaliation in China. And I say that in all sincerity, that companies, you know, China's a big market and companies have different kinds of business opportunities there, some of them directly in paper, some of them by investors in other areas, and they are very, very concerned about retaliation.

CHAIRMAN PEARSON: Okay. Thank you for those comments. That was the issue I wanted to get to and I apologize for getting to it so clumsily. My light is changing.

Vice Chairman Aranoff?

VICE CHAIRMAN ARANOFF: Mr. Needham, I want to follow up with you on a comment that you made during my first round of questioning that I didn't have a chance to get back to. You mentioned that there was a mill in New York that had restarted after three years of a paper machine or machines being out of operation, and I've checked with our staff and they tell me that they are not aware of who this producer might be or whether this event is covered in our questionnaire data.

Is there any information that you can provide?

MR. NEEDHAM: The name of the company is Newton Falls. I'm not sure of the last name, but it's in Newton Falls, New York, near Watertown, and it is up and running, and I know from customers that it is selling product today. It was owned at one time by Appleton Coated and I believe by Sappi.

MR. KAPLAN: And if I might add, Commissioner Aranoff, they have said in their statements as to why they are able to come back on line that the preliminary determinations in this case have been a big factor in their decision to do that.

VICE CHAIRMAN ARANOFF: Okay, well, I think it would be helpful to us, obviously, to have as much information about this company as we can, contact information for our staff so they can pursue it. It would be good to know what the capacity of these machines are and precisely when they came back on line. And are you aware, is this a company that produces principally this product, coated free sheet, or have they been producing something else?

MR. NEEDHAM: I'm not sure, Commissioner. We can try to find that out.

VICE CHAIRMAN ARANOFF: Okay. All right, I appreciate that. Anything that you can do to follow up would be helpful. I want to ask a number of questions that go to some of the attenuated competition arguments that have been raised in this case, and first let me ask, one of the allegations I read in some of the Respondents' brief is that NewPage has refused to supply particular distributors with coated free sheet.

Is that true, and are you aware of any other domestic producers who may have chosen not to supply particular distributors despite having supply available?

MR. TYRONE: Well, we make choices. We sell, roughly 50 percent of what we sell we sell through paper merchants, and we make choices of how many merchants do we need within a geography to adequately represent our product. You can have too few and you can have too many, because if you have too many then the paper merchants don't believe that they get the adequate representation from your sales force, adequate representation from your technical field service organization. They don't believe that they have something special to sell.

So we make all sorts of decisions about which merchants does it make sense for us to go to market with within different geographies. So at any one point in time, we may very well be making a decision not to do business with a certain merchant. It has not been because we have not had paper available, and as I mentioned in my testimony, we are currently underutilizing our coated free sheet sheets capacity, and have made offers to merchants to extend and expand our coated free sheet relationship with them.

VICE CHAIRMAN ARANOFF: So if I understand you then, a distributor or merchant in a particular geographic area might come to you and say, you know, do you want to bid on my business and you might say, you know, no, because we already have three distributors in your area and we think it's in our long-term interest in terms of pricing and service, even though we could sell more now and we have product to sell, that we're not going to do it?

MR. TYRONE: Yes, that's exactly the case.

VICE CHAIRMAN ARANOFF: Okay, and do you also restrict the geographic region in which these distributors with whom you do do business can resell the product?

MR. TYRONE: We don't have firm agreements in that regard. We do try to provide areas of understanding where we will provide technical field service and so forth in terms of where someone can sell it, but we are not in a position to limit someone being able to resell the product.

VICE CHAIRMAN ARANOFF: Okay. Are you aware whether your practices in terms of how you decide what distributors you are going to have in a particular area, is that common in the industry or unique to your company?

MR. TYRONE: My understanding from talking to our customers is that our approach is similar to how other mills go about making their decisions. They may reach different decisions. They may decide that they want more merchants to represent them or fewer merchants to represent them, but they make a determination such as that.

MR. GALLAGHER: And if I can add to that, that's exactly how we do. We make those decisions the same way.

VICE CHAIRMAN ARANOFF: So even at a point where you're looking at financial returns that you might not view as adequate, you would prefer to stick to that policy than to sell extra volume that might be available to you right at that moment?

MR. GALLAGHER: There's always a question of whether or not it's real extra volume. If you transfer business from A to B, it doesn't bring any value. Sometimes the only thing you can do is actually destroy the value of your product in the marketplace because you have too many dealerships, not unlike what you see with any other, like auto dealerships and things like that.

So it's a value judgment of whether or not you can really gain incremental business or if you're just moving it from one pocket to another.

VICE CHAIRMAN ARANOFF: Okay. Turning to a slightly different subject, there have been a number of allegations in this case regarding people being placed on allocation, and there are some references to hard versus soft allocation, and I know in your direct testimony, I think it was Mr. Suwyn, you testified that although you had proposed putting people on allocation, you hadn't actually done it.

Can you just explain to me what is a hard allocation, what is a soft allocation, when, if ever, have these things happened during the period that we are looking at?

MR. SUWYN: Actually, that was Mr. Tyrone and I will yield to him since he is the one that implements those sorts of things.

MR. TYRONE: The distinction between a hard allocation and a soft allocation, first let me just make clear what an allocation is. An allocation is a way to ensure that we maintain service levels and balance our machine capacity so that we can satisfy customer needs. Sometimes the paper industry goes through periods, typically very brief periods, where demand is quite high relative to capacity, and you just want to make sure you are avoiding a run on the back, if you will, in terms of certain customers being able to get amounts exceeding forecasts and other customers being held well short. So you are just trying to balance that ability to service the accounts.

Hard allocation, in our terminology, would be where we get very clear about what those forecasts are that we have with customers, and get clear with customers on what level of product we are going to be able to sell during this time period. Soft allocation is more a situation where we are anticipating perhaps we might need to go to a hard allocation, and we are just setting up the processes in case we do need to.

So we are clarifying the forecast. During the period of investigation, well, since 2004, we have had one what would be called a so-called hard allocation and it was relatively brief, during 2004 itself. It did not cover all of our coated free sheet, but it covered some of it. And again, that was done so that we could maintain service and balance our machine capacity and machine production.

In 2006, the early part of 2006, primarily because of the shutdown of the Pasadena Paper Company facility as a result of the dumped and illegally subsidized product, we put in place a soft allocation, never actually implemented the allocation itself.

MR. SUWYN: My comment, it's just basically dealing with human behavior, and that is that if things look like they might be getting a little tight, there can be a tendency to order two or three just to make sure I have the one I need, if they think that you are doing this on a first come, first serve basis. The value of putting out an allocation plan, even if you don't implement it, is then your key customers, the people that buy from you on a routine basis, have comfort that they will get what they need when they show up in May or June or July or whenever that tight period is.

And so that tends to reduce the anxiety and therefore you don't get this double or triple ordering that you can get sometimes.

VICE CHAIRMAN ARANOFF: All right. I guess I will have to come back to this in my next round. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman. Mr. Reindl, I wanted to start with you on just some further questions with regard to the market and the competition between the web rolls and sheets and sheeter rolls. You, when I was listening to your testimony, talked about the line, I think, becoming blurred, and then you talked about some specific instances where you saw direct competition in your business between a web roll and sheets, which demonstrate to you that there was direct competition between those two.

My first question, and I'm keeping in mind the other information that's on the record as well, is do you think, I mean, it sounds to me that you were saying, it didn't used to be that way, that there was a much more distinct market. Am I wrong in that?

MR. REINDL: I believe that the market was much more distinct years ago, and it goes much further than just the distinction of sheets versus roll. It appears in the years that we are speaking of now. It probably goes back to 2000 or just a shade after that. We used to have a determination in the industry where we had a grade structure being a number one sheet, two, three, et cetera.

It appears that with the papers that were being brought in from the subject countries that the grade structure was muddied to the point where what they claimed to be one grade, our producers in this country claimed it to be not that grade, and it's by the standards that the United States paper industry had set up for this grade structure, being it brightness, opacity, et cetera, for the building of the sheet.

All of a sudden, the merchants that handle this paper were creating sheets or indicating that their sheets were a grade that wasn't necessarily what we would, in the industry, have called that grade, because of the structure of the build. And I think that was part of the blurring, and that started way back, and that's continued into the ability of taking web roll and making it sheets and not differentiating or calling out what it really is.

COMMISSIONER OKUN: Okay, and again, I just want to make sure, and I know you respond to the question it's about the competition, but it was my understanding when we did our tour of NewPage that if you are going to have a web roll versus a sheeter roll, there are differences in the composition, in other words, how much of a particular type of wood runs in there, but that some of those distinctions relate to heat treatment and moisture content.

I guess so my question is, would a customer still care about that, I mean, if they are doing -- and I, by the way, am a very good customer for whatever your marketing is, because I get every catalog, okay?

MR. REINDL: Thank you.

COMMISSIONER OKUN: I still get the large ones, okay, and this one with this very cool thing on the front and then these, okay? Is there anything about these that previously or now would relate to the sheet versus web roll? I mean, can you do the really high end, very thick, heavy catalogs on web rolls, same content, same everything, or not?

MR. REINDL: The printing technology, both in the web world as well as sheet world has improved immensely. We can print a job on a sheet-fed and match that job on a web press. Yes, they may have a different composition, but the composition mainly, from our standpoint in the sheet world, is the moisture content of the sheet, and the mill does have restrictions on what they will stand behind, which we are well aware of, before we would ever use a web roll in the sheet process.

From the caliber of the paper and the print quality, there are some limitations on web, but those are all things, if you are running enough of it, you can design your machine to run much heavier papers, and that is being done.

COMMISSIONER OKUN: Okay, and Mr. Needham, I don't know if you would have any comments on that. As

I understand, you have kind of a special process, and I'm not sure if that relates at all to something that might be able to be -- the web roll could now be a sheet or not.

MR. NEEDHAM: I will tell you, 30 percent of our products are web, 70 percent are sheets. If you called us today and you asked for a web or a sheet, it would make zero difference to us. We'd be happy to make either one for you, and we do it all day long.

COMMISSIONER OKUN: But how about from the other side, from the customer's perspective? In other words, if they're printing, and I'm not sure that these are good examples, but if you're printing this versus this, would you call and say, I want a sheet roll because I want X moisture content? Because of what I'm going to do, I'm going to stick some cool thing on the front of it or -- this whole thing, right, is this, right --

MR. NEEDHAM: We would know from the -- we would ask the customer specifically what the application was and then we would recommend -- we would tell them we will make some special adjustments to the paper, but it is not material to how we would make them paper. It is really, we're indifferent to the two processes, because we have our specialty, and so that's our niche in the world.

COMMISSIONER OKUN: Okay, and obviously we'll have the Respondents' panel this afternoon to ask them, but I guess it's just curious to me then why we see imports the way we do why they focused on sheets and not on web rolls and trying to understand the transportation cost, because I know you all have said, I think, that it's more efficient to ship the rolls.

You know, they are shipping by containers from overseas. Is it better to ship the sheets then, and then once they get here it's not as efficient, because I find it odd if it's the same, why the industry would have evolved that way. So maybe someone can help me just on that.

MR. NEEDHAM: I'll turn this over to Mr. Tyrone, but I would say that in the label world, it is, for our world of labels, it was predominantly web, but I can't address the shipping.

COMMISSIONER OKUN: Okay. Mr. Tyrone?

MR. TYRONE: It comes as a surprise to us that coated free sheet sheets would be the first place that subject countries and companies would go to, because it's a higher value-add product, and it's a higher price product. It's also a higher margin product for the domestic mills, so their entry is into the portion of the market which provides a disproportionately high level of profitability for us, and also gives them an opportunity to price it significantly lower than the domestic mills do.

So they are trying to offer that price bargain as a way of doing that. So that's, first and foremost, that's where we would see that that would be the reason that they would go for sheets first. Now, when you look at 3 million tons of additional capacity coming on line in China, that's not going to come over here and come in sheet form because it's going to take all of the sheets.

It will necessarily and naturally move into the web from that point forward.

COMMISSIONER OKUN: Mr. Button?

MR. BUTTON: Earlier there were references to the attenuation argument that the Respondents will be making. One of the reasons that their entrance into the sheet sector perhaps is not at all attenuated, perhaps having a sharper impact, is because the injury to the domestic industry from losing a ton of sheet sales is greater than the injury coming from losing a ton of web sales, because the sheet is at a higher price and a higher margin product.

So that if they lose sales there or their prices are cut there, the domestic industry is injured disproportionately more.

COMMISSIONER OKUN: Right. Again, and I'm just trying to understand that in terms of what that means in the market where the companies, without getting into any confidential information, primarily the domestic market looking at web rolls. And so yes, I can understand you have a higher end as it saying, there are only so many customers who really want this higher end sheet, and so, in your view, the subject imports came in to attack your higher end customers, versus the other part of the argument to me which is, you seem to be saying, no, it's really just all the same stuff and it's all the same -- that's what I'm trying to understand.

Was it really a higher margin because sheets are specialized, which I would understand why they would have a higher margin or a higher price.

MR. BUTTON: One of the economic matters that has evolved over time has to do with the -- it is very important for the domestic industry to retain its sheet sales because its high margin contributes that, but there also is an importance of being able to compete with and continue to provide web as well. If you have suppression of sheet and you find the prices close, you're going to have web being more competitive.

And for the domestic industry, they have now to compete not only against the currently arriving sheet, but they do anticipate -- the sheet is the past, the prologue is the web coming on line. That's where they would go next. The technology for printers has permitted the printers to be increasingly directed in what they purchase by the economics. To the degree they have increasing flexibility, then that makes the imported web all that much more attractive.

COMMISSIONER OKUN: Imported web or imported sheet?

MR. BUTTON: Towards the imported web. That makes the web then able to come in and enter that market as well. And it also --

COMMISSIONER OKUN: Okay. Well, I wanted to turn to the non-subjects and how they play in here, but I see my yellow light is on, so I will do that in another round. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: I don't get as many catalogs as Commissioner Okun. I'm a little concerned here. I go straight to the internet and buy, but okay. Let's go to, I think it must have been Mr. Kaplan. In your prepared testimony, you put up a chart showing capital expenditures lagging far behind depreciation. You also make the point in the prehearing brief that capital expenditures have fallen steeply from 2004 to 2006.

Is the relationship that you show between capital expenditures and depreciation unusual for this industry? In other words, when an industry is highly capital intensive and has invested in large machines that are very expensive, wouldn't we expect to see high levels of spending in some years and then significantly lower spending for an extended period of time as the newer machinery is being depreciated in the early years of its life?

MR. SUWYN: I'll take that for Mr. Kaplan. Historically, you have a certain level of capital expenditure that you ought to be monitoring and targeting on an ongoing basis in order to keep your facilities modern, repaired, and not let them deteriorate on you, and for several decades, the paper industry in general, and I won't comment on specifically coated paper -- I don't have that data -- but we're putting in capital at or above the rate of depreciation.

And the reason is that most of these machines are kind of destructive, so as you run and you've got caustic going through it, et cetera, you are eroding tubes, you are doing things, you have to put new pumps in and stuff like that, and so your capital expenditures stay up at a certain level. In addition, if you've got a 200-year-old mill and you want it to be modern, you have to keep putting in new pieces of equipment and new shoe press and different things to keep it modernized and improve its cost position.

And so when you get to the point, though, when you are now no longer putting in significant capital, then you either have to believe that you are going to have some wonderful economics somewhere down the road that allow you to have the money to put a big chunk in at some point in time, or you are just quite frankly decapitalizing your operation and you are going to be just shutting things down on an ongoing basis.

My observations are, the way that this plays out in reality is you begin to select the machines that are your best machines. You keep investing in them to keep driving down cost, and then you get to the point where we were in Luke 7 and shut it down. And so the net result of that is you are slowly going out of business when you do that.

COMMISSIONER LANE: Can you discuss whether we are seeing the effect of depreciation on new equipment that has been recently added rather than an industry that is cannibalizing its asset base, as you represented in your chart?

MR. SUWYN: By belief is it's cannibalizing its asset base, and the reason is that when you do this, you tend to put in maybe 2, 3 percent of your equipment at any given point in time. Now, if you ever get to the point where you put a new machine in and there haven't been any new machines for a long time, yes, then all of a sudden you've got a 5 or $600 million bump.

There haven't been any of those bumps for a long time. Generally speaking, at our mills, we are putting in somewhere in the order of 20 to $30 million per mill, and that, versus the total capitalization, doesn't materially change the depreciation. So it's not like the depreciation goes up and down significantly year over year, because you are not adding enough new capital on a percent basis to materially change that.

So if you are just slowly going down way below depreciation, then you are underinvesting and you are basically slowly going out of business.

COMMISSIONER LANE: Dr. Button, do you want to add to that, because I have a question for you too.

MR. BUTTON: Yes, ma'am, to a certain degree, the depreciation fact is under-stated. To the extent that some of the assets have been re-valued over time, the book values have declined; or the base against which the depreciation is charged has been reduced. Had those not occurred, you might have a bit higher depreciation than we see here.

COMMISSIONER LANE: Okay, Dr. Button, you referenced a slide showing net income losses through the period of investigation. I think you were making the point that interest costs are reflected in net income, not in net operating income.

However, the net income you showed on your chart also include other non-operating costs, including non-recurrent costs related to write down of goodwill and restructuring costs.

I think it would be a more meaningful exercise to determine the extent to which the industry is able to cover its interest expense. To focus on your interest coverage rather than net income, could you provide an exhibit showing the net operating income, less interest expense each year, the resulting ratio to net revenue, and the resulting interest coverage percentage?

MR. BUTTON: I'd be happy to do so. I note that earlier there was a question with respect to the debt levels by company. Perhaps we can combine those into one comprehensive answer.

COMMISSIONER LANE: Okay, on the subject of interest coverage, debt indentures normally require some minimum level of interest coverage. Do any of the debt agreements that your companies have contain any minimum interest coverage targets, and if so, what happens if you go into technical default by not meeting coverage requirements?

MR. BUTTON: We have a number of covenants that actually evolve over the years of the debt that have minimum interest coverage, evaduct (ph) coverage. They have restrictions in terms of what you can do with cash, et cetera. So those exist.

If you go into technical default, generally speaking, we have never done that, so I'm not speaking from experience. But generally speaking, if you do that, you'll have to go back to your lenders and negotiate a change in that covenant. That's usually going to cost you some additional money. But that's the usual procedure. But fortunately, we have not experienced that, so I can't speak from personal experience.

COMMISSIONER LANE: Okay, I want to go back to a question that Vice Chairman Aranoff talked about. That is restricting the number of distributors for your product in certain regions. So what is your strategy for increasing your market share of your product, if you start limiting the number of distributors for your products?

MR. GALLAGHER: From our perspective, we work with the existing distribution, and our sales people and their people, in understanding the market, knowing the landscape, developing target accounts and calling on those accounts to determine what they value, and determine if we have something of value that we can bring to them.

For the most part, there's not hidden geographies out there where we desire to have coverage, in our case, that we don't have coverage. So it's not like you can go pick up a new geography. It's basically deeper penetration with existing markets.

COMMISSIONER LANE: Okay, well, I'm having a hard time understanding this concept. Let's say you've got three distributors in a certain area, and they're taking "x" amount of product. Then you've got this fourth distributor that you don't sell to, who wants your product, and you say, no, I've already got too many.

So in order to increase your sales in that area, you've got to convince your three distributors that you already do business with to go out and take away the business that this fourth distributor might have?

MR. GALLAGHER: Remember, it's an indirect channel. So what they're doing is, they're re-selling the product to printers. So yes, what we've got to do is work with them to gain business they don't have; because all of them have different type shares of the market. So, in essence, you're going out trying to gain business that neither one of you have.

COMMISSIONER LANE: Okay, now I have one more real quick question. This issue about some of the product not being shipped to the West Coast -- is that a really big issue, or is it something that has just been thrown up to confuse us?

MR. GALLAGHER: Being that we're located in the west, we wish it were a true statement.

Unfortunately, from what we have to compete with, with those mills every day, now there's plenty of paper in the West Coast.

COMMISSIONER LANE: Okay, Mr. Tyrone?

MR. TYRONE: Yes, we sell product on the West Coast, day in and day out. We would be happy to sell more product on the West Coast. It's a misstatement of history to say that the subject imports replaced the domestic producers as they vacated the West Coast. What actually happened is, with the use of the illegal trade practices, they shoved us off the West Coast.

COMMISSIONER LANE: Okay, thank you; thank you, Mr. Chairman.

THE COURT: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman.

Mr. Kaplan, for post-hearing, the trends in the price of three sold directly to end users appears anomalous. I wonder what explains this trend?

MR. KAPLAN: I'd be happy to look into that, Commissioner.

COMMISSIONER WILLIAMSON: Okay, thank you; if Commerce affirms its preliminary determination, the majority of imports from Korea over the period of investigation would be non-subject products. How should the Commission distinguish between the volume price effects and the impact of imports of subject versus non-subject coated free sheet paper?

MR. KAPLAN: Well, I think that, too, probably we ought to look at the confidential record. Because there's information there which I think is very important to elucidate that, in terms of the effect of the subject and non-subject and how to look at that. But I think it's difficult to talk about that publicly. So I'd like to address that in the post-conference brief.

COMMISSIONER WILLIAMSON: Okay, thank you; the non-subject imports of CFS play a large role in the U.S. market, as the staff report indicates on page 415. Please discuss the decline in these imports during the 2004/2006 period, concurrent with the increase in subject imports. So what's the relationship there?

MR. KAPLAN: Well, I think we've seen a major decline, for example, in Canada and from other sources, as the subject imports have been at such low prices. It's been very, very difficult for other suppliers to stay in this market. In a general sense, that's what has happened.

Canada used to be a very large supplier in this market, and has really been harmed equally by the subject imports and the effect they've had on prices. Maybe Mr. Tyrone would like to comment.

MR. BUTTON: This is Ken Button. If I might note, there's been the suggestion by the Respondents that sales lost by the non-subject imports to the subject imports have no negative effect on the domestic industry. I believe that's not the case.

The way that the subject imports take sales away from the non-subject imports has been that they undersell them, and that has a price impressive or suppressive effect throughout the market, which does directly then affect the domestic producers, as well.

MR. TYRONE: I might also add, I think, without looking at the specific data that says exactly where that loss of non-subject imports is coming from, it's also been a current effect, which is what gives us the confidence that if the order is imposed and the imports reduced, that it will, in fact, be the domestic producer that benefits from that reduction of imports.

COMMISSIONER WILLIAMSON: Thank you; I was wondering if you could discuss the increase in subject imports during the 2004/2006 period, as indicated in the staff report, concurrent with the increase in selling prices for U.S. producers that we also see in the staff report; Mr. Button?

MR. BUTTON: I've commented in a couple of junctures with respect to what you see in the rising prices of the domestic industry. The context in which I framed my comments in the past is, we're dealing here with price suppression of the increases that you have seen, for example, in 2005 to 2006 and 2006 to 2007, that have been meager, at best. Although those are, in fact, increases, and the industry certainly welcomes that, they are insufficient to permit the industry to have an adequate profitability.

I would also emphasize that the Commission, had it not been for the industry's success in improving labor productivity and reducing other factor costs, would be looking at data which would show a traditional cost price squeeze; a tradition that you might perhaps be more comfortable with, in the sense of seeing it very frequently. Then here, you would have the cogs going up substantially more than the case of the prices.

The situation for this industry is somewhat usual, in that you're starting with an industry in a financial hole. The prices need to come up not only to deal with the increases in various costs but also to permit them now to have a turn on capital that, among other things, is to pay their debt as well as their equity holders sufficiently to keep these assets in the business.

COMMISSIONER WILLIAMSON: Okay, thank you; in talking about costs, in the industry's pre-hearing brief, you note that the domestic industry's raw material costs, which is principally wood pulp, have increased 14 percent over the period of investigation. What is the short and long-term outlook for these costs; and what, if anything, is the industry doing to contain these costs?

MR. BUTTON: Perhaps that is something the industry members can talk about, in terms of their cost containment efforts in raw materials.

COMMISSIONER WILLIAMSON: Do you have any indication of what is the long-term outlook for the changes in costs?

MR. BUTTON: Let me make sure I understood the question. The long-term outlook for fundamental costs of our raw materials, quite frankly, is whoever's oil and natural gas outlook that you look at. Some of us were wishful thinking, I guess, hoping that we'd get up to about $80 and go back down towards

$60 for awhile. But now we're close to $90.

If that continues to rise to $100 or $120, then we're going to see our costs go up proportionately. That hits us in terms of fuel, to deliver our product to get the wood to our mills. It hits us in terms of basic chemicals that are used from petroleum base to make our coating materials and stuff like that.

In the case of pulp, those prices also probably then would continue to rise for two reasons. One is that a lot of the pulp that's being produced in the world is produced somewhere else in the world and then shipped. So you have that rising transportation cost.

So the bottom line is, our assumption is that for the next several years, we're going to continue to face a pretty steep inflation curve that we'll have to try to overcome. The impact of that is that if we can't get some of that back in price relief, then we'll continue to have to shut our facilities and hunker down to a smaller and smaller footprint.

COMMISSIONER WILLIAMSON: Thank you; does anyone else have anything else?

MR. GALLAGHER: I could provide some

information off line.

COMMISSIONER WILLIAMSON: Thank you; please discuss the improvement in the industry's financial health over the 2004/2006 period, and discuss that in relationship with the increase in subject imports.

MR. BUTTON: There is an improvement in the industry's financial health since 2004. But the metaphor to be used might be in terms of how far they were under water. Now they're closer to the surface, but they're still not in a position where they can financially breathe.

The prices have been suppressed, and that's been the major problem. Prices need to rise further in order for them to be able to achieve the necessary required financial returns.

The simplistic kind of analysis that's been suggested by the Respondents is a straight correlation analysis. Well, gosh, if the industry's national performance has improved at the same time as the subject imports, then how can there be causation?

Well, there's causation because there's not been sufficient improvement in the form of higher domestic prices for the domestic industry.

MR. KAPLAN: The other thing I would say, following up on that, as you look at the under-selling data -- and you have three sources of under-selling competing among themselves actually in part, but also competing with us -- and you look at particular accounts, as has been discussed by Mr. Gallagher and Mr. Reindl, and you look at other situations where we have to go out and compete for those sales, it's very, very difficult to get a reasonable return on our sales. That's really what we've been experiencing as a result of these very low imports.

But I'd raise one other point. I don't have the slide in front of me, but we've made very, very significant efforts to keep our costs down. We've cut under duress a lot of employees. We've cut back on production facilities. So we're really closing down mills that are not the most efficient; and we've done everything else to get a little bit of relief.

It's almost as if, if we hadn't done that, we'd be better off right now here because it would look a little bit worse. But I think you've got to keep in mind that our return on equity and our basic -- well, our net income is totally negative. You can't have an industry running on totally negative net income; whatever slight changes might have occurred over a period of time.

COMMISSIONER WILLIAMSON: Okay, thank you very much, and my time is up.

THE COURT: Commissioner Pinkert?

COMMISSIONER PINKERT: I'd like to talk about threat for a few minutes. Mr. Suwyn and Mr. Gallagher and Mr. Needham, do you see any differences in the imports from the various subject countries, in terms of your concerns about their threat to the domestic industry?

MR. SUWYN: Well, they're all threats in that today, they're holding prices to the point where we do not have reinvestment economics. So long term, if there's no change from where we're at today, and we stay at very low return on invested capital, it means we have to die over time. It's just a question of what's the slope of that curve.

If I look in terms of what announced capacities are and, therefore, how much increasing damage could be done if we didn't have our trade laws enforced, then I have to be most concerned about China. Because they have committed to put in a tremendous amount of additional capacity. Quite frankly, if they're allowed to continue to do their current pricing approach, they could take over this market.

So the change between my concern about where it is today and where it might go in the future is simply, it's going to be a much faster rate of decline.

COMMISSIONER PINKERT: Mr. Gallagher?

MR. GALLAGHER: The only differences I would see between them is basically the degree of penetration. So, in other words, it's the number of places that you encounter that situation. Because between the subject countries, there's a varying degree. Obviously, the Koreans had a significantly large position, and it continued to grow; while the Chinese has been in more of a growth pattern over the last several years.

So there's no real degree in how they compete for what I consider to be sales aggressiveness or sales positioning, just to the extent of where they are; how much they are actually in the marketplace today.

COMMISSIONER PINKERT: Mr. Needham?

MR. NEEDHAM: In the cast coated market, it's principally Indonesia.

COMMISSIONER PINKERT: Mr. Button, did you have a comment?

MR. BUTTON: My comment had to follow-up on something Mr. Gallagher mentioned about the competition among the subject producers themselves.

What we do notice on the underselling data is that the underselling margins are relatively large, on an average of 20 percent. Why do you find that in a commodity product? Well, the reason is that indeed there's competition between the subject products and the domestic products, but perhaps the more virulent competition is among the subject producers themselves. You have a large number of Chinese producers as well as then the Korean and Indonesian producers competing among themselves for places in the U.S. market, and that has a very negative effect on U.S. prices.

MR. JONES: Commissioner Pinkert, if I might add very briefly, if you look at the public under-selling table on page V-36 of the public staff report, the average margins of under-selling from the three countries are very similar.

In addition, we think the import volume trends are very similar, although China and Indonesia are showing a steeper trend, but still similar trends.

Finally, for purposes of threat, there is unused production capacity, we think, in all three subject countries. So we're concerned about threat from all three countries. We may have more and more startling evidence regarding China. But certainly for purposes of threat, we think the countries are similar.

COMMISSIONER PINKERT: Staying with that, Mr. Jones, do you have any thoughts about what standard we should apply, if we do a threat analysis, in exercising discretion to cumulate or not to cumulate between the three countries?

MR. JONES: Well, just continuing my further thought I mean, based on those similarities and trends, we think you should exercise your discretion to cumulate; and clearly, the Commission does have discretion in a threat determination to cumulate or not.

But we think the evidence here supports cumulation for threat, including the imports from all three countries. Certainly, for Indonesia, we intend to address the legal issues that were raised in the Indonesia's brief in further detail in our post-hearing brief.

But we think that there are particular reasons to cumulate Indonesia. The joint ownership of the Indonesian and Chinese company by Asia Pulp and Paper, APP, is certainly a significant factor that weighs in favor of cumulation.

Similarly, as Mr. Needham has spoken about, the desire of the Indonesian industry to ship more cast-coated product here and their requests that the Commerce Department exclude cast-coasted paper from the scope, we think, is very telling evidence of their desire to ship more of that product here.

I might note that our understanding is that what the Indonesian producers would sell by way of cast-coated product is a web roll product. So we think there's very strong evidence of threat from Indonesia and all three countries, and they should be cumulated for purposes of threat.

COMMISSIONER PINKERT: What is your reaction to the Korean Respondent's argument that subject imports from China differ from those from Indonesia and Korea due to differences in product mix?

MR. KAPLAN: I guess I would have to answer that in a post-conference brief, because there's so much about product mix that is bracketed. I would certainly disagree with it fervently, but in terms of the details, I think we'd better answer that on the confidential record.

MR. BUTTON: I would concur, but I would only say that to the extent that there is a difference in product mix, let us say the one country is presaging what the product mix will be of the other two.

COMMISSIONER PINKERT: Would you repeat that again, please?

MR. BUTTON: That one country's product mix is perhaps giving you a good example of what the product mix to the others will be in the future.

COMMISSIONER PINKERT: Is product mix relevant in the context of exercising our discretion to cumulate or not cumulate in a threat context?

MR. KAPLAN: Well, as a general matter, maybe if there were some stark differences, if one person were shipping widgets and the other person were shipping some other kind of product and it somehow was still all the same like product. But I would think in this case, no. I don't see any basis to say that there is a product mix question which should have impact your decision on cumulation.

COMMISSIONER PINKERT: Okay. Turning back to Mr. Suwyn, in the Korean Respondent's brief, they quoted you as saying that the impact of the preliminary relief in this case has so far not been overwhelming because some of the large Korean producers were not assigned any preliminary duties. What has the effect of the preliminary relief been?

MR. SUWYN: It's been very modest at best, and the reason, my interpretation of the reason is, number one, as you indicated, some of the larger Korean producers were not affected, so they continued their pricing phenomena.

Secondly, as has been indicated in prior testimony, the circumvention by the Chinese to ship product in in a different label, same product but different label, means that that product has also not been subject to duties to date, and so, therefore, the pricing dynamics haven't changed.

Some modest amount of customers are beginning to query and ask if this thing becomes real and permanent, can I get some product; how do we line up, et cetera? So I'd have to say there's some limited impact there where we've had some customers beginning to inquire, but in terms of pricing and volume, very little.

COMMISSIONER PINKERT: Just a quick follow-up on that. You raised the point about the alleged circumvention. What relief are you seeking with respect to the alleged circumvention?

MR. JONES: If I might address that, Commissioner Pinkert. We have requested that the Commerce Department clarify the scope of the investigations to make sure that the specific type of paper that is being asserted to be outside the scope is covered by the scope of the orders.

We learned about the scheme to avoid the orders and really figured out what was going on toward the middle of the summer of 2007, this year. After looking at the import statistics, we put the import statistics in our briefs, showing the stark shift in the classification of imports, the shift from classifying a product as coated free sheet paper to coated groundwood paper.

And as a result of that and as a result of feedback from the market, an example of which we put in our brief at Exhibit 8, we asked the Commerce Department to clarify the scope. In our opinion, the scope should have been clear, and in fact, it was clear to the Korean Respondents in the case, who put in a public submission to the Commerce Department saying that they understood the scope very well.

It was only misunderstood by certain Respondents, who have therefore not in our view reported accurately their imports and that therefore, the import numbers that the Commission has for purposes of this determination are understated.

COMMISSIONER PINKERT: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: I have a couple clarifications from your exhibits, this one for the posthearing. Exhibit 2, you have projections for capacity increases in Korea. Is that including nonsubject producers? I think it may be.

MR. BUTTON: The data is RISI data, so yes, it is.

CHAIRMAN PEARSON: Okay. Could you please in the posthearing resubmit that just for the subject producers? That would be the two right-hand charts, the one for Korea and then the one for all subject countries.

And then in Exhibit 5, you might comment on this now, but perhaps this also is best for the posthearing, what explains the decline in factory overhead costs that's on the chart in Exhibit 5?

MR. BUTTON: We'll be happy to address that.

CHAIRMAN PEARSON: Okay. And, Mr. Button, another one for you. In responding to Commissioner Williamson's question, I think that you indicated that subject imports tend to undersell nonsubject imports. Although this data is BPI, I've reviewed Table 5-15 of the staff report, and that does not seem to provide strong support for your argument.

This is a Bratsk issue for us, of course, the price competition between subject and nonsubject imports. So could you look at Table 5-15 and explain to me in the posthearing how we should view price competition between subject and nonsubjects for the purposes of Bratsk?

MR. BUTTON: Yes, we would, and I would just note that not all nonsubject producers should be necessarily viewed as the same.

CHAIRMAN PEARSON: Okay. Then what I think is my last question, what I'd like to do is summarize what I think may be the points raised by the Respondents this afternoon and get your comment on them. So indulge me just for a minute here and let me go through a list.

They might tell us that apparent consumption in the United States is up. Now much of this is from the confidential version, so I'll just talk trends. But the domestic consumption is up. Domestic capacity, production capacity, and production are both up. U.S. capacity utilization is high and has risen over the POI. U.S. imports from all sources are down. The market share of subject imports has risen modestly by taking market share away from nonsubject imports.

Domestic producers also have gained market share at the expense of nonsubject imports. The domestic industry and subject imports appear to be winning in the marketplace. Nonsubject imports are losing, but the statutes don't contemplate that we should provide relief to them.

Labor productivity has risen 23 percent while the workforce has declined only by 16 percent. Cost of goods sold divided by sales, the COGS ratio, has been declining, suggesting an absence of price suppression. Operating income to sales, the operating ratio is not high, but it's been rising progressively over the POI even as subject imports were rising, thus raising questions about causation.

Now how do we look at that fact pattern and find substantial evidence on the record of material injury? Dr. Button?

MR. BUTTON: I'll take the first shot at that. I think there's a straightforward answer to your question, and it has to do with the financial performance of the domestic industry. We talked a bit about earlier the COG to sales ratio and its trajectory over time.

And one of the reasons that that has not increased more is because of the extra efforts of the domestic industry, both to improve productivity, which is done at the sacrifice both of the industry and the workers, and to reduce overhead costs, and it partially reflects the restructuring efforts by the domestic industry, and all these are intended ultimately to improve the bottom line, the financial return.

Well, it did improve it. As you noted, the operating income to sales ratio, as you say, is not high but higher. Now this again draws us to the analogy of being underwater. They're no longer 10 feet. Maybe they're now one foot underwater, but you still can't survive long-term that way. You need to have additional price increases.

Well, there is price suppression. That is a big causation matter that they can't avoid. Price suppression among all of the subject producers has an effect of keeping down the U.S. prices, and to me, that is a major source of the inability of the industry to earn an adequate national return on its cycle.

CHAIRMAN PEARSON: Are you alleging that there was price depression from subject imports prior to the period of investigation that kind of got us into this situation? Because, I mean, it looks to me like prices must have been relatively low compared to costs at the time the POI started. And then we've seen some subject imports increase during that time, and yet the prices have strengthened.

MR. BUTTON: Chairman Pearson, I would let members of the industry respond to some of that. But at the beginning of the POI, the industry was what was suffering the negative effects as well of demand declines associated, you mentioned with the dot-com bust, and the 9/11 tragedy had an effect overall on the market. And as to the other factors that may have preceded the POI, I'd have to defer to the historical memory of the industry members.

CHAIRMAN PEARSON: Mr. Suwyn?

MR. SUWYN: Just to give at least my short summary, to be viable, I believe economically for the long-term, to be able to grow with the market, et cetera, to be able to continue to modernize, et cetera, the industry has to begin to earn at least its cost of capital. And that means some years are a little better, some years are a little bit low, but it ought to average somewhere near its cost of capital. It is far from that.

In addition, the behavior that's gone on in the last several years is the following. In our particular case, Mead and Westvaco merge. They rationalize their product lines such that they can make about 15 to 20 percent more product if they ran all the machines. But the pricing is so horrible, they can't do that.

So they have to in order to try to get better economics, they shut down six machines. A lot of people lost their job. The net result is they produced about the same or a little bit less than they were producing, the sum of the two, but on a lot fewer machines. Good for them because they were able to lower their costs rather significantly in doing that.

We then buy the company. We put a full court press on getting more and more productivity, the ability to probably make another 10 or 15 percent more product if we could sell it into the marketplace, and we shut down machines because we can't sell it in the marketplace at the prices that are prevailing.

Third, this all occurred during a time when inflation is going rapidly like this not just for us but around the world. Everybody's oil price is up. Pulp is up for everybody. And yet the imported products kind of get to behave as if there is no such thing as inflation, and so the prices don't respond at all. So we're here doing everything we can to drive better and better costs in many cases to the detriment of our people because we have to shut lines down and reduce our volumes even though we've made the machines run dramatically better.

Inflation's going up. We're barely covering that, and we can't get any kind of price relief. That is only possible if the people who are holding the prices down don't face the same kind of economic environment. I guarantee their oil is up. I guarantee their pulp prices are up. I guarantee all those other things and materials, raw materials, are up.

But if I'm being subsidized and I don't care what price I sell just so I get rid of it and I have a country like here that allows me to do that, fine. Then I see no significant price relief. And that's why you get this combination of great improved productivity, much improved operations, and lousy, horrible economics.

CHAIRMAN PEARSON: I should clarify, I recognize fully that things have not been very rosy for the industry. Times have been tough. What I'm having some difficulty with is seeing that subject imports are the reason for the difficulties. Did you have a quick comment, Mr. Gallagher?

MR. GALLAGHER: Yes, sir, I did. The pricing was depressed. We were talking about it from the period of investigative time. Pricing had been depressed, as Mr. Button mentioned, because of dot-com fallout and the 9/11 effect and the economic downturn.

But imports were on the rise before that investigative time. Basically, it was more Korean than anything at that point in time, and it just started a groundswell of the Chinese. While our pricing was depressed, that pricing was still probably averaging the 20 percent you see on this list below us of underselling. And it sustained itself even though there have been obviously cost increases over that period of time. Some prices have went up, and I'm sure their prices have went up a little too, but it still maintained that gap.

CHAIRMAN PEARSON: Okay. Thank you very much. Madame Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. I don't think anyone has hit on this yet. The Chinese Respondents argue in their brief that NewPage actually draws imports into the U.S. market by refusing to produce private label brands that might compete with its own brand at a lower price. Could you respond to that?

MR. TYRONE: That's not true. We do provide private label brands.

VICE CHAIRMAN ARANOFF: Okay. If you could provide us confidentially in your posthearing with some information about the volume of product that you provide in private labels, that would be helpful.

MR. TYRONE: We'd be happy to do that.

VICE CHAIRMAN ARANOFF: Thank you. Can you comment more generally on the role of branding in the market and how important it is or isn't to the customers of various producers?

MR. TYRONE: Our sense of the role of branding is that it tends to say more about the company necessarily than the product itself. The company stands for the brand. The brand stands for the company. It has a lot to do with service as well as the product itself.

That said, and I think you need look no further than the direct testimony of Mr. Reindl, it's very clear that subject imports compete day in, day out with the branded products of the domestic producers.

VICE CHAIRMAN ARANOFF: Okay. Do any of the other producers want to comment on brands?

MR. GALLAGHER: The higher the grade level, the more important the brand. When you operate at the number three, whether it's sheets or web, it's less important. What's important is comparator quality.

VICE CHAIRMAN ARANOFF: Okay. Thank you. One question, and I guess I'll start with Dr. Button on price suppression, and this follows a little bit with what the Chairman was just asking.

When the Commission looks at price suppression, the statute tells us we have to look at whether prices would otherwise have been higher. And normally we look at that, and if we see that the COGS ratio is going up, we say, well, a-ha, prices aren't keeping pace with costs and, therefore, absent the subject imports, prices otherwise would have been higher.

In this case, we don't see the COGS ratio going up the way that we do in some of these sort of textbook price suppression cases. So what is the reason? We usually look for something external, not just, well, if the imports weren't there, prices would be higher, but there's a reason in the market why prices would be higher. Demand-based, raw material costs, those are the two typical ones. Here we do have somewhat growing demand, but we have the domestic industry also telling us there's no shortages in the market. So what is the theory of why prices otherwise would have been higher that would permit us to make a finding of price suppression?

MR. BUTTON: Vice Chairman Aranoff, perhaps we can also look in this causation analysis to market share data, which are themselves confidential, but I believe we can refer according to the ground rules to trends.

And if you look, for example, within a sheet, what has happened to the market share there of the subject producers, and how did they gain that market share and where did it all come from?

I think this is going to be a direct link to help you in the causation as to why lower prices by imported subject sheet then take sales away from the domestic producers of sheet and prevent them from raising their prices when they otherwise would. I think that's a very clean causation link.

The other link that I referred to a few times earlier is simply that stopping the cut price suppression analysis and cost price squeeze analysis just at COGS may not in fact be appropriate in all cases that you deal with. There are some where the conditions of competition for that particular industry really argue that there is an additional indices that should be looked at, and perhaps that is looking at the impact of interest and the role of debt in industry restructurings. So I would offer those two suggestions.

VICE CHAIRMAN ARANOFF: Mr. Suwyn?

MR. SUWYN: If I might just respond simply, I think that in a reasonably healthy market, and what I mean by that, a market where people are investing and they're responding to their customers, et cetera, and it's a commodity market, I would expect over some period of time that you would have pricing that approaches cost of capital for the average of the producers.

And the problem is that this is a commodity business, just like oil. And if somebody's out there selling today oil at $70 a barrel, I don't know why they'd do it, but if they were, prices wouldn't stay at 88 very long.

Well, that's what we face, and that is the cost of capital prices today would be something approaching $1,000 or more dollars a ton, and we have people selling in here very, very aggressively at $850. Well, prices don't go to those levels when you've got a significant part of your volume being held in front of you every day competitively to say, I'll only pay $850. So that's the --

VICE CHAIRMAN ARANOFF: Okay. I certainly invite both sides in posthearing briefs, anything you can do to help me think through this. I don't think this is a textbook price suppression case, but that doesn't mean it isn't a price suppression case. So anything you can do to help me think that through would be helpful.

Let me turn to a different issue, which has to do with how we look at interim data in this case, the data for the first half of 2007. We've heard a couple of things about the interim period, and I'm trying to reconcile them. We've heard number one that there's some seasonality in this industry, with things picking up the second half of the year. Well, our interim data are for the first half of the year, so I'm not sure in that sense how much weight we should put on them.

Second, we've heard that because of the scope issues that you've raised that we maybe should disregard the interim trends in subject import volume. I guess how we deal with that depends on how the scope issue comes out at Commerce.

And third, we have our usual concern that partial-year data, that interim data can be affected by the pendency of the investigation and that that may affect the weight that we should give to it.

Putting all these things together, I'm a little bit confused about whether I should be relying on interim 2000 data or disregarding it.

MR. KAPLAN: Well, I think there have been two effects in terms of the import data at least rather than for a minute looking at any of the industry data or the effects on the industry.

Import data I think has been affected in two ways because of the circumvention problem and because I do think there has been an effect of the case on imports in 2007 as a result of the imposition of the duties. I think both of those things have occurred, and disaggregating them may be something we can try to do in the posthearing brief. But I think some of the supposed downward trend in imports have been caused by both those factors.

At the same time, there has not been I think I can say in a general level any kind of real improvement for the domestic industry. So I think that that does indicate a continuing injury going on with respect to the first part of 2007.

VICE CHAIRMAN ARANOFF: Okay. Let me just ask, and this can either be now or perhaps for the posthearing, I wanted to get a little bit of history about the three different subject countries and when they entered the U.S. market, because when we look at the period of investigation, we're looking at a period where they're already here. But my understanding is that some of them have been in the market considerably longer than others, particularly perhaps the Korean industry.

So I don't know if anyone can provide me with any background about when you first saw these subject producers in the market and whether there's anything about what's been going on during the period of investigation that's different from what their pattern in the U.S. market was in earlier periods.

MR. KAPLAN: One thing I would say is it's kind of remarkable, but China filed a dumping case against Korea on this product. That was a couple years ago. I don't know the exact date off the top of my head. No, I'm just asking if someone knew the exact date.

But that had the effect of driving and increasing the amount of the Korean product into the United States market; and provided a sort of impact on Korean decisions as to where to sell, because China used to be an import market. China used to be supplied, in large part, by Korean and Indonesia.

But after China filed this trade case, which had the effect of pushing more Korean product into the United States, and built up its own industry with the subsidization, this changed the fundamental pattern of the trade pretty significantly. Yes, certainly, we can provide additional data about that.

VICE CHAIRMAN ARANOFF: Okay, I would appreciate that; thank you. Seeing as my time is almost up, and not knowing whether we're all going to be in the mood for a fourth round of questioning, if my colleagues don't get to it, I do have some questions about the application of the Bratsk decision, which I will submit to you in writing. Thank you, Mr. Chairman.

MR. KAPLAN: Thank you.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman.

Well, let's see, I'll follow-up, I think, both on the Bratsk and on the price suppression case. Mr. Button, I assume it has to be done for post-hearing briefs.

But that is, if you could also, in responding to why we would have expected to see higher prices, or that the industry would have able to get higher prices, look at non-subject pricing, both in the pricing data and generally, and tell us how we should evaluate that, in terms of what prices would have been in the market.

MR. BUTTON: Commissioner Okun, I'll be happy to do so.

COMMISSIONER OKUN: Okay, and then not just for pricing, but also for the questions regarding Bratsk, I assume the Vice Chairman will cover those in her post-hearing questions, as well. But I do note that I would particularly like to see a discussion of the role, both on the market shares side and the pricing side, how one would evaluate non-subjects in the context of the Bratsk question.

Mr. Button, this is a question for you, although Mr. Kaplan may also want to talk about this, as well. As I'm listening to the arguments that you're making -- and again, I believe you were making non-traditional arguments in many ways. I just want to point out a few of them and say, just for post-hearing, that anything you can do to give me comfort that the Commission has done this before, or there's reason to do it.

First, you asked us to focus on net income. Second, you asked us to focus on the increasing raw material price, as opposed to the cogs ratio, which we have traditionally done. Third, with regard to market share, you look at particular changes in market share. I would ask you again how important it is to look at that, versus marketshare generally, and the change in marketshare between subject imports and non-subject imports over the period, and how to evaluate those.

MR. BUTTON: I'd be happy to do so. But let me make note at this time, with respect to your last point, as to changes in marketshare and the particular marketshare. My reference to that is not as a reflection of injury matter, necessarily. But it's a causation matter, in terms of what's going to happen first and what happens next.

The reason I directed you to look at the market share on sheet products is because I believe that tells the direction of what the market share will be more broadly, including then later, on web products. That was the rationale.

COMMISSIONER OKUN: Okay, I appreciate that. Then I believe, Mr. Suwyn, you probably responded this in response to the question about where we are in the business cycle. Looking forward for a demand forecast for all the producers, where do you see demand in the next year, looking forward? Where do you think it would be?

MR. SUWYN: Our planning for 2008 assumes about a half of a percent to one percent in total consumption. At this point, once we see how this all turns out, we would probably assume that our volume would have to be flat to down a little bit to accommodate the growth of the imported products, if they're going to continue pricing that way.

So our assumption is the total demand is up about a percent or two, and maybe a little more, because it's an election year, and a lot of printing goes on. But it's in that kind of a ballpark.

Then from our own volume standpoint, we're assuming we'll be flat or down a little bit, because we can't go down to those kind of prices to grab share.

COMMISSIONER OKUN: Do other producers have anything else to add on demand for 2008?

MR. GALLAGHER: We've looked at it, two to three percent, given the election year; and also given the expected general economic improvement. In sales, given our size, we never forecast for something that's flat or down. We're always looking for a little bit of growth.

COMMISSIONER OKUN: Okay, Mr. Needham?

MR. NEEDHAM: I would say that's in line with what our projections are.

COMMISSIONER OKUN: Okay, and then to the extent, both Mr. Gallagher and Mr. Suwyn, you referenced the election year, that increase is not reflected in this year, yet. In other words, we're not so early. Things haven't speeded up so fast in the election year; that you've seen this already or we should see this in the data. Is it really for next year?

MR. SUWYN: Well, this is a strange year, because we seem to be doing the primaries in 2007, instead of in 2008. So it's a little hard to predict. But it's a modest bump anyway during that time period. But I'm not sure there's any significant indication so far. Usually that will happen in the middle to the end of next year.

COMMISSIONER OKUN: Okay.

MR. GALLAGHER: We haven't seen any indication of a bump. But being an optimistic sort, and with the number of candidates and the amount of money that's in the coffers, we would expect significant spending.

History has shown, over the last year or two, more of a push of that spending to be in the direct mail; what Mr. Suwyn talked about earlier, about getting the message into the mail box. So anticipation is for that to have some effect in as early as the end of December.

COMMISSIONER OKUN: Okay, I appreciate those comments. Then I think my final question, just going back one more question on non-subjects, which is, Mr. Button, when you were talking about the increased market share in sheeter rolls would be a harbinger of things to come in the rest of the market, if I understood how you were looking at that -- I don't know if you can do it in the public session.

But can you talk about that with respect to non-subject imports? In other words, as I heard you say, subject imports, you're not surprised that subject imports came in and focused on the sheeter market first, because that's the high value, high margin.

With the other non-subjects in the market, do they do something differently? Do they go for a different type of product, or is there any distinction there between subjects and non-subjects? The industry folks obviously could comment on this, as well, after Mr. Button.

MR. BUTTON: I'd like to respond, if I may. But I think it is going to require confidential record material to do so.

COMMISSIONER OKUN: Okay.

MR. BUTTON: I'll do it in the post-hearing.

COMMISSIONER OKUN: Okay, then how about just from -- and Mr. Reindl, you might also be able to comment on this -- The distinctions between non-subject product and subject product, in terms of either on the sheet or on the Web; on the pricing, is there anything that you could add on what you've seen?

MR. REINDL: I'm sorry, I have no knowledge of that.

COMMISSIONER OKUN: Okay, so you feel competition with the subjects, but not the non-subjects?

MR. REINDL: We don't know how to differentiate, based on our suppliers.

COMMISSIONER OKUN: Oh, so you don't know whether you're dealing with non-subjects or subjects?

MR. REINDL: Correct.

COMMISSIONER OKUN: Okay, Mr. Gallagher?

MR. GALLAGHER: There have been non-subject imports into the U.S. market for some period of time, without the disruption that we've seen in the last few years, because of the subsidies and what they caused with pricing.

For those non-subjects, basically pricing was in and around what was the market price dictated by demand supply at the time. So, yes, we saw a difference in the two.

COMMISSIONER OKUN: And when you say that, Mr. Gallagher, are you saying that you believe the non-subjects were price comparable to your product?

MR. GALLAGHER: I think they were priced comparable to where the market was priced at that time, for any of the suppliers. I mean, there's a relative range for a product or what it's sold in, based off the service and all the other things for that particular account; and yes, they were in that range.

COMMISSIONER OKUN: Okay, are there any other comments on that?

(No response.)

COMMISSIONER OKUN: Okay, with that, I very much appreciate all the answers you've given. I'll look forward to the post-hearing submissions; thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Thank you, I have a few questions. Cost of capital has been mentioned in the pre-hearing briefs, as well as today in the testimony. It says the capital structure of the industry appears to be leaning more and more to debt financing.

There have been some studies that say that debt leverage is inconsequential, as far as cost of capital is concerned. The idea is that as the percentage of debt in your capital structure goes up, so does the risk to equity holders. So the lower debt capital is offset by a higher expectation by the equity holder.

Could you please comment as to whether debt leveraging is changing your cost of capital, one way or another; and what do you believe is a reasonable cost of capital or return on investment for this industry?

MR. BUTTON: First, I agree with the basic theory that's underlying what you've said. I cannot answer, I think, on the public record what the individual companies believe their weighted average cost of capital be overriding issues above all of that is that whatever their average cost of capital is. Whether they get the capital from debt or equity, they've got to be able to meet that; or their creditors will stop lending to them, or the equity holders will sell off the assets and invest their money somewhere else.

At this point, we've seen from the record, even though we've just looked at the data so far, that the industry is providing a return on capital that is lower than what you get by investing in Treasuries. So that's not going to attract anybody to risky business.

COMMISSIONER LANE: Can you tell me now, or do you want to put it in your post hearing, what you think a reasonable return on the investment should be?

MR. BUTTON: That will depend on each of the individual companies, and I'll be happy to talk to those who are here.

COMMISSIONER LANE: Okay, Mr. Suwyn?

MR. SUWYN: Yes, our cost of capital, and we've been very public about it, is basically 13 percent -- 12 or 13 percent -- and 13 percent is kind of the number we use for our people in terms of where we have to get to, to be able to make our cost of capital returns. That's a combination of both our debt and equity.

I also agree that I don't think it would change dramatically with a change in the amount of debt. In fact, we've lowered our debt, and our cost of capital rounds out to be about 13 percent. So that's kind of the target.

COMMISSIONER LANE: Okay, you might not be able to answer this questions publicly. But did you get your financing for your new purchase of Stora from Serbius, also; and could you provide, in your post-hearing, more details about that arrangement?

MR. SUWYN: We will do it confidentially. But I would just make the point that, at this point, we have an agreement to purchase. We have not closed. So, therefore, the exact form of the financing is still to be determined.

COMMISSIONER LANE: Okay, thank you; I want to go back to some basic issues about the difference between web rolls and, I think, sheeter rolls. Is there a difference in moisture content between the two types of product; and does that make a difference in the ultimate use of that product?

MR. GALLAGHER: If you intentionally make sheeter rolls, yes, there's a different moisture content; and does it make a difference in the ultimate use, that's something that I can't answer. There's a lot of differing opinions on that.

I would tell you that we make rolls for web only. We don't guarantee the product to be put into sheets, but we have a significant portion that we know is put into sheets, for which the last 19 months, we've not experienced any issues in that happening.

MR. REINDL: I'd like to comment.

COMMISSIONER LANE: Yes, please.

MR. REINDL: We purposely use web rolls on our web printing press, because we were led to believe not only the fact that it has a different moisture content; but the surface itself is supposed to be able to withstand the heat from the heat-set web.

In the case of web rolls being used in sheet-fed, with the new technology in sheet-fed, and the idea of being able to take a roll of paper, a web roll, you can take that roll and cut it into sheets and print on it, all in one printing pass; as well as the ability of still taking that same roll and take it to an off-line sheeter and then bring it into a printing press.

MR. KAPLAN: The other thing I would add is web roll and sheet roll are made on the same machines. There's very, very little difference in terms of the chemical content, and they're made on exactly the same paper mill machines.

COMMISSIONER LANE: Okay, then let's get really basic. What's the difference then between a web roll and a sheeter roll?

MR. KAPLAN: There's a very small difference. I'm not a technician. But we actually don't have a traditional product person here on the panel. So I'm going to give it a go, and hope I don't put my foot in my mouth.

But there's a very limited difference in terms of the moisture content, which just has to do with putting a slightly different composition at some stage of the production process. It's a very limited difference and very limited effect on the ultimate product.

COMMISSIONER LANE: Okay, then why would someone want a sheeter roll, rather than a web roll?

MR. NEEDHAM: Could I respond?

COMMISSIONER LANE: Yes.

MR. NEEDHAM: We do about 20,000 tons of sheeting for other companies. They send us sheeter rolls, which they give a limited guarantee, and we sheet it for them or other customers.

It's a very small difference, but there is a difference. It could be moisture. It could be weight. It could be a half a dozen things. But it is a very similar product. I mean, it's like a whitewall tire versus a blackwall tire. You know, our people use state-of-the-art sheeting equipment. They understand what the difference is, and they just adhere to what they need to do. Whether they need to de-curl it a little bit, or they need to handle it slightly different, it is not a big difference.

COMMISSIONER LANE: Okay, let me stick with you. My last question, not counting the sheet cutting step, are there noticeable and quantifiable differences in process and cost, when you make product that is going to eventually be cut into sheets, as compared to making web rolls; and if so, is it more expensive to make web rolls or sheeter rolls?

MR. NEEDHAM: I'll address the converting. There is a cost of trim, depending on if it's large roll, your sheeting is smaller and then you have side trim. So that has to be taken into consideration.

There is an issue on quality in the middle of a sheeting run. Then you would have that cost. Then there's just the general cost of putting skids involved with sheets, making sure that the sheeting process is done correctly, and the time and effort needed.

So the difference is, you just have to identify what kind of roll you're dealing with and what the process is you're converting it to.

COMMISSIONER LANE: Okay, thank you; Mr. Kaplan, did you have something you wanted to add?

MR. KAPLAN: I just wasn't sure he was

answering your question; because I thought you were talking about the difference in the cost of making a web roll versus a sheet roll.

COMMISSIONER LANE: I was asking both.

MR. KAPLAN: Okay.

COMMISSIONER LANE: So that was the part that he hadn't answered, and that I was going to get to. Which is more expensive to make, a web roll or a sheeter roll?

MR. GALLAGHER: We don't see any difference. If it is, it's less than $10 a ton.

COMMISSIONER LANE: Okay, thank you; Mr. Chairman, that's all I have.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman, I have just one quick question. In Exhibits 1 and 2 this morning of the capacity of the subject countries, is it your position that these years, 2009 and 2010, because you take the numbers out to those years -- is it your position that these years are relevant for a threat analysis?

MR. KAPLAN: Yes, I would think they would be. That imminent. It's already in process, and it's already affecting the plans of the United States industry, looking at that enormous build-up.

COMMISSIONER WILLIAMSON: Okay, that's what I wanted to know.

MR. KAPLAN: Yes, yes, I would say it is.

COMMISSIONER WILLIAMSON: Okay, thank you very much; I have no further questions, Mr. Chairman.

CHAIRMAN PEARSON: Thank you.

COMMISSIONER WILLIAMSON: Thank you.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I just have one further question, although it may stimulate another question.

(Laughter.)

COMMISSIONER PINKERT: I believe, Mr. Suwyn, you testified earlier that there's a limit to how much you can cut costs. I'm wondering whether you anticipate that your restructuring costs will be going down in the near future, because you've reached a limit as to how much you can do in that area.

MR. SUWYN: Here's the limit that we face. That is that I can continue to invest $10 million, $20 million, $30 million to speed this machine up, put a little different controller. I'm putting new head boxes in most of my mills, so I get a smoother sheet, so I get higher quality and better yields.

At some point in time though, I run out of things that I can do. So the only option left to me then is to take my highest cost machine and shut it down; get out of my high cost or low margin businesses; and now run at that level.

If there's no relief, and we continue to get inflation going like that and prices kind of flat, then it's just a matter of time, how long can I go and how many machines and mills do I shut down.

You have the complicating factor, and we have this at Luke right now of, of course, when I shut down line seven, I just reduce the amount of volume that the overhead -- you know, to run the generators and the rest of the power plant, et cetera -- is spread over. So while I net out lowering my costs, I still have that other overhead to cover.

So all I'm saying is that I begin to approach some sort of an astigmatic level, in terms of how much more I can take out. So, I'm then left with, if I still have this imbalance between inflation and pricing, then at some point in time, I haven't got a lot left to shut down. So that's all I'm saying.

MR. KAPLAN: Yes, the way I thought about it, and I sort of thought about this question, I'd just say, with import relief and resulting higher prices, all current capacity is economic. If relief is not granted, and prices remain depressed, I think this industry will be forced to shut down ever more capacity than it has.

MR. SUWYN: Absolutely, there's no question.

COMMISSIONER PINKERT: But there's specific costs associated with the restructuring that you testified about. I assume that those are amortized over some fixed period of time?

MR. SUWYN: No, you take the hit when you spend it.

COMMISSIONER PINKERT: Okay.

MR. SUWYN: If you let people go, for example, you have to take your severance costs that quarter. So most of those costs are instantaneous.

COMMISSIONER PINKERT: Do you anticipate that the restructuring costs themselves will decline as you reach the limit of the restructuring?

MR. SUWYN: Yes, because I'll have nobody left to lay off. So, I mean, at some point, that's true. But that's your last gasp as you're dying; that you have nothing left to run, because you systematically shut everything down.

I'll have some major restructuring costs if we close the purchase of Stora, because the way we're going to be able to drive costs down is to rationalize the machines, et cetera, and if I can't sell any more, because prices are severely depressed, then I'll additional restructuring to take there.

So it's not as if all of a sudden there's nothing more to do. You always can do something else, which is, shut down that machine. So each time you do that, have costs occurring with that.

COMMISSIONER PINKERT: Thank you; thank you, Mr. Chairman.

CHAIRMAN PEARSON: Are there any further questions from the dias?

(No response.)

CHAIRMAN PEARSON: Okay, do members of the staff have questions for the domestic industry panel?

MS. MAZUR: Mr. Chairman staff have no questions.

CHAIRMAN PEARSON: Does counsel for the Respondents have questions for the domestic industry panel?

MR. CAMERON: No.

CHAIRMAN PEARSON: That was Mr. Cameron indicated no. Gosh, then we get to take a lunch break. I should remind you that the room is not secure. So please take anything with you that should be left sitting around.

We may go kind of late this afternoon. So why don't we take close to an hour? Come back at quarter to 3:00. Get a nutritious lunch, and we'll do it again here in about an hour. This hearing stands in recess.

(Whereupon, at 1:47 p.m., the hearing in the above-entitled matter was recessed, to reconvene at 2:45 p.m. this same day, Thursday, October 16, 2007.)

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A F T E R N O O N   S E S S I O N

(2:45 p.m.)

CHAIRMAN PEARSON: This hearing will come back into session.

What do you think, Commissioners? Do they look adequately nourished?

(Laughter).

CHAIRMAN PEARSON: Who is running the show here? Mr. Cameron, are you doing it? Mr. Morgan?

MR. MORGAN: Chairman Pearson, we're just going to start right in with Dan Klett.

CHAIRMAN PEARSON: Excellent. Please proceed.

MR. KLETT: Good afternoon, Mr. Chairman, members of the Commission. My name is Daniel Klett. I'm an economist with Capital Trade, Incorporated testifying on behalf of Respondents.

My focus by way of overview will be on industry condition and causation and then I'll let the real people that know the industry talk.

Fortunately for my presentation the aggregate industry data are public and they show that virtually every indicia of industry condition has improved.

Slide 1 shows an increase in capacity and continuous increases in production and capacity utilization.

Slide 2 shows continuous increases in the volume and value of U.S. producers' shipments.

Slide 3 shows continuous increases in U.S. producers' gross and operating profit margins.

Slide 4 shows POI trends and U.S. producers' average selling prices and unit cost of goods sold.

The data speaks for itself but I want to make one point relating to Slide 4. In its brief Petitioner repeatedly states that U.S. producers' prices are depressed and suppressed, yet prices have increased so are not depressed.

Slide 5 shows that cost of goods sold to the sales ratio has declined. There is no price suppression either.

In light of these facts what arguments does NewPage present to support its position of material ad versus volume and price effects attributable to subject imports?

Among their arguments are first, they focus on the 20 percent of U.S. producers' production that is comprised of sheets and attempt to amplify any effects that might be present in this segment of the market as being material to the industry overall.

Second, they redefine price suppression from how it's normally interpreted by the Commission.

Third, they ask the Commission to assume that the existence of underselling necessarily must result in the finding of price depression and suppression.

Fourth, they urge the Commission to depart from its normal practice of evaluating industry financial condition at the growth and operating profit levels.

Fifth, they contend that industry profits should have been higher because of demand increases during the POI.

And sixth, they attempt to link the industry's restructuring including the closing down of older, less efficient plants as being caused by subject import competition.

An associated argument is that any improvement in the industry's financial condition as a result of these actions, i.e. lower unit fixed and labor costs are somehow symptomatic "of injury and not health". I will address each of these arguments in turn.

Web rolls account for almost 80 percent of the U.S. producers' sales volume yet a disproportionate amount of NewPage's pre-hearing brief focuses on assertions that the U.S. industry was injured in the 20 percent of its sales in sheets, which also accounts for virtually all subject import volume. Even assuming that the U.S. industry did experience some adverse volume and price effects for sheet sales, these adverse effects must be commercially material for the U.S. industry as a whole. The slides I showed earlier for all U.S.-produced subject coated free sheet demonstrates that this has not been the case.

On volume effects NewPage does a sheet-only market share analysis. However, even if you accept their premise and calculations, the volume decreases due to market shifts for sheets are small as compared to the total industry's coated free sheet volume. And as showed in Slides 1 and 2, U.S. producers experienced increases during the POI in both production and sales volume for web rolls and sheets combined.

NewPage's allegation of price suppression is that subject import competition kept prices from increasing as much as they should have. Any such effect is a difficult thing to measures empirically as other supply/demand factors also would have been affecting the market at the same time. For this reason the Commission should not depart from its normal definition of price suppression, that is compare average price trends and average unit production costs as reflected in the quantifiable cost of goods sold to sales ratio. This measure is reasonable with respect to materiality because it recognizes that an industry can be injured even if nominal prices are increasing but unit costs are increasing at a faster rate.

Based on this measure for the industry, prices have not been suppressed.

Dr. Button said this is simplistic analysis, but he's asking you to accept on faith that the returns are lower during the entire POI and that these lower returns are due to subject imports. However at some point you have to have a causal link.

At page 61 of its pre-hearing brief NewPage asserts that subject imports depressed and suppressed U.S. producers' prices to a significant degree because large margins of underselling were present in the majority of quarters where comparisons were present.

NewPage also argues that the adverse effects of underselling were most severe for sheet pricing. However a rigorous analysis of the quarterly price data for the sheet specifications does not show the kinds of linkages and patterns to support a finding that U.S. producers' sheet prices were adversely affected. This analysis is contained in our pre-hearing brief.

Because NewPage cannot demonstrate adverse financial effects at the gross or operating profit levels it wants the Commission to depart from its normal practice and look at the industry's net income. That is, after interest expenses, non-recurring expenses, and other non-operating expenses and income. Its main rationale for this position is that the industry financed its restructuring through debt because of negative cash flow attributable to subject import competition and that this has resulted in higher interest expenses.

I can only make a few points publicly on this issue. First, at the operating level the U.S. industry had positive cash flow throughout the POI. Second, based on NewPage's public SEC filings we know that it incurred significant other expenses related to its hedge operation that also would have adversely affected its net income. We will address these issues in more detail in our post-hearing brief.

Because industry-wide profitability trends do not support an affirmative determination, NewPage argues that the Commission should find the industry profitability should have been higher over the entire POI because demand is cyclical and the industry needs to earn higher profits during the good times of the cyclical upturn.

While this theory might be conceptually appropriate in certain circumstances, the facts in this investigation do not support NewPage's position. NewPage has provided the Commission with no data or information to show that it or the industry is doing any worse now than in prior periods. Even if such adverse effects were present for the entire POI, to be attributable to subject imports surely one would expect to observe some relationship between changes in the U.S. industry's condition and the level of subject import competition during the POI which is the normal way the Commission evaluates causal links yet no such connection is present.

U.S. industry experienced continuously improving production, shipments, prices and profitability over the POI even as subject import volume increased.

A related argument by NewPage is that the improved financial condition of the U.S. industry should be discounted because it reflects restructuring efforts that have resulted in lower production costs. Factually, NewPage is wrong.

The Commission's own variance analysis shows that from 2004 to 2006 ninety percent of the over $400 million improvement in the industry's operating profits was related to increasing prices. The improvement in operating income attributable to cost decreases was inconsequential. Also as publicly traded companies it is just odd to me how restructuring efforts to reduce costs and improve profitability can be characterized as being symptomatic of injury rather than health. This revisionist characterization is at odds with how these restructuring efforts have been characterized by three of the largest coated free sheet producers in their SEC filings, excerpts of which are shown in Slide 6.

I'm not making light of the effects of these restructurings on employment and jobs, but I am calling into question that these are the results of subject imports when SEC filings characterize these restructurings as long term plans that were implemented during the POI.

Thank you.

MR. DRAGONE: Good afternoon, Mr. Chairman and ladies and gentlemen of the committee. I am Allan Dragone, CEO of Unisource Worldwide. I have been CEO since 2004. Prior to that I was CEO of Graphic Communications and prior to that I spent 20 years in paper manufacturing holding a number of positions within Champion International including General Manager of the U.S. Paper Business, Vice President of International and Newsprint, and Director of Coated Sales. In that last position I had responsibility for both Mr. Needham's mill and also for Mr. Gallagher's mill in Houston, the Pasadena mill.

Unisource is the largest independent distribution company in North America for paper, packaging and facility supplies -- facility supplies being towel and tissue and janitorial chemicals.

In 2006 we sold 3,200,000 tons of paper and paper board approximately. Of that, 170,000 tons was from the countries involved in today's current investigation.

Unisource is one of the largest sellers of coated sheets and coated web papers in North America. In addition to selling many North American coated products we also find ourselves in the interesting position of being one of NewPage's largest customers and also probably one of the largest customers of the

West Linn Paper Company as well. In fact they are excellent suppliers and we have fantastic relationships with both companies.

Unisource purchases sheet fed coated from around the world -- Japan, Germany, Italy, as well as Korea and China. Currently we sell no coated web from Asia. It has been our experience that very little coated web from Asia is sold for commercial web press application, and none by Unisource because of the economics of the industry.

The past couple of years have seen a robust coated sheet fed market as evidenced by the five increases since 2004. And in fact another increase was announced Friday by a North American mill for another increase in coated sheet fed product. This as the consumption of product has increased in the time period of 2004 to 2006.

There had been prior to the last couple of years an over-supply situation in North America. Within the last 24 months close to a million tons of capacity has been rationalized or shut down. It was old and in some cases was dedicated in Teddy Roosevelt's era, and not efficient or competitive. In fact if you look at the uncoated free sheet market and the ground wood coated market the very same thing took place prior to what is taking place in the coated free sheet market. So the same sort of rationalization has happened throughout the U.S. paper market and they are not competing with the subject countries, and it came because of the age and inefficiency of the equipment.

This was not limited, as I said, to coated free sheet. The rationalization of equipment and consolidation started way before the uncoated paper and products from Asia came into play in North America.

If I can, I would like to give you a brief overview of the North American market for coated free sheet. Eighty percent of the sales of these products are going into the web market or commercial web printing market which we'll refer to sa rolls. Twenty percent is sheet fed. Web is necessary for long print runs for publication or catalogs. The web market is growing and has been dominated by the North American mills. I believe it will continue to be a market dominated by them as the Asian suppliers are not competitive on price, service and even quality.

Sorry, Terry.

Supply chain issues, opacity, runnability issues have prevented the products from being used in any great extent.

There are a small amount of rolls being sheeted in the U.S. strictly for sheet-fed application. We ourselves bring product into the United States for special sheet sizes. We bring it in a roll format and convert it in our Camden converting operation.

Sheets and rolls may be used by the same printer if he has both types of equipment, but in my experience the applications are very different. In fact we see very little of the type of roll to sheet application that was referred to this morning.

In our own business at lunchtime we tried to determine just how many manufacturers have the capability of doing that. In the Chicago market, which is the largest market for coated printing in the United States, there are three printers that are capable of doing what was indicated this morning, of running a roll to sheet operation.

I divide the coated sheet products in North America into a number of different categories, and in fact after the announced purchase of Stora Enso, there will in effect be a duopoly for coated sheets in North America of large integrated manufacturers. With the Stora Enso assets being purchased by NewPage, we'll have NewPage and Sappi manufacturing coated sheet fed product. Appleton Coated has a non-integrated facility which means it is less efficient and they are also making sheet fed products.

All distribution in North America needs multiple coated lines to represent to their customers, and in fact you need a high end product, you need a commodity product, you need digital product, et cetera, in order to be an effective distribution company.

One issue for many distributors and specifically Unisource was the fact that NewPage and others, including Stora Enso, would not offer Unisource the ability to sell their products outside a very small number of trading locations within the United States. This in spite of the fact that we do exceptionally well with NewPage in the markets that we do represent them. As you heard this morning from Mr. Tyrone, they have their reasons for doing so.

The problem for Unisource is that our largest competitor in North America has all of the lines in all of the locations and it puts us at a distinct disadvantage in marketing our products and being effective in the marketplace if we only have a hodgepodge or products.

In fact in 2004 we asked NewPage if we could have the ability to sell their products in all of our locations because we felt we were at a distinct disadvantage in the marketplace. Upon getting an answer that in fact that was not possible we went out and developed a number of the private brand programs that you've heard about today and are marketing both Korean product and Chinese product.

From our standpoint, if we did not have access to those products today we would not be competitive and we might not be a viable company long term.

It is extremely important from our standpoint that we not be put in a protectionist environment where we do not have the ability to source our customers from anything other than the North American assets.

I think that from our vantage point the most important point that we can put forward to the committee is that the loss of the import coated products would be of such magnitude that I have strong concerns as to whether or not the North American manufacturers, in spite of what was said today, could supply the marketplace. In fact as you heard earlier today, whether it is a hard allocation or a soft allocation, there have been at least two examples since 2004 when in fact the manufacturers have looked at their ability to supply their customers.

Thank you very much for your time today.

MR. HUNLEY: Good afternoon, Mr. Chairman, and members of the Commission. My name is Terry Hunley and I'm an external advisor to Global Paper Solutions.

I have been in the paper business now for ten years. First I was a partner with Exentrist Management Consulting Group that focused on the paper and forest products industry. I conducted a number of studies for specific issues facing domestic and foreign paper companies and for the industry overall.

Next I served as Chief Operating Officer of Asia Pulp and Paper. After spending much of my time overseas for several years I came back to the U.S. and now serve as an external advisor to GPS.

GPS is a U.S. mill agent for Gold East Paper and Gold Huasheng Paper and acts as importer of record for almost all the coated paper imported into the U.S. from those two mills. GPS receives a commission on the U.S. sales but does not hold inventory or title of the goods.

My task at GPS was to help them build and maintain a steady market position in the U.S.. Since

Gold East and Gold Huasheng only provide product for the sheet fed market segment and the fact that the sheet fed market segment is dominated by U.S. producers and merchant distributors, building our market position was about adding distribution.

Distributors, or merchants as they are known, need to offer choices in product lines to customers. The more choices, the greater chance a merchant salesman has of making a sale.

Most U.S. merchants will carry one or more product lines each from domestic mills, European mills, and Asian mills. Their sales people will promote this variety of paper to printers and end users who make the final decision on what paper to purchase for the specific printing application.

To my knowledge, GPS has never directly taken a position with a merchant away from a U.S. paper producer. We compete for that Asian slot within our distribution merchants. In the case of Unisource, our largest customer, they took a chance in using our papers after NewPage refused to sell them.

Another of our major distributors joined us after no other U.S. producer would supply them. For other merchants we took positions away from Korean and Thailand mills. In another case we were added as that merchant's first Asian line.

We have submitted declarations on this point with our confidential pre-hearing brief.

A second result of how we needed to enter the market by adding distributors is that as we add distributors you will see a jump in volume. For example, we take a piece of business away from a Thailand mill in one move and that distributor has to place what are called stocking orders in order to build up the inventory since we do not carry inventory in the United States.

However, there's a limit to our ability to add distributors and volume. We can only allow one or two distributors to carry our paper in a geographic region. If we try to add additional distributors our current distributors will drop our products since they do not want to compete with others carrying the exact same sheet.

For example, I've had several tense conversations with Mr. Dragone when he heard a rumor that we were talking with another merchant. The bottom line is that once a distributor network is complete the only way we can grow is through the distributor and with the overall market.

We had just added our last distributor which we had taken from another Asian mill, by the way, around the time that NewPage filed the petition. I do not expect that there would be large increases in GPS' imports if the trade case did not result in orders.

The fact is, this is a market that has always been and always will be dominated by the U.S. industry.

I've heard a lot this morning about how China's going to take over the world in this industry and about the three million tons of additional capacity that's coming down the line in the next few years. The bottom line is the information is wrong. Part of that capacity is a machine that was referred to, I believe, as 1.6 million tons that APP was going to add. That machine as of last notice was going to be uncoated paper, not coated paper. In addition, there is an 800,000 ton machine that Ogi is putting in in China. If you subtract those two out, there's about 600,000 tons of additional capacity coming on-line.

You've got to remember that the Chinese market grows at approximately 500,000 tons of additional coated free sheet demand every year. So by the time the Ogi machine comes on-line, the market will have essentially consumed all of the additional demand or all the additional supply.

There was also a lot of discussion this morning about how the Chinese producers are poised to take over the U.S. web roll market. Granted, all of our customers have continually asked us to support them with web rolls since they cannot compete with the monopolistic position of the U.S. producers in that segment. However, web rolls are not economically viable for the Asian mills. Freight costs for the rolls are significantly more expensive than sheets, sheets command a higher price in the U.S. market, the production costs for the mills we represent are higher for web rolls because of the physical characteristics of the sheet, and because the additional machine time required to produce the web rolls due to their typically lower basis weights. The next effect is that the mills lose money on web rolls.

In addition, this is not just a problem or an issue for the mills we represent or just the U.S. market. You do not see any significant web roll volume from any of the Asian mills entering the U.S. even though some have been in the market for many years. And you do not see our mills exporting web rolls to other markets outside of China.

Not only do U.S. producers dominate in terms of market share, but there are significant differences between the U.S. industry and the imports that limit competition.

First, printers will not usually purchase directly from an Asian source, nor do we have the capability of supporting printers directly. This limits our reach in the market. U.S. producers can and do sell directly to printers.

Second, GPS nor the mills we service carry inventory in the United States. This creates a very significant cost disadvantage to the papers we represent. Our lead time for delivery to a merchant averages 12 weeks and regularly exceeds that level due to production and delivery problems. This creates a heavy burden for our distributors. They must carry three to four months of our paper in stock at any point in time and they still have significant stock-out problems on specific sizes if they have not guessed correctly.

I had a recent conversation with one customer who had three months of inventory on the floor but still had 20 of his top items out of stock.

Now compare this situation to doing business with a U.S. producer who can make deliveries in the matter of a few days to two weeks. I estimate the additional cost of holding the inventory and lost business for the merchants at approximately $75 to $125 per ton on its purchases of imports.

Another important consideration for a merchant is who incurs the cost or promoting the product. In the case of most U.S. producers, they advertise in trade magazines, conduct direct presentations to end users and at trade shows and provide significant amounts of professional sales materials. A merchant incurs mostly cost to promote imports, most of which are sold under the merchant's private labels.

Finally, U.S. producers have much stronger and better trained technical and customer support groups. U.S. mills can send technical support into printer who is having difficulties running their paper, even if the printer purchased the paper from a merchant.

U.S. mills resolve quality claims much faster and can get replacement paper to the printer much faster and more reliably than we can. The advantages that U.S. producers have over us are not going to change and reflect the U.S. producers' ability to command a premium price and a growing position in the U.S. market.

Thank you.

MS. MENDOZA: Good afternoon. My name is Julie Mendoza and I'm with the law firm of Troutman Sanders. I'll be giving a brief introduction today to the Korean presentation and then I'll turn it over to Mr. Davis of the Printing Industries of America who is going to present testimony, and he will be followed then by Mr. Aronica from Graphic Paper, Mr. Choi of EN Paper, and Mr. Lee of Kyesung, both of whom will be explaining the substantial capacity reductions that both of their companies have undertaken this year in the Korean market.

NewPage in its fervor to urge the Commission to "act aggressively on Chinese subsidies" brushes aside the overwhelming evidence that the statutory requirements of material injury or threat by reason of subject imports has not been met. In fact I was struck this morning when I listened to their testimony because their case is completely contradicted by the record evidence before the Commission.

I don't think I'm the only one that noticed that they don't even deal with most of the record evidence in their testimony this morning.

So let's look a moment at the statutory standard and the actual record evidence that the

Commission's collected in this investigation.

First, there aren't any significant volume effects. No party in this proceeding disagrees that there is one like product including both web and sheet. The record shows no decline in domestic shipments over the period, no decline in industry market share, and at the same time U.S. producers are operating at full effective capacity, inventories are low, and domestic producers can't satisfy the market demand for CFS in the United States.

Frankly, that's the whole story on volume effects. There aren't any.

NewPage doesn't dispute this. NewPage tries to rely instead on the volume effects exclusively in the sheet segment of the market, but the data only proves our point, that the sheet segment of the market is a small portion of the total shipments.

Look at the absolute volumes that they're discussing. Those shipments that they allege were lost in the sheet segment of the market is a drop in the budget compared to their total shipments, and this is the sum total of the significant volume effects, that NewPage could come up with.

There aren't any significant price effects either. We know from the public staff report that prices for products that are being investigated are rising and that overall AUVs are also rising. Petitioners, try as they might, cannot make the data say something different so instead they argue, one, that there is some significance to the fact that web and sheet prices increases did not move in tandem; and two, that prices did not increase adequately.

We can't comment on the relative nature of the price increases between sheet and web in the public hearing but the legally relevant point is that the prices of CFS increased over the period so there was no price depression.

NewPage's only answer to this unconvertible record evidence is to assert that prices did not rise "adequately" but relative to what?

NewPage states in another section of its brief that U.S. prices are high relative to other markets in the world. So what does high enough mean?

Let's look at the market conditions and see whether that theory is even supported by basic economic theory.

Contrary to Mr. Button's testimony this morning, demand in the U.S. increased very modestly over the POI. This wasn't a period of booming demand. The record evidence shows overall costs were also stable yet the industry was able to institute several price increases during 2006 and 2007 and increase its margin of the prices over its cost. It's hard to argue from these facts that the market should have supported bigger or more frequent price increases, and NewPage just asserts that they would like to have higher prices but they don't explain how the market would have supported such prices.

Finally, it's true that there's price underselling in this record. The Commission knows that it's a rare case before the Commission in which imports are not priced lower than the domestic product. Commission precedent also recognizes that lower price subject imports standing alone does not prove price effects. Frankly, we don't even have a coincidence of trends in this investigation. The data supports the conclusion that domestic producers can charge a price premium and this can be tested by looking at fairly traded non-subject imports which hold a very large share of the U.S. market. Look at the pricing of those non-subject imports

Or compare the trends in pricing categories with no competing subject imports during the POI. when the trends in domestic prices for those products are compared to the trends for products in which there was significant head to head competition with imports, there is simply no evidence that subject imports had any significant effect on domestic prices.

What the price data does confirm is that competition is in fact highly attenuated between domestic producers and imports. That explains the data and it explains why subject imports have not caused any price suppression or depression.

NewPage this morning said that they would not have restructured if it hadn't been for subject imports. That may be true for them, but we doubt that the U.S. industry decided to restructure solely because of subject imports.

Finally, Korean producers should never have been included in this case to begin with. Commerce just a few hours ago released the final results of its investigation and it concluded that in fact only one Korean company had any countervailing duty margin and that margin was only 1.4 percent. All the other Korean producers were found not to be subsidized.

The Commerce Department has also confirmed that the majority of the industry is not dumping either.

You will hear testimony today from both Kyesung and EN Paper, the only two producers who were found to have dumping margins, that they had plans to shut down the inefficient capacity that produced those margins even before this case was filed and that capacity was shuttered in 2007.

Clearly there is no future threat from these Korean imports and NewPage hasn't cited any basis to conclude otherwise.

Thank you.

MR. DAVIS: Good afternoon, Mr. Chairman and members of the Commission. My name is Ron David and I am the Vice President and Chief Economist for Printing Industries of America Graphic Arts Technical Foundation which is a business association representing approximately 8,000 printing firms and around 2,000 industry suppliers in North America.

I've been with PIA since 1988. My job responsibilities include economic and market research, economic forecasting, and industry and public policy analysis.

The U.S. printing industry ranks high on the list of U.S. manufacturing industries by total shipments and total employment. The dollar value of printing shipments produced by U.S. printing plants was 171.5 billion in 2006, an increase of approximately 3.3 percent or 5.3 billion over 2005 levels.

Coated free sheet paper is used extensively to produce magazines, brochures, annual reports, et cetera. The domestic coated paper producers do not have the capacity to supply the entire market so imports are essential to the market. In fact even with imports being present some of our members have complained from time to time about being put on allocation by domestic suppliers.

According to our members on the West Coast, the problem of supply is particularly or especially acute there. The majority of U.S. CFS production is centered in the East and Midwest. Imports, on the other hand, have long had a strong and important presence on the West Coast, both because of relatively low transportation costs and because they fill a market need.

There's been a lot of discussion today about the distinctions between sheet fed printing and web offset printing. As someone who has particular expertise in the printing industry I can say that the U.S. market for coated free sheet paper is segmented between coated free sheet paper in web form and sheet.

The type of paper that a printer will purchase depends on the type of press that it runs.

If a printer runs a sheet-fed press the nit will use sheets. If a printer runs web offset presses, then it will buy web rolls.

Generally, sheets and web rolls are not interchangeable because they are designed for use in distinct and different printing process. CFS web rolls must have higher heat resistance and lower moisture content in order to withstand the web offset printing process. Specifically because web offset printing uses heat to set the ink rather than air drying as in sheet fed printing, CFS web rolls require a lower moisture content than sheets as well as the use of slightly different types of latex included in the coatings in order to withstand the heat without blistering. Web printing is also generally used in high volume jobs.

Printers normally run either web offset presses or sheet fed presses. A relatively small share of printers own both types of presses. Even printers with both types of presses, however, still require the correct paper type for each press. Printers who have dual capability typically base their decisions on which type of press to use for a particular printing job, depending on the length of run and the nature of the job. Traditionally sheet fed presses were preferred for shorter runs and for very high quality runs where web presses were used for longer runs. However, in recent years web printing technology has improved and printers are now able to get nearly the same quality from a web press as from a sheet fed press.

Some printers have the capability to purchase CFS in roll forms and then cut it into sheets themselves or hire a converter to do it for them and then use the resulting sheets in a sheet fed printing press. In these instances they purchase a special CFS roll called sheeter rolls that are designed and marketed for that purpose. It is, of course, theoretically possible to cut a web roll into sheets for use in a sheet fed press but in my experience this is rarely done. There is simply no reason to do so since U.S. producers offer sheeter rolls which are expressly designed to make sheets for sheet fed presses.

CFS sheets cannot be used in web offset printing at all. A web press requires a rolled paper input, not individual sheets. Sheet rolls, while they are in roll form, also would not be used on web presses. Sheeter rolls are formulated for sheet fed printing and are not designed to withstand the web offset printing process.

Sheet rolls typically have a higher moisture content than web rolls and could blister if used in web printing. Manufacturers of sheet rolls typically will not guarantee these products for use in web printing and we heard that this morning.

Both U.S. government data on the producer price index and PIA/GATF surveys indicate that paper prices have increased over the past few years. Printers indicated that their average paper price rose 5.4 percent from June 2006 to June 2007. Recently our members have informed us that U.S. producers have again raised prices. We also recently learned that the U.S. industry would become further concentrated as NewPage has announced the acquisition of Stora Enso North America. The result will be greater concentration of the U.S. CFS market which will now have only two major domestic suppliers, NewPage and Sappi.

Our members are concerned that at the same time NewPage is also trying to resist competition from sheet imports from Korea and the other subject countries. U.S. printers are dependent on paper and competitive paper supplies from both domestic and import sources. The imposition of duties on subject imports would directly impact the printing industry by reducing our access to imported paper. While this result would harm the printing industry it would not benefit domestic producers. Printers already face increasing competition from off-shore printers located in Asia and elsewhere. You can be sure that those off-shore printers are not buying their paper from NewPage or other U.S. producers. Forcing more print business off-shore will just reduce domestic demand for CFS.

Thank you, and I'll be happy to address any questions the Commission or staff may have.

MR. ARONICA: Good afternoon Mr. Chairman and members of the Commission. My name is Leonard Aronica and I am the CEO of Graphic Paper, Incorporated, a family-owned paper distributor and converter located in central New York. I began working in the paper industry in 1986. My father owns a paper brokerage company. We have one subsidiary located in Mansfield, Mass. Our combined companies have 105 employees in the United States.

Graphic Paper has distribution facilities in New York, New Jersey, and Massachusetts, allowing us to distribute paper throughout the Northeast.

This investigation is important to Graphic

Paper and its employees because we rely on imported coated free sheet from Korea to run our business. In fact all our coated free sheet we sell is imported from either Europe or Asia. We have no domestic suppliers.

We have tried since the mid 1990s to become a distributor for domestic manufacturers, however the domestic manufactures limit their distribution in each region. Feeling frustrated with our inability to grow our business with domestic manufacturing we took on suppliers from Europe and Asia to satisfy our growing customer base. Italy is our current source for European coated free sheet.

We continue to seek domestic suppliers, most recently from NewPage, but we have not been successful. We have been told that since we don't have any large web printing accounts which is the primary business of domestic manufacturers, they cannot risk upsetting their national distribution to aid a regional merchant.

Imports play a vital role in the U.S. market for coated free sheet. The shortfall in domestic production is supplied by Asian and European imports which are an important component of the U.S. coated paper market. The Korean and European prices for sheets are generally competitive with each other.

Printers depend on runability and reliability of paper. Consistency of quality is the most important factor in our customers' purchasing decision. This is not to say that prices are not important, but quality issues trump price in terms of what most of our customers demand from us. Inconsistency in quality lead to delays and production problems.

We have found that of all the Asian suppliers, Korean paper is of the highest quality. The Korean manufacturers have been a long term steadfast supplier to the U.S. market. It has been my experience that they have always taken a cautious commercial approach to the U.S. market. The Korean manufacturers have not been the price leader. Their prices have always been consistent with the market conditions.

Korean manufacturers, for that matter all our manufacturers of coated free sheet face a number of competitive disadvantages in the U.S. market. U.S. manufacturers are closer to their customer base and provide market support, technical and logistic support and an extensive sales and distribution network.

Additionally, U.S. manufacturers can ship merchandise out almost immediately while imports from Asia take anywhere from 10 to 12 weeks to reach the United States.

As already discussed, U.S. manufacturers offer a full line of products including both web and sheet products in a wide variety of sizes and specifications. U.S. manufacturers have the flexibility to offer custom sheet sizes, for example, while Korean manufactures supply only pre-cut sizes of coated free sheet to the U.S. market.

To accurately compare the cost of domestic coated free sheet to imported coated free sheet you must account for the impact of these competitive disadvantages facing the imports.

Since the lead time for most Asian suppliers is 10 to 12 weeks, the distributors of imported coated free sheet must keep anywhere from 10 to 12 weeks of inventory on the floor. We estimate the cost of capital and warehousing associated with these inventories and lead time requirements to be as much as $50 to $60 per short ton. These costs must be added to the purchase price to compare the real cost to a distributor for coated free sheet.

Additionally, most of our customers cannot unload overseas containers directly shipped to them.

As imported coated free sheet comes in large bulk shipments that need to be unloaded from overseas containers, this means paper needs to be unloaded into a warehouse, then reloaded in delivery trucks for delivery to our customers.

The domestic mills ship product directly to the printers so the merchants avoid these costs. We estimate the cost of these logistics to be as much as $30 to $40 per ton.

Finally, most imported coated free sheet is sold without market support from the manufacturer. These additional market costs are also borne by the distributor.

In short, it is more expensive to be a distributor of coated free sheet from Asia than it is to be a distributor of domestically produced paper and this is reflected in the price at which paper is imported from Korea or Asia.

There has been discussion today about the distinctions between web rolls and sheets. Based on my experience the web rolls and sheet markets are separate segments of the coated free sheet markets. Due to differences in coating, moisture and heat resistance between web rolls and sheets, domestic manufacturers will not guarantee their paper if you use web rolls for sheet fed presses or sheet rolls for web presses.

To my knowledge the Korean manufacturers do not ship any web rolls to the U.S. market and only a limited amount of sheeter rolls. Of the total tonnage we import from Korea, only a small percentage is sheeter rolls. This is because coated free sheet in roll form is very costly to ship.

Thank you.

MR. CHOI: Good afternoon, Mr. Chairman and members of the Commission. My name is Woo-Sik Choi and I am the President of EN Paper. EN Paper has been in business since 1971 and employs about 900 employees in Korea.

EN Paper imports coated free sheet paper to the U.S. market through U.S. importer Shinho USA located in California. EN Paper began exporting to the U.S. in the late 1980s.

EN Paper produces a number of paper products. In the coated paper industry it is important to make sure that operating capacity is efficient. EN Paper has therefore shut down some of its own capability to alleviate products and costs. Generally over the last year EN Paper made the decision to shut down various paper mills including its Jinju factory. Jinju shut down in June of this year. This factory had a capacity of 90,000 short tons per year of CFS. It was shut down because it had high products and costs. Other mills that produce non-subject merchandise were also shut down this year as part of the same corporate strategy.

EN Paper mostly produces coated paper in sheet form. Approximately 88 percent of our production is to CFS in sheet form. only nine percent of our production is web rolls with the remaining three percent of sheet rolls. Web offset printing is less common in Korea and most of Asia than in the United States and Europe.

EN Paper does not export web rolls to the U.S. and EN Paper has no plans to do so in the future.

As discussed in our brief, demand for CFS paper in Korea has been strong in 2007. The upcoming presidential election has pushed the demand for CFS paper. Demands in other Asia markets is also forecast to be strong going forward. With strong demand in our natural market combined with our shutdown of capacity our exports to the U.S. market have decreased and we expect them to decrease further in 2008.

I appreciate the opportunity to address the Commission. Thank you.

MR. LEE: Good afternoon, Mr. Chairman and members of this Commission. My name is S.B. Lee. I am the Director of the Overseas Department of Kyesung Paper Company. Kyesung is affiliated with Namham Paper Company, another Korean producer of coated free sheet paper. I act as the Director of Overseas Sales for both companies. Kyesung and Namham are the oldest Korean exporters of coated free sheet paper.

Until this year Kyesung produced coated free sheet paper in its only facility located in Osan, Korea. Namham has three other facilities. In 2005 Kyesung/Namham reduced their exports to the United States as part of our overall restructuring. In early 2006 Kyesung made its decision to close its Osan facility completely and consolidated all coated free sheet production into Namham's more efficient mill. This decision was due to the fact that the Osan plant was a high cost and inefficient facility.

As a result of this closure Kyesung eliminated approximately 78,000 tons of paper making capacity from the Korean market and consolidated its production in the more efficient Namham plant.

I would be happy to answer any questions. Thank you.

MR. LINCICOME: Can I get a check on time?

MR. BISHOP: You have 11 minutes remaining.

MR. LINCICOME: Thank you.

Good afternoon. My name is Scott Lincicome and I'll make just a few comments today regarding negligibility for Indonesia.

Contrary to Petitioners' statements in the pre-hearing brief the negligibility issue is not closed with respect to Indonesia. As demonstrated in our briefs, imports from Indonesia are negligible and are likely to remain as such in the imminent future. The Commission, therefore, must terminate the CBD investigation with respect to Indonesia.

In determining negligibility the Commission has recognized that the statute compels it to use the best reasonable estimate of actual imports entering the United States during the negligibility period.

In an attempt to cure flaws in the official import data the pre-hearing staff report chose to use unadjusted expert data for Indonesia and Korea from foreign producer questionnaire responses and a hybrid of unadjusted export data and some proprietary import data for China. Yet for all other non-subject countries the report used unadjusted Commerce statistics -- the same data source that was found too inaccurate to use for the subject countries.

We believe that this current negligibility calculation is not the best reasonable estimate of actual imports.

First, from all available data the staff report shows the highest possible numerator and the lowest possible denominator, thus producing the most inflated version of Indonesia's import share which still is just 4.1 percent.

In contrast, a more reasonable apples to apples comparison using the same data source likely would lower that share to a negligible level.

Second, if the Commission continues to use the aforementioned mixed data set it should adjust the data to reflect the best reasonable estimate of actual imports.

We've listed many adjustments in our pre-hearing brief, almost any of which would put us below four percent. But most importantly, Indonesia's import volumes should be adjusted to eliminate all known non-subject merchandise.

In our pre-hearing brief we'll provide confidential information concerning additional merchandise, the removal of which alone would put Indonesia well below four percent.

Also other non-subject imports should be adjusted to reflect the systematic understatement of official import statistics. In this regard we're presented evidence to the Commission on misclassification in other non-subject countries, on the uniform inaccuracy of Commerce stats, and on how such an adjustment could be made. This adjustment is absolutely necessary to ensure that export volumes used to avoid classification problems closely match Commerce data that suffer from the exact same problems. Again, trying to approximately an apples to apples comparison.

Even with the current unadjusted negligibility data, only one-tenth of one percentage point keeps Indonesia in at the very least the present injury aspect of the CBD investigation. Thus the accuracy of the Commission's negligibility calculation is critical and we respectfully request that the Commission examine all options.

One of these options might be using value data as a check on the Commission's quantity based negligibility calculation. The Commission has looked to value when divergent product mix issues render quantity data unreliable and it is noted in other paper cases that there are inherent quantity distortions for paper products.

Similar distortions exist in this case and we will elaborate on this in our post-hearing brief.

We do not mean to suggest the Commission measure imports by value for the entire investigation, however in the case of negligibility with quantity data flaws that single-handedly might keep Indonesia in the CBD investigation, we believe that value should be examined. The issue is critical for Indonesia.

Thank you, and I welcome your questions.

MR. MORGAN: Good afternoon again, Mr. Chairman, Madame Vice Chairman, and members of the Commission. I just wanted to hit on a few points that were raised this morning, and I know our witnesses are eager to address in response to your questions.

The first concerns the distinction between web rolls and sheets. I believe you heard testimony today that when the U.S. producers sell a web roll as a sheet product, they do not guarantee that product for use by the printer running the sheet fed press, so it seems clear to me at least that the U.S. producers are not trying to sell web rolls into the sheet market.

The panel this morning in that regard appeared to be making the exception to the rule.

The real question, though, for the

Commission is whether sheets can run on web fed presses, and I'm fairly certainly there was no testimony to that effect this morning. The importance of this issue, of course, is because subject imports are now and always will be predominantly sheets.

Another point from this morning that you heard was that you can increase the efficiency of old machines by doing constant rebuilds. I know some of our witnesses are very eager to address that because the reality is, to truly increase the efficiency of a machine you have to expand the trim width and a rebuild does not allow you to do that. The only way you can expand the efficiency of a machine in that respect is to actually build a new paper machine. I believe you also heard testimony today that the domestic industry has made a conscious choice not to pursue that route, but to invest its money in existing equipment and machinery.

That concludes my portion of the sort of teasers for questions that we're ready for when you're ready to ask them.

MR. CAMERON: We're finished. Thank you.

CHAIRMAN PEARSON: Thank you.

Let me welcome all of you to our afternoon session. We especially appreciate the fact that some of you have come really long distances to be with us today. It's a hard thing to make the flight from Asia and we appreciate it.

We will begin the questioning this afternoon with Vice Chairman Aranoff.

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. I join the Chairman in extending a welcome to this afternoon's panel. Thank you for traveling to be with us and for sticking with us through the morning session.

Let me start with a question for counsel. You have all argued that there are significant differences in the physical characteristics and uses of sheet versus web roll forms of coated free sheet and that there are a number of other competitive differences in the way that they're marketed.

If that's true, why shouldn't we find that there are two separate like products here?

MR. CAMERON: Commissioner, if it's all right I'll start, and I'm sure other people will join in. For the record, Don Cameron.

First of all the Petitioner brought this case against web and sheet and specifically said it was one like product. None of the parties before you have disputed that.

Thirdly, you're correct that we are saying that the overlap of competition is limited. But it is also true that there has been testimony and there is confidential record evidence that there is some overlap.

Our point with respect to the competition is that it is highly attenuated. Yes, there is some competition, but for the most part you do sheet and you do web and you're doing them based upon the machinery that you have.

So is there limited competition? Yes. But we're suggesting to you that it's very limited and as a result, we don't think that the like products would work.

If you want a statutory analysis in the post-hearing brief, which I suspect is your follow-up question, we would be happy to do so. But it is also accurate that you make sheet and web on the same machinery and I think that we can answer that in post-hearing briefs if you would like.

VICE CHAIRMAN ARANOFF: I would like to see that in a post-hearing brief, as you correctly guessed.

MR. CAMERON: I knew you would.

VICE CHAIRMAN ARANOFF: What I'm mulling of course in the big picture here is you're telling me that if I look at the data for the domestic industry as a whole I don't find any of our normal indicia of injury met, but maybe if I were looking only at sheet the story might look different.

MR. CAMERON: Actually I don't think that the story is different, but I think that it is absolutely accurate to suggest that yes, when you look at the industry as a whole you don't see any impact and that is exactly the point. The reason for that is because the points of competition between imports and the domestic industry are limited. So what did they say this morning? They said well, they have the sheets in here and if you don't find affirmative they're going to have the web rolls next. And, by the way, they suggested that the prices of sheet are impacting the prices of web.

So they're suggesting that there is this impact that imports of sheet are having.

The problem that they have is number one, there's not a shred of data in the record that supports those assertions. But aside from that, that's really what their problem is.

Producers do produce both. They do produce both on both machines. The reality is that in the case of Korea we don't import web. That's uncontroverted. There are some imports of web, they're minuscule. That's one reason that there isn't very much of an impact on this industry because 80 percent of their shipments are in web.

MR. MORGAN: Vice Chairman Aranoff, I would also point you to Diamond Sawblades. I'm sure we can come up with other examples of instances in the past where differences in product size or product form have served as a basis for a finding of attenuated competition but did not necessarily mean that they were separate like products.

VICE CHAIRMAN ARANOFF: I knew you guys liked Diamond Sawblades. I dissented in Diamond Sawblades, but --

MR. MORGAN: I probably cited this for the wrong person.

VICE CHAIRMAN ARANOFF: As a matter of fact I was going to mention in my next question that to me this case looks more like Artists' Canvas than it does like Diamond Sawblades, and in Artists' Canvas the Commission found that the subject imports had entered at the high end, the value added end of the market and squeezed the domestic industry into the lower value canvas rolls. Focusing I think somewhat more on what was happening in that one portion of the market did make an affirmative determination.

MR. MORGAN: If I can take that as a question about Artists' Canvas I think we can respond actually with industry witnesses about this notion that subject imports targeted the high end value segment of the market.

The reality here is that the sheet market has always been one where the imports have been present. In fact if you look at web rolls, the only significant volumes of web rolls that have ever come into the U.S. market are coming in from Europe. They haven't come in from Asia, they're coming in from Europe. And I know that Jeff has some reasons why that's occurring.

In any event, the sheets are the predominant focus of these producers in Asia. It's not as though they're making lots and lots of web roll and selling that on their home market or exporting it anywhere else. Their focus is on sheet. So of course that's the product they're going to export to the United States. Maybe some of the industry people here can comment on that.

MS. MENDOZA: I'd just like to say before we do that, that in terms of the other part of -- Julie

Mendoza for the record, Commissioner Aranoff. You suggested that in that case they were producing U.S. producers out of the higher valued into the lower valued product, and I think you've got to look at, of course a lot of this record's confidential, but I think you've got to look at that part of the theory and see whether that's really going on based on the data. You actually do have that data to do it, so I don't think I can comment very much, but that is a relevant issue.

VICE CHAIRMAN ARANOFF: I understand where you're going with that.

Let me ask Mr. Lee and Mr. Choi, since we have you here and I understand that one of you needs to leave relatively early. Do your companies produce web rolls?

MR. LEE: No. We don't produce any web rolls.

MR. CAMERON: In the case of Kyesung, the mill that shut down, this was in the data but we're more than happy to tell yo, if you look at the questionnaire response you'll see that they had a very small amount of web roll that was produced in the mill that has been shut down by them. The only three mills they have left do not produce web rolls.

MR. CHOI: My company does produce the web rolls, nine percent for Korean market, only the Korean market.

VICE CHAIRMAN ARANOFF: Is there anything physically different about a web roll that's produced for and sold in the Korean market and one that would be used in the U.S. market?

MR. CHOI: I'm sorry that I cannot speak English well, so Mr. Don speak. Do you mind?

MR. CAMERON: Actually, Don Kim, why don't you answer that question.

She's asking is there any difference between the web roll that is produced in Korea and the web roll that's in the U.S..

MR. KIM: We export November to Hawaii 2003, but we don't export other market.

MS. MENDOZA: I think he's trying to say that they haven't exported anything to the U.S. market. They did one trial shipment in 2003 to Hawaii.

I think in terms of your specific question on comparing the web that's sold in Korea and whether it is the same as the U.S. producers' web, we'd be happy to answer that in detail in our brief.

VICE CHAIRMAN ARANOFF: Okay. I'm still

trying to explore, since I know that this product is produced in Korea and is sold in the Korean home market, and I believe it may even be exported to markets other than the United States.

MS. MENDOZA: There is some to Japan.

VICE CHAIRMAN ARANOFF: Okay. I wasn't sure if that was public.

MS. MENDOZA: It is now.

(Laughter).

MR. CAMERON: Excuse me, if I could add to that question --

VICE CHAIRMAN ARANOFF: I'm still trying to figure out if that's true, why doesn't it come here? It takes us back to this whole conversation about whether or not you can fit it in a shipping container, which I want to get to that stuff too, but first I want to make sure that the product itself wasn't any different. It doesn't sound like it is, but I'll --

MR. CAMERON: We don't believe it is.

MS. MENDOZA: We don't believe it is, no.

MR. CAMERON: But we'll make sure to get the details. Web rolls are web rolls. We've never suggested that there is a difference in physical characteristics between web rolls in some market that prevents you from shipping to the United States.

These are commodity products. That's not the issue.

VICE CHAIRMAN ARANOFF: Okay.

Mr. Hunley?

MR. HUNLEY: Yes, if I could add. We produce a limited amount of web rolls for consumption primarily in China, but it's a very small amount of our production. And overall there's really no difference between the web rolls we produce in China and the ones that we would ship anywhere else.

MR. CAMERON: Commissioner, if I can add one thing. I think the record also suggests that actually in Europe they do export web rolls from Europe to the United States. One of the reasons that there's a difference is that actually they use a lot of web rolls in the European market. Therefore this is something they normally produce.

In Korea it's not a big web roll market. The web rolls are generally used for very long production runs. It's not a common product. Therefore, they have limited production of it because there's no domestic market for it, whereas in the case of Europe they have a huge domestic market. They're able to also produce for export because it's the same runs.

VICE CHAIRMAN ARANOFF: I'll have to leave off there and come back to the shipping containers in my next round.

Thank you.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman. I join my colleagues in welcoming this panel here this afternoon. We very much appreciate you being here and traveling and answering our questions.

My first question I'm going to put to counsel. That is if you could respond to Mr. Kaplan's discussion or characterization of, when we were asking questions about should the Commission be looking at their increasing raw material costs alone as a way to judge suppression versus the more normal way that we usually have looked at price suppression with the ratio that Mr. Klett discussed earlier.

One of the things I heard Mr. Kaplan say in response is in effect to not do that in this particular case, again adding in the statutory language that the Commission is supposed to be looking at the industry and the particulars of this particular industry. But you're in fact punishing an industry for doing the right thing. That had this industry not restructured, taken down lines that made labor costs lower, that they would have actually had a, we would have a classic case of price suppression because that entire cogs line would have been much higher relative to their sales. Can you respond to that?

MS. MENDOZA: To me, I can start, Julie Mendoza. To me that's kind of circular. The restructuring occurred during this period of time which suggests that the industry was actually able to borrow the money, make the investment, and do the adjustments during this actual period of time during which subject imports were in the market. In fact we heard testimony that in fact going into this period the industry was actually in bad shape, not due to imports, but due to some other economic conditions, the dot-com and 9/11 and all of that. So actually they came into this period and made a lot of restructuring during this period. I think that's a very positive thing.

You heard NewPage saying they were even able to pay off their debt and the debt wasn't an overly large burden them and they were doing pretty well with that.

So it seems to me that if during a period of time you can actually do that kind of investment while imports are also in the market, strongly suggests that you aren't being injured.

I think it's kind of hard to say we're going to put aside all the positive things that you were able to do while imports were in the market and we're just going to see if there was any negative thing going on, and if there was then we're going to attribute that to imports.

MR. CAMERON: And Commissioner, where exactly would the punishment be? The suggestion was that they only restructured because of subject imports? Subject imports are not a large part of this market. The reality is they were rewarded for their efforts of restructuring. How? They're more productive. They have much higher productivity. They're competitive. competitive with who? Competitive number one with other domestic producers; number two, they're competitive with non-subject imports which are a substantial part of this market; and number three, they're making more money as a result of this.

So the suggestion that somehow they're being punished for having done the restructuring I think is a bit of hyperbole if I may say so myself, Commissioner

MR. KLETT: Commissioner Okun, this is Dan Klett. Just one other point.

Premised on their theory I think also is that the imports forced them into restructuring. I think there was a question you asked about contemporaneous documents about when restructuring happened and why. The contemporaneous documents I have are their SEC filings with respect to what they said, and as far back as the early 2000's they stated an intent to restructure, lower costs, trim their employee base to reduce costs to be competitive long term.

COMMISSIONER OKUN: Just one follow-up on that point, did you disagree? I think Mr. Suwyn's response to that was some of the data at least for NewPage that's being cited that went back to Mead Westvaco is dated information because they independently did a look at it after that time. I don't know if you have anything else in response to that.

MR. CAMERON: I think you can look at things on a mill specific basis. There was some question about for Luke Number Seven, when that decision was made, whether it was made pre-POI or mid next year which I think is what Mr. Suwyn made. But I think you also have to look at the overall business strategy of NewPage and Mead Westvaco and what they said in terms of their strategy for becoming more productive over time.

I think you need to put it in that context.

COMMISSIONER OKUN: Mr. Morgan, did you want to add anything on the argument?

MR. MORGAN: I think we'll take an invitation to address it in the post-hearing brief. I think the fact that we're arguing about something as unique as what Mr. Kaplan's argument suggests that's so far afield from past Commission precedent warrants us giving this some consideration and putting it into writing if that's acceptable.

COMMISSIONER OKUN: I look forward to seeing that.

I wondered if the different representatives from industry here could comment on whether you saw any changes in the market after the petition was filed. There was some discussion this morning of what weight we should give to the post-petition trends. And while a lot of the information is confidential, I don't know if there's anything you can talk about just in terms of your own business, what you saw after the petition was filed.

MR. HUNLEY: From our perspective, you've got to understand the timing for our current position in the market.

I think I mentioned in the opening statement that the way that we entered the market is by adding pieces of distribution. Essentially, I think you've heard several people say that there is a lot of conflict between distribution channels. You can only have so much distribution before distributors start complaining. So we had literally just kind of finished our distribution channels across the United States when the petition came out. So I think what you saw from our side was that our volumes essentially had stopped or decreased slightly, because we actually lost a customer due in part to this particular action. So we lost one of our major distribution chunks.

So from the APP side I think what you would have seen is that our volumes would have flattened out and declined slightly.

COMMISSIONER OKUN: Do others want to comment on that?

MR. HEDERICK: I think I would add since the Petitioners' action at the end of last year, our business from China has actually stayed flat and has only been down about two percent; whereas our business out of Europe has been down almost 18 percent. I attribute that difference more to the fact that the industry in total has been off about 10.5 percent for the year, and don't ascribe any real change in the marketplace or from Unisource's perspective to the petition in this action in question.

COMMISSIONER OKUN: Mr. Aronica, did you want to add something?

MR. ARONICA: Yes, I do.

There's been no change from our point. We've seen no effect in the marketplace since the ruling came down.

COMMISSIONER OKUN: Mr. Aronica, do you deal with non-subject Italian?

MR. ARONICA: Yes.

COMMISSIONER OKUN: Can you tell me with respect to the non-subject that you're familiar with and the subject imports, distinctions in pricing?

MR. ARONICA: The Europeans and the Koreans have always been pretty competitive with each other. So the prices are relatively close together.

COMMISSIONER OKUN: Can you speak at all to this issue of, again a little bit back on the sheets and rolls, which is you indicated I think that the Italians do ship web rolls?

MR. ARONICA: Yes, the Italians do ship sheeter rolls, not web rolls.

COMMISSIONER OKUN: Sheeter rolls, okay.

In terms of transportation costs, I'm still trying to understand why one would want to ship sheets versus sheeter rolls or web rolls. I assume those would be similar in terms of shipping from overseas markets.

MR. ARONICA: I think what we should try to differentiate here is if you can, there's heat set web in the market, heat set rolls; and there's sheeter rolls, which are the two kinds of rolls that come here into this country. The Italian mill that we do business with doesn't really, for the same reason the Koreans don't like shipping rolls here, the same reason the Italians don't like shipping rolls here. They ship them in rectangular containers which doesn't lend itself to, you have a lot of air space in there and you can't get a lot of weight in the containers. So they don't particularly like it as much. They do it as a service point of selling sheets here because if we should run out of a certain sheet size we can take these sheeter rolls and put them into a sheet size that we have. This way we're not out of stock for any lengthy period. So we use it as a service oriented. It's not meant to bring in rolls to sheet and sell into the market. It's really meant as an emergency situation. And that's both of our Koreans and our Italian supplier. We do it both ways.

COMMISSIONER OKUN: Once a product gets here, I understand the air space in a container. Once it gets to the United States and is shipped, does it change the transportation cost for a roll versus a sheet? In other words, why wouldn't the U.S. industry want to -- my red light's come on. Why wouldn't the U.S. industry also want to ship sheets?

MR. ARONICA: The domestic, obviously you can understand, putting it in a container halfway around the world and shipping it here is different than putting it in a truck and shipping it from Maryland to New York City. It's a little different.

Is it costly to ship rolls? A round thing in a square box? Yeah. You're obviously shipping a little more air than you would. In both cases that's similar. But it's a little different than shipping it 400 miles than shipping it thousands of miles.

COMMISSIONER OKUN: I appreciate that.

There may have been other comments. My light's on, I'll come back to it.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Good afternoon.

I'd like to start with perhaps a legal analysis. Mr. Cameron, Ms. Mendoza, Mr. Morgan maybe. All of this discussion about attenuated competition. Is that an argument that is consistent or inconsistent with a Bratsk analysis?

MS. MENDOZA: Commissioner, I would say that it's a different argument. We're arguing that there's attenuated competition between domestic sales of web and sales of sheet, and subject imports are in the sheet segment of the market. So I think what we're saying is in terms of our imports in the sheet segment of the market, that certainly non-subject Korean and subject Korean certainly compete. That was really our Bratsk argument in our brief.

In terms of the attenuated competition point, our argument is simply that because domestic producers are primarily, 80 percent I believe there was testimony, in the web section of the market that the competition, because imports don't compete in that part of the market, competition between imports and the domestic product is attenuated.

MR. MORGAN: Commissioner Lane, the Commission has found in past cases that you can have attenuated --

COMMISSIONER LANE: I'm sorry. Can you get a little bit closer to your microphone?

MR. MORGAN: Certainly.

The Commission has found in past cases, the one that springs to mind is Blast Furnace Coke that you can have attenuated competition between commodity products. NewPage hasn't even disputed the fact that these are commodity products. So it's evident that all parties agree that the first Bratsk factor is triggered in this investigation. Then the question becomes how do they compete in the marketplace, but not whether they're commodities in the first place.

COMMISSIONER LANE: So you're agreeing even if you argue attenuated competition that the products themselves are a commodity product?

MR. MORGAN: We agree that they are commodity products.

MR. KLETT: Commissioner Lane, this is Dan Klett.

I think, though, there needs to be a distinction when you talk about commodity products between a product like cement where a ton of cement is a ton of cement is a ton of cement, and a product like coated free sheet where within web rolls a particular web roll spec from one supplier to another are commodity products, versus a web roll, versus a sheet which don't compete. I think that distinction needs to be made.

COMMISSIONER LANE: Thank you.

On page seven of the KPMA pre-hearing brief, recent price increases were referenced. The brief specifically references a number three 60 pound roll product going for $894 per ton.

We heard earlier today that similar prices in prior years were well above that level. Perhaps in the thousand dollar per ton range.

Do you agree with the testimony that we heard earlier today that the domestic prices in the United States market are lower during our period of investigation than they had been several years before?

MR. KLETT: This is Dan Klett, Commissioner Lane.

The only long term price data I have available to me I think is published by RISI. It's a trade publication. And when I reviewed that information the average price for coated free sheet during the POI I believe was higher than it had been for the three or four years prior to the POI. I think they were a little bit unclear what time periods they were specifically talking about.

COMMISSIONER LANE: Thank you.

We have heard that even with price increases and an improving financial position this industry is achieving a less than stellar net operating income. Even if the domestic prices are increasing, do you agree with the domestic industry that they are still in trouble if they are unable to achieve a reasonable profit level?

MR. DRAGONE: If I can, let me take a stab at that. Having spent 20 years in the paper business prior to going into the distribution business, the paper industry as a whole has done a horrendous job of returning the cost of capital. Whether you choose that to be 10 percent, 12 percent or 13 percent, if you look historically I think the only two businesses that have returned the cost of capital consistently are the board business and the tissue business.

If you were to look specifically at coated free sheet, over the last 20 year period I doubt that you could find more than four years, and I would be glad to dig up the information, but I doubt you could find four years where the industry has returned the cost of capital. Long before the issues that we're talking about today involving China, Indonesia and Korea, the industry has had a very very hard time making money.

COMMISSIONER LANE: Did anyone else want to comment on that?

MR. KLETT: Commissioner Lane, this is Dan Klett.

I think there's also a causation issue here. That is even if you accept they're not earning the rate of return on assets that they like to earn as compared to their cost of capital, I mean ultimately you still need to draw some linkage between that condition and subject imports.

COMMISSIONER LANE: Let me just ask you then, what would you say is the reason that this industry isn't profitable if it is not related to subject imports?

Mr. Dragone, you've been in the business a long time. What are your observations?

MR. DRAGONE: I'd hate to say that we're not as smart as we need to be since I came out of that industry, but the fact of the matter is that we had over-capacity in that industry, very very many suppliers. We haven't built a new coated free sheet machine in the industry and I started the last one in 1990 in Quinesec, Michigan. There hasn't been a world class coated free sheet machine, integrated coated free sheet machine, started since then.

So on top of the fact that we didn't invest in the industry in new capacity, the other problem was there were too many players in the industry and there was a lot of capacity added in the '80s that was a huge overhang over the industry and impacted the overall profitability. But it had nothing to do with anything other than the fact that there needed to be a rationalization of suppliers which you're now seeing in all of the segments of the paper business in North America. You're seeing it not only in coated free sheet, but you're also seeing it in the uncoated free sheet, and you're also starting to see returns. While they may not be what you would expect in a business where you need to put in a tremendous amount of investment, you're now seeing returns on the coated side of the business and the uncoated side of the business that historically are trending up in the right direction for the first time in a very very long time because of the consolidation in the industry and the rationalization of older, inefficient equipment.

MR. CAMERON: Commissioner?

COMMISSIONER LANE: Yes, Mr. Cameron.

MR. CAMERON: I think it's fair also to add a couple of things. First of all, we heard repeated testimony this morning that were it not for subject imports this industry would continue, not I don't actually believe this to be true because I can't believe that they really run their business the way they stated that they did this morning, and Mr. Dragone I'm sure can expand on this.

But they suggested that without subject imports they would actually reactivate the Luke Number Seven mill, that they would continue to keep inefficient capacity, capacity they have already acknowledged and stated as a fact is inefficient, in operation.

Now they suggested to you, and this is mathematically impossible, by the way, but they suggested to you that of course the productivity gains that you've already seen in the data, that those would necessarily continue despite the fact that they would be adding inefficient capacity which, by the way, has lower productivity.

In other words, if you're only producing half of the tonnage out of a machine then guess what? It's going to have a higher cost and the output is going to have a higher per ton cost which goes to all of your paper.

These guys were suggesting this morning that the only reason that they're not operating the inefficient machines on which they were losing money is that imports made them do it.

Now I would --

COMMISSIONER LANE: Wait a minute. I thought they were saying that if it weren't for the imports they would be able to raise their prices.

MR. CAMERON: I believe what they said was they would raise their prices and they would bring on the inefficient machines, right? And their productivity by definition goes down because their costs go up per ton produced.

The other reason for the problem is that it's very convenient and comfortable if 80 percent of your market is, you're not competing with anybody else. In other words, they've got the web roll market here and they've been very comfortable. That may explain why a machine can operate for the last 100 years and they keep it in operation because they consider that to be making marginal money. I don't know. I don't know what their stuff is.

COMMISSIONER LANE: Okay, thank you, Mr. Cameron.

It was his fault, not mine that I ran over.

CHAIRMAN PEARSON: Noted. Yes. We had an earlier run-in with Mr. Cameron, too.

Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman. I too want to express my appreciation for the witnesses who have come here to testify today.

With your permission I would like to, I'm sorry I didn't get a chance to raise this with you earlier, but just to acknowledge the presence of a study tour here that's the Ghana Tariff Advisory Board. They're in the back, and they've been with us since the beginning of this morning, and they're looking at eventually the possibility of establishing an ITC in Ghana. So I did want to let everyone know that they were here and that they've been following very closely the proceedings today.

CHAIRMAN PEARSON: Thank you, Commissioner, and let me also extend my welcome to the group. We met on Monday and I'm glad that you're able to be with us today. No doubt this will dissuade you from ever accepting a case having to do with coated free sheet paper.

(Laughter).

Commissioner, back to you.

COMMISSIONER WILLIAMSON: Thank you.

Mr. Dragone, I want to go back to your statement about the paper industry and I guess the fact that it's never really had, it's been very difficult to get an adequate return on capital. And I think you indicated some of the problems, that maybe some of those things were being addressed.

But given the nature of that, does that mean that this industry is particularly vulnerable at this stage?

MR. DRAGONE: I don't see it as vulnerable, sir. At this point in time I think it's certainly at a cross roads. It's got very few domestic mills that are left, and this, as I said earlier, has been happening for a long period of time. It's been happening in other segments of the industry.

For instance, when I started in the industry there were 14 different suppliers that made uncoated free sheet. Today there's really four, of which two are the major players. Certainly the profitability of the industry has never been stronger than it is right now if you look at it from a historical perspective.

So I don't look at this particular industry as vulnerable at this point in time. I do look at it as an industry that needs to invest in its capacity if it wants to be competitive on a global basis.

Counsel has just whispered in my ear, but I mentioned earlier that really now we only have two suppliers for sheet fed coated paper in the North American market and if you're not lucky enough to be a distributor that has those lines, you really are not in business effectively unless you have access to either European product or some form of imported product.

COMMISSIONER WILLIAMSON: I take it if you're looking at the industry over a period of time that if it's moving towards better times it's not there yet in terms of, is that correct?

MR. DRAGONE: In light of the current economic climate, what you're seeing, and this business has always been a supply and demand driven business, the paper side of the business. It disconnected from GDP about 12 years ago. It used to be there was a very close correlation between paper consumption and GDP. It disconnected about 12 years ago and you can get that information. It's in Rissi, it's in any of the necessary industry information. But it disconnected at that point in time.

Up to 12 years ago or so when GDP went up paper consumption went up. What you're seeing right now is a business that is really much stronger than it has been in spite of that disconnect with GDP. It's a business that is growing. There are fewer suppliers in the marketplace, but overall the returns are, if you look at it on a historical basis over the last couple of years, they're much better than they have been.

COMMISSIONER WILLIAMSON: Why the disconnect from GDP?

MR. DRAGONE: Great question. Certainly what you started to see was, and I think the gentleman representing the PIA might be able to speak to that better even than I could, but you've seen it. It could have had a number of causes. But rather than me guess I'll ask an expert.

MR. DAVIS: As the paper industry's largest customer certainly we have experienced the impact first of all of the internet. So I would say more than anything else the disconnect came from the internet. And while it is true that in some cases the internet has increased demand for some specific print products, overall it's been a net decrease in print demand. That's probably the main reason for the disconnect and we've seen a similar pattern in terms of print also.

COMMISSIONER WILLIAMSON: What about in terms of coated free sheet paper? Has that benefitted from the internet or is that one of those sectors that has lost --

MR. DAVIS: Again, it depends on the sector. Certainly some targeted advertising mail, direct mail using coated free sheet has benefitted as targeters have combined internet marketing with direct mail. But in many other cases such as book publishing and financial publishing and so forth, that's taken away some of that demand.

MR. DRAGONE: If I can, if you look at the historical data, the coated free sheet side of the business has been one of the few areas where it has consistently ben growing, but demand for better reproductive characteristics has been very beneficial to the coated free sheet industry.

On the other hand, the offset and repographic paper side of the business has declined as the internet has taken more of that business away from those manufacturers. But the coated free sheet side of the business specifically has shown better than average growth because of the growing demand for those nice catalogs that show up in your mail box every day.

COMMISSIONER WILLIAMSON: I appreciate those answers.

For post-hearing, I think at Tables 5 and 6 of the Petitioners' brief there's data on transhipment and market share for CF sheet product. Can you comment on these tables? This is in post-hearing.

MR. CAMERON: We'll be glad to.

COMMISSIONER WILLIAMSON: Also at page 11 of their brief the Chinese Respondents cite testimony from the preliminary staff conference indicating that major distributors must carry a line of CF in sheets, typically a U.S. line, a European line and an Asian line. Why would there be a need for this multiple sourcing?

MR. DRAGONE: I'll start and then I'll also refer to my colleague as well.

I don't know if you have to have representative all three of those products, though to a great extent they're different types of products. The European products have a higher surface smoothness and in some cases a higher brightness level. The Asian products have stiffness that's very similar to the U.S. products. But as I said earlier, it's very common for a distribution company to have a high end product, to have a digital product, to have a commodity product, and in many cases it's necessary to have multiple lines at the high end, multiple lines at the commodity so that if you are stocked out of one line you can at least give your customer an alterative.

MR. HEDERICK: I think for whatever reason, the marketplace has found a value in both premium priced products, mid-tier priced products, as well as commodity priced products. So in essence the demand has self-selected itself into multiple different price bands and suppliers, regardless of geography, have developed products that fit into those value bands that printers value and that customers who are the end users value as well.

There is a huge spread in that total amount of pricing, so simply manufacturers have produced product that has filled individual price band needs.

COMMISSIONER WILLIAMSON: I wonder if you can make a comment on a product from Europe, there was very little mention of that this morning, so I was just curious what role to the European suppliers play in the U.S. market? Are they at the top end?

MR. HEDERICK: The Europeans play a reasonably significant role. I recently worked for a European manufacturer, UPM, which is based out of Helsinki, Finland. Their product, their sheet fed product as well as their coated web product comes to the U.S. either from Finland or from Germany. They have a growing business in the U.S.. It is generally from a value perspective in what I would call the mid pricing band, and the reason for that is primarily just the surface characteristics of the sheet is very high end. Based on their relative cost position and their delivery position, and we've talked a little bit around that, that's the place in the marketplace where they think they've been able to provide the most value for both distribution and the distribution customers, the printer.

MR. DRAGONE: If you go back far enough onto the West Coast specifically, that was a European import market for a long, long time. If you go back say 15 or 20 years ago, and there are some individuals in this room that sold a tremendous amount of European product on to the West Coast long before any Asian product was arriving on the West Coast, it was an import market, but it was utilizing the European products. I don't have the history. That may or may not, be because supply was restricted on the West Coast or it was more expensive to get it there. But I do know that long before the Asian products were in California and Seattle and Portland, the European products were very very strong there.

COMMISSIONER WILLIAMSON: Are Europeans more likely to ship web rolled products to the U.S. than the Asian suppliers?

MR. DRAGONE: I think Jeff has been dying to answer this question.

MR. HEDERICK: The total amount of imported paper from Europe, actually whether it be coated free sheet or coated brown wood, is predominantly web. There's one large reason for that, and that is their total cost in the supply chain to get paper to the U.S. is very much lower in web than it is for sheets for a primary reason. That is that the Europeans, whether it's UPM, whether it's Stora Enso Europe, whether it's M-Reel, Milikovski, they are shipping those web rolls into the U.S. in purpose-built break bulk shipping vessels. These are large boats that the European manufacturers in some cases helped underwriting the financing in building these boats, with long-term leases and agreements to use the boats. They have huge elevators on the side of these vessels which allow them to load a vessel very very rapidly. Up to 20,000 tons of paper can be loaded on a vessel within I believe 24 to 48 hours. The boats then come over fully loaded with paper. They discharge their loads. They are then usually reloaded with some U.S. commodity, in many cases clay which goes back to Europe and then is used in industry in Europe.

I know for a fact that just the on-sea and the handling of paper by using this freight methodology is about 28 percent lower than shipping containerized product.

so when we talk about why the Asians don't ship a lot of web over here and why the Europeans are able to do it, the fact of the matter is they have a significantly better supply chain and a lower cost supply chain model which allows them to do that.

COMMISSIONER WILLIAMSON: So an Asian supplier who might want to invest in one of these boats might become a competitor in the web roll in the U.S.?

MR. HEDERICK: I can answer it by saying UPM who owns a large mill in China so far has been reticent to ship any web to the United States until they can figure out how to break bulk rolls into the U.S. market because they do not have vessels right now playing the Pacific.

COMMISSIONER WILLIAMSON: Thank you. My time is up.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I too would like to thank this panel for providing testimony to us today.

I'd like to begin with a question for all of the panelists, or perhaps you can decide who the best person to answer this one is. But NewPage asks the Commission to consider debt interests payments by the domestic industry as a significant condition of competition. Should we consider it in that manner? If so, how would we consider it as a condition of competition?

MR. KLETT: I'll start.

I think if you read NewPage's brief and you follow the logic that led to that conclusion, they start with the assertion that because of import competition that U.S. industry has negative or not sufficient cash flow to finance restructuring out of internal cash flow. Therefore they were forced to finance through debt.

Dr. Button then finds that because the debt financing was caused by imports you need to include the interest charges on that debt and therefore look at profits at the net income level.

The problem that I have with that is that number one, factually, on an operating level the industry had positive cash flow. That's number one.

Number two, in terms of the motivation to finance some of the restructuring through debt, I think you have to also look at, at least with respect to NewPage, the fact that the acquisition of Mead Westvaco assets was financed by Severus Capital through leverage, through debt. And I think if you look at the business model of Severus Capital, there are probably certain reasons why debt financing through that kind of an institution made sense. I can get into that more in the post-hearing brief.

But I think the linkage that the debt financing was caused by subject import competition, that's where I think there's a problem in their logic.

COMMISSIONER PINKERT: Let me follow up on that with you, Mr. Klett. I'm wondering whether you see the decision to acquire debt as a decision that occurs more at the level of the owner rather than at the level of the company? If there's a distinction to be made there.

MR. KLETT: That's a good question. That may be, but I'd have to think about that. I don't have an answer off-hand right now.

COMMISSIONER PINKERT: Then asking the question a little bit differently, just based on what you've just testified to, do you view it largely as a choice by the company rather than as something that was forced upon the company?

MR. KLETT: It is a choice, but the issue is why was that choice made? But it is a choice by the company as to how to finance restructuring, whether it be internal cash flow or debt or equity. And I don't necessarily think you can, because it was debt financing rather than cash, that that necessarily is a bad thing that was caused by imports.

MR. CAMERON: Commissioner, if I may?

It's a bit strange to hear that the cause of the injury is the debt. I'm buying another company for $1.5 billion. I don't have any money. Right? But I'm buying another company for $1.5 billion and that acquisition in and of itself is an indication of how I'm being injured.

I mean you can't get any more circular than this. These guys actually have the capability, the wherewithal and the resources to do what? To get bigger, fatter, and stronger in this market. There's no question about it. that's fine. That's fine. They can do that. But that's hardly an indication of injury and that gets back to exactly what Dan was talking about which is exactly where is the causal nexus between subject imports, especially the point of competition of subject imports, and their ability to raise capital to buy additional equipment or to merge and to acquire another company. That really is the problem and that's why we get back to the traditional data. What is your profitability?

Yes, you're right. They started out with a loss. They didn't even attribute that loss to subject imports. They said in 2003 it was attributable to the 9/11 tragedy and the dot-com, and whatever happened as a result of the spillover from dot-coms.

What's happened since then? Since then they have gained an incredible amount of profitability each year, and it's a significant amount. they started out at below water level and now they're actually doing quite well relative to their industry.

So yeah, I have a problem in suggesting that all of a sudden imports are supposed to bear their interest costs.

MR. MORGAN: Commissioner, just to add one thing. The fact is well know, hedge funds use debt financing so that they can leverage their purchases. The fact that they did so in this case is consistent with everything reported in the public domain about how hedge funds go about financing acquisitions.

Some of the mills have told you today they were financed, or the assets were acquired by hedge funds. So the fact that the particular financing of these acquisitions occurred through a debt financing rather than a cash purchase to me doesn't suggest a condition of competition any different than you would have in any case where you're looking at how an industry has financed its investments. It's not unique to this and it's clearly not been, the decision to do the debt route has not been affected by the presence of the subject imports one bit.

COMMISSIONER PINKERT: You may recall that this morning I asked about not just the direct impact of the debt load but the indirect impact in terms of any other costs that may go up as a result of the debt load carried by the company. Does anybody on this panel have any experience with that issue and perhaps can shed some light on it?

(Pause).

MR. MORGAN: I think that's a no.

COMMISSIONER PINKERT: If there's anything additional that you have on that issue and you can include it in your post-hearing submission, I would appreciate it.

Turning to the arguments particularly I think Mr. Cameron's arguments on cumulation for threat purposes, why should we look at Korean or Chinese or Indonesian subject imports any differently for purposes of our cumulation analysis in the threat context? In other words, are they appropriate for cumulation? Are they separate? Is there a group of two, a group of one? How should we look at that?

MR. CAMERON: Commissioner let me start out and others may have a different point of view.

But I assume your question is not why are we looking at cumulation differently in the threat context as opposed to present injury.

COMMISSIONER PINKERT: I've got the statute down. I'm just trying to --

MR. CAMERON: I know you do. You have the statute better than I do. But for threat context, the reason that we're suggesting that if you decide this issue is one of threat rather than one of present injury, and I think at best this is a threat case, and frankly 2010 isn't an imminent timeframe so it is not a threat case either, but let's assume hypothetically that we're dealing with threat. Then yes, the subject imports are drastically different.

Number one, imports from Korea, you have a substantial, more than half of the Korean imports are actually non-subject. Sixty percent of the Korean imports are non-subject.

We have a situation in which Korea not only does not import, has not web roll imports whatsoever, they are only competing in the sheet market. And that is actually a very significant difference in terms of points of competition, in terms of the things you look at as to whether or not cumulation is justified or not justified.

MS. MENDOZA: I also think, Commissioner, that if you look at what's going on with the capacity in Korea of the subject producers, I think part of our testimony today was to explain the substantial restructuring that's occurring, and actually there's a downsizing and a reduction of capacity occurring in the case of Korea.

MR. CAMERON: And that reduction of capacity is a reduction of subject merchandise. This is of the producers that are actually covered by the order, and this is capacity that is not going to, I don't believe the U.S. industry is bringing Luke Number Seven on stream at any time regardless of what you do, but the capacity that they have shut down is gone.

Mr. Lee has already sold the land. He's sold his machinery in the Jinju Number Two factory. There's no pretense that all of a sudden we're going to let that go and then we'll restart it. They closed the facilities because they're inefficient and they lose money on them and that's the reason that they closed them. They're not going to reopen them.

COMMISSIONER PINKERT: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Mr. Lee, you indicated that there's been a shift of production from the Kyesung facility that was closed down to Namham's more efficient facilities. My question is, will this change result overall in an increase or decrease of coated free sheet production for the two companies?

MR. LEE: Actually total capacity of our company is reduced, coated free sheet, yes, reduction in subject merchandise.

CHAIRMAN PEARSON: Okay. So the fact that more efficient machinery will be producing the CFS does not overcome the loss of capacity from the closure of the one facility?

MR. CAMERON: Well, I think what he's saying is that the efficient machinery was already in operation, so they didn't just start one up after they closed this down. The three were already in operation. That capacity was already on deck, fully loaded. And the only difference is that they took capacity out so that it's just a net subtraction. There's nothing else, though.

CHAIRMAN PEARSON: Okay. I just wanted to make sure that there was no --

MR. CAMERON: No. Thank you for the question.

CHAIRMAN PEARSON: Then, Mr. Choi, you have indicated that your company, EN Paper, has closed its Jinju CFS plant, and that closure is leading to reduced shipments to the United States. Do you have information regarding the export intentions of other Korean subject producers, not including those I guess represented by Mr. Lee, because he's already presented his statement, but are there other things going on in the Korean market for Korean subject producers that you could comment on?

MR. CAMERON: If it's okay, I think Mr. Aronica is a better person to answer that question because he actually buys from Korea. Mr. Lee only runs his mill. He doesn't run the other Korean mills.

CHAIRMAN PEARSON: That would be fine.

MR. CAMERON: I mean Mr. Choi. I apologize.

CHAIRMAN PEARSON: I know that Mr. Choi has to leave soon, and I just wanted to give him a chance to comment if he wished, but Mr. Aronica?

MR. CAMERON: Appreciate it.

MR. ARONICA: I'm glad to answer that question. I've already been approached by the other manufacturers.

CHAIRMAN PEARSON: The nonsubject?

MR. ARONICA: Nonsubject manufacturers of the Korean mills.

CHAIRMAN PEARSON: Okay.

MR. ARONICA: Obviously we're a substantial buyer for Korean paper. There's no secret of who buys what from Korea, and I've already been contacted. So, to answer your question, I believe that if one Korean mill is taken out of the market, another Korean mill is going to take its place.

CHAIRMAN PEARSON: But there may be a shift from subject production to nonsubject production?

MR. ARONICA: Exactly. Yes, sir. That will definitely take place.

CHAIRMAN PEARSON: Okay. And so your assessment is that the overall production of subject CFS in Korea will be reduced?

MR. ARONICA: No. What I think is going to happen is just have redistributed paper around the world.

CHAIRMAN PEARSON: Meaning?

MR. CAMERON: In other words, we're going to have more, in other words, nonsubject to the extent that they replace subject Korean producers in the U.S.

market. That production would go into the domestic Korean market, so, I mean, it's just a reshuffling of the market share.

CHAIRMAN PEARSON: I understand. Right.

MR. ARONICA: That's what I was trying to get is that they'll just sell more paper domestically, and then there will be more paper available for export from the nonsubject Korean mills.

CHAIRMAN PEARSON: Right. But for the purposes of our investigation, Mr. Cameron, perhaps for the posthearing if you could, if there are specific numbers -- maybe we have it already, I just haven't found it on the record -- but if there are specific numbers relating to reductions in output of the subject Korean producers, it would be good to have that, because we have two producers, two subject producers here testifying that their capacity is being reduced.

MR. CAMERON: You're correct, Commissioner. We do have that data. I think it is on the record, and we will respond in our posthearing brief. We appreciate the question. There is a reduction in shipments, and there is a reduction in production of subject merchandise by subject producers. It is related not to the order, however. It's related to the elimination of capacity.

CHAIRMAN PEARSON: Okay. And I appreciate the clarification. If we hadn't done a GSP hearing on Tuesday, I might have gotten to that part of the record.

(Laughter.)

CHAIRMAN PEARSON: Mr. Aronica, if I could go back to you, you had an interest in answering Mr. Williamson's, Commissioner Williamson's, question regarding ocean transportation, and I would like to give you an opportunity to comment on that now if you'd like.

MR. ARONICA: Well, I would just like to say that there's a lot of paper around the world and a lot of manufacturers around the world. I mean, we're here talking about China and Korea and Indonesia. There's a lot of paper machines around the world besides them. There's machines in Italy. There's machines all around the world.

You know what? What I would say is, and there's paper priced around the world at different categories. There's paper priced low from Europe. There's paper priced in the middle from Europe. There's paper priced high from Europe just like there is in the U.S. I think it's similar to that. That's the only thing I was trying to add to that.

CHAIRMAN PEARSON: Okay. Thank you. I'd like to shift gears just a bit. Generally after we're seven hours into a hearing, I think I have a fairly good sense of what's going on in the marketplace. With this product, I'm a little less certain than I would like to be, and the reason is on the one hand, you've got so many domestic producers that the marketing is perhaps not terribly disciplined, they engage in somewhat cannibalistic competition such that they keep their operating margins low, okay?

On the other hand, we have an industry that is disciplined enough in its marketing so that some distributors are unable to obtain a supply of domestic paper to provide to their customers. What's going on here? The two parts aren't really coming together.

MR. ARONICA: Can I answer that first?

CHAIRMAN PEARSON: Mr. Aronica?

MR. ARONICA: In my case, obviously I opened my testimony, I said that I don't have any domestic supply, okay? I am unable to get domestic supply. They will not sell to me. Now it's not due to my credit because I have excellent credit. I pay my bills very well. There's really no reason other than they don't want to upset their current distribution by adding me.

Now I import roughly, this is public knowledge I think, but anyway, about 30,000 tons a year of Korean paper. Could I have given that to a domestic mill? Almost certainly. So if they wanted to pick up more business, they could add 30,000 tons tomorrow, but they won't give me supply. So in that aspect, if I want to grow my business and support my 105 employees, I have to go offshore to get paper.

CHAIRMAN PEARSON: And just to clarify, the reason that you're unable to get supply is that those companies that have mills that are geographically close enough to be convenient for you, they have arrangements with other distributors already to distribute in your region?

MR. ARONICA: Exactly. Yes.

CHAIRMAN PEARSON: Okay. And so you'd have to go to Oregon and obtain some from West Linn or something.

MR. ARONICA: Yes. Well, yes. I mean, I heard testimony earlier today that I think one of the gentlemen, I don't remember who, said, well, we don't take business, we don't want to have too many people in our market, and we don't go after another domestic supplier's business, we go after an imported supplier business or this person's business. They actually go after each other's business all the time. I mean, it's the most cannibalistic business that you would ever, you know?

So I find that a little bit of false testimony there, as when we go after their business. I mean, it's a commodity business. Let's not forget that. I mean, everyone's price is pretty close to being the same. All you try to do is outservice the other person, and if you can do it better, you get the business.

CHAIRMAN PEARSON: Okay. Mr. Dragone, Mr. Hederick, did you have comments on this issue?

MR. DRAGONE: Well, Unisource is also owned by a private equity company. Main Capital is the majority owner. And they have a very hard time understanding the same question that you just put to us. We're a five and a half billion dollar company, and they find it very, very hard to believe that we can be a very successful distributor for NewPage in a number of markets where we're growing on a regular basis and yet don't have the ability to get the line in a number of other markets. That is something that I've quit trying to explain to them, but I will attempt to explain it to the Commission.

There is a huge amount of concentration in the distribution business. For instance, our largest competitor is NewPage's largest customer. And there are a number of regional players in the distribution business that have huge concentration with domestic mills, and because of that concentration, it becomes very, very difficult for gentlemen in the back to get access to the line because of the, for lack of a better term, clout that some of the other distribution players have.

In our case, it is very hard to understand why we at five and a half billion dollars have the same issues as a much smaller company, but the fact of the matter is I've always wondered if they opened the lines up to every player in the marketplace whether or not in fact there would be very little product coming in from offshore and that our current industry would be running at full capacity.

The reason I say that is the supply chain costs that my colleague was referencing earlier, those are very real costs, and as I've said to Mr. Tyrone and other senior players at NewPage, we don't take those costs lightly. It is putting us behind the eight ball, so to speak, to try to compete with the domestic market with the type of costs that are involved in warehousing and transporting product from around the world.

So it is a very difficult equation to understand that the domestic industry is not particularly profitable or hasn't been profitable in the past, and yet the distribution network is one that does not appear to be open to discussion. But with the consolidation that we see now with suppliers, it is going to become a very, very important issue when you only have two major domestic suppliers for sheet-fit product.

CHAIRMAN PEARSON: Okay. Thank you very much.

Madame Vice Chairman?

VICE CHAIRMAN ARANOFF: Thanks, Mr. Chairman.

Mr. Morgan, a question for you and I guess Mr. Hunley. The producers, the Chinese producers that you represent, can you tell us whether they are typical of other Chinese producers who have not appeared in this proceeding in terms of just sort of generally their business, the size of the companies, the age of their machinery, the quality and range of the products that they offer? Are you typical of the Chinese industry, or do you stand out?

MR. HUNLEY: We like to think that we stand out. We're the largest producer in China of a number of paper grades, not just coated papers. And we have the most up-to-date and technically sophisticated production equipment actually pretty much anywhere in the world at this point in time. So the other manufacturers, there are two in particular, Chenming and what we call Sun Paper. They are smaller. Their equipment is not as up-to-date. And their product lines tend to be a bit more restrained than ours.

MR. MORGAN: And, Vice Chairman Aranoff, you do have information from both of those producers from the preliminary phase, recognizing of course that you do not have those in the final phase, and we are working to get questionnaire responses. But at the time of the preliminary determination, in terms of the exports to the U.S., that accounted for all of the exports from China to the United States, so I think the three players, APP and those two other Chinese producers, were the only exporters during the POI.

VICE CHAIRMAN ARANOFF: Okay. Because obviously if we get past present injury and start looking at threat, we need to look at -- it's my understanding there are quite a few other producers in China. They may not have exported to the United

States yet in any quantities that we've been able to track, but they're there and it would be good to know something about them in terms of their size and capabilities.

MR. MORGAN: No, we definitely understand that need for the Commission to have that data. We're working to try to get that. In terms of the Chinese producers who did not export, I mean, as you heard earlier, some of the U.S. producers have operations in China, so you might be able to get some of that information from them.

As far as the ability to penetrate the U.S. market is a concern, I had discussions with both Mr. Hunley, Mr. Dragone, Mr. Hederick, about the way the distribution system works. Not to use the cliché of the distributors as gatekeepers, but they do serve that role. An exporter, a foreign producer who wants to just sell tonnage to the United States can't just do that. They have to go through the distribution system, and maybe Mr. Hunley or Mr. Dragone can elaborate on that, the nature of the distribution system.

MR. HUNLEY: For any Asian manufacturer, which is what I'm most familiar with, entry into the U.S. market almost always has to come through a U.S.

distributor. They have the access to the customers, and because the mills are so far away and the service requirements in the United States are so high, it's literally impossible for us to sell direct to a printer or to an end user. So we need the distributors in order to support our business. We have no other way of actually selling paper in the U.S. market.

VICE CHAIRMAN ARANOFF: Right. But the distributors, as distributors, Mr. Hederick, Mr. Dragone, you guys are independent. You can go to China and go looking for other suppliers if you want to.

MR. HEDERICK: Well, we can, and I would say that we're constantly talking to suppliers, potential suppliers, on a global basis, whether they're Taiwanese, Thai, Indian, other European, South American, you name it. So we're constantly looking for products that are out there that we think provide value.

VICE CHAIRMAN ARANOFF: Have you been approached by or approached yourself Chinese producers other than the four who or three who we know are exporting to the U.S. currently?

MR. HEDERICK: In my one-year tenure, and my colleague might answer differently, I'm only familiar with the three subject companies.

MR. DRAGONE: Those are the only three that have approached us.

VICE CHAIRMAN ARANOFF: Okay. Let's see. Mr. Lincicome, is web roll made in Indonesia?

MR. LINCICOME: It is, yes. There is some web roll.

VICE CHAIRMAN ARANOFF: Can you tell me anything about where it's sold?

MR. LINCICOME: It's all domestic.

VICE CHAIRMAN ARANOFF: Okay.

MR. LINCICOME: Any more than that, I mean, is proprietary. We can elaborate in the posthearing.

VICE CHAIRMAN ARANOFF: Yes. I would appreciate if you did that.

MR. LINCICOME: Sure.

VICE CHAIRMAN ARANOFF: I'd be interested in how much, how much of the Indonesian market that represents.

MR. LINCICOME: Well, yes. Actually the formal British questionnaire response has it, but we can definitely elaborate in the posthearing.

VICE CHAIRMAN ARANOFF: Okay. I think what this is all leading up to for me when I look at threat issues is to get from the producers in each of the three subject countries the best argument for why web roll isn't going to come to the U.S. or isn't going to come in any greater quantities than it already has.

And I've heard a series of different arguments put forward. It doesn't fit in a container. It's a small domestic product, so we're not bothering to market it very much internationally. I've heard talk about how lead times dissuade exports of web rolls, and there's some holes in each of these theories.

Certainly on lead times, I don't see how the lead time for a web roll is any different than the lead time for sheet, which seems to be doing just fine in this market. The container argument I see we have a real he said, she said here, and I'd hate to have to just make a credibility determination. I hope you guys will be able to put some more facts on the record about what exactly the problem is with putting the stuff in a container. You can put almost anything that's not a 747 in a container.

MS. MENDOZA: Commissioner, if I could just make one comment?

VICE CHAIRMAN ARANOFF: Sure.

MS. MENDOZA: I think our argument in terms of Korea is that we haven't done it and that the statute says that you can't speculate with respect to these issues. And I think that we've testified and our questionnaires confirm that in fact there was one test shipment in 2003 for EN Paper, and there's never ever been another web roll exported to the United States. So I think to conclude that there will be in the future based on the fact that they never have would be pure speculation.

MR. CAMERON: Commissioner?

VICE CHAIRMAN ARANOFF: Then that's fair enough. Right now I think that is your best argument, so I think I'm just trying to encourage you.

MR. CAMERON: Well, we're still moving. We're still moving. I mean, we'll be glad to put some numbers on the transportation issue. Nobody is saying that you can't put rolls into the containers, because, frankly, we do put sheet of rolls into the containers. The reason that he was saying, that Mr. Aronica was saying they don't like to do that is that you can fit, what did we say last night, it was 14 -- go ahead.

MR. ARONICA: I mean, in a regular container where you're shipping sheets, you get about 18 to 19 tons. When you ship rolls, you get about 14 to 13 tons. And so it doesn't make it cost-effective to ship rolls in a container, because you ship a lot of air. As you can imagine, a rectangle fits in a rectangle. A round does not fit into round, and so you just can't fit -- because most rolls sold in the U.S. are sold in 40-inch diameters, and a container is 90 inches. So if you take 80-inches, put them together, you can see that there's a lot of empty space there.

MR. CAMERON: Well, and we'll price that out and put that on the record.

VICE CHAIRMAN ARANOFF: Okay. I appreciate that. I guess my sort of long lecture is just to say to each of you please find your strongest case for why web isn't going to come here and spell it out as much as you can posthearing. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Okun.

COMMISSIONER OKUN: Thank you, Mr. Chairman.

Okay. I guess there's the question that you just covered with the Vice Chairman on the information on whether web rolls would ever increase or whether there's an incentive to do that.

The other point that I'm interested in is just again this competition between sheets and web rolls, because, let's see. Looking on my back row here, is it Mr. Davis? In your written testimony or the testimony that you gave today, part of it was, "In recent years, web printing technologies improved and printers are now able to get nearly the same quality from a web press as from a sheet-fed press."

I heard testimony this morning that the customer here, Reindl, had said that for him, he now sees or has seen the line blurring and more direct competition between a sale that otherwise would have been a web roll customer I assume would now be a sheet roll customer would now take that business because of some of the same things I think you were saying here.

So I'm trying to understand even if I'm to say, okay, I don't think it's as efficient to ship these web rolls over through these containers that the sheet will start taking a bigger part of the market. What am I missing in that part of the analysis?

MR. DAVIS: Well, I think you have to start with the printed product or the print job, and typically when you waved up the brochures and magazines this morning, what a typical printer would then ask, he would ask very specific questions about your run length and other specifics on that job and from that make a determination, well, this is a web job or this is a sheet job, and that would also lead to what printer's going to run it, since again, the vast majority of printers are either sheet-fed or web. Some have combination capabilities. But I think the key point is that the specific job can't necessarily be run on either a web or a sheet-fed press because it depends so much on the specifications that come with that job.

COMMISSIONER OKUN: Okay.

MR. MORGAN: Commissioner Okun?

COMMISSIONER OKUN: Yes. Mr. Morgan?

MR. MORGAN: I know Mr. Dragone is dying to address this issue.

COMMISSIONER OKUN: Yes. Okay. Uh-huh.

MR. DRAGONE: I don't know about dying. To answer the Vice Chairman's question at the same time I'm answering yours, one of the things that we talk about, and we are approached, we have been approached as a distribution company to sell rolls from Southeast Asia into the U.S. marketplace, and there are quite a few reasons why we have chosen not to do so.

I'll go down the list of reasons, but the first is that they're not competitive in North America. From a price standpoint, they're not competitive. They're actually higher than the North American mills are pricing their product, and I'm sure there are a number of people here that can confirm that.

Two, there are a number of U.S. mills that can make the web product. There are at least seven mills domestically that can make a product on the web side, and they are much, much less restrictive in where you sell the product. So, in our case, we were approached by a Japanese mill that is putting out a tremendous amount of additional capacity, and they asked us if we would represent them for rolls. And our answer was we have more than adequate supply in North America, your product isn't better, it isn't priced better, there are no advantages for us in the marketplace.

And because the U.S. mills are less restrictive about where they ship the roll product because it's usually shipped on a direct basis to an end user or to a printing plant, you really don't have the same issues that I referenced earlier about not being able to get product in a marketplace. You can almost always get the web product shipped into a marketplace. If you represent that mill in any other market, it's very easy to move that product into any other marketplace on the web side, not necessarily so and not usually so on the sheet-fed side.

The other part is that in fact, while you may not think it's important, the amount of support for the web side of the business in having technical people here and being able to get people to address a problem on press, because usually in web complaints, they're very large complaints, it's high-volume business, and not having the technical support, not being able to get somebody in there from Seoul, Korea, or from Shanghai or from Tokyo overnight is a very, very big concern. Your customers are looking for people to solve the problems while they're on press with these large orders.

So there are a lot of reasons why from a web standpoint we don't see the value. And we are the conduit to the marketplace. If we don't see a value, then our customers don't see a value. So, from our standpoint, there isn't really any sort of value proposition for the web side of the business that would lead us to believe that that's something that would be of interest to our customers.

Well, and I heard earlier from a printer that in fact there may be some concerns in that there's a roll-to-sheet composite of the marketplace that would make the Asians more competitive. Really, I just don't see how that's possible. It may be possible in their case because they're in Appleton, Wisconsin, and they're as far away from either coast as you can possibly get, but from our standpoint, we don't see that as a potential area where we have a value proposition that we can possibly sell or any of the Asian mills could sell.

COMMISSIONER OKUN: Okay. And then this also may be a question Mr. Hederick could comment on as well as you, Mr. Dragone, but, Mr. Hederick, I think you referred maybe to price bands in the market, and I guess I'm still trying to understand which products are in which price bands, and maybe if you could help me understand whether you think that Asian product is in a particular price band or is it all imported product is in a particular price band and that's only related to sheets or is it to webs.

I mean, there's not really much on the record to me indicating that there are these price bands. I mean, I understand that some have said it's higher value to be sheet versus roll, and I'm having a hard time sorting that out even from the data we have.

MR. HEDERICK: I can understand your confusion. It confuses our sales team a lot as well. But I would answer it by saying that whether it's domestic manufacturer or import manufacturer, Asia, Europe, you name it, there are products that are being made and selling in each of those price bands.

So my point there is we procure product from Japan that we sell in the upper price band and it competes, and it competes up there. We buy product from Europe that competes more in the midtier price band. We buy product from China that we sell and we buy it from Mr. Hunley that is more on the commodities side of the price band that we sell into.

Having said that, there are domestic manufacturers that make products in each of those price bands as well. In areas of the country where we have access to that domestic product, we sell that gamut of products that they make available, whether they are, you probably heard a reference to premium grades or No. 1 grades or No. 2 grades or No. 3 grades. So manufacturers are producing and selling product, whether domestic or foreign, into each of those loose grade classifications and price band classifications.

COMMISSIONER OKUN: Okay. And then when you're talking with that, I mean, you referenced the grades and some of the other qualities that may make one be considered a high value and one be a commodity. Would that be the same whether it was a web roll being used or if it's a sheet or a sheeter roll? I mean, would there still be a price band that the end user, the purchaser, would be looking at?

MR. HEDERICK: Within those price bands, there are web roll and sheets in each price band, so the domestics make a high-end free sheet web the same as they make a midtier free sheet web, the same as they make a commodity free sheet web. So just because it's web or sheet doesn't mean that you're either in or out of one of those price bands.

COMMISSIONER OKUN: Okay.

MR. HEDERICK: So there's web availability. To put it another way, there's web availability in each price band as well.

COMMISSIONER OKUN: Okay. Anyone else have any comments on that, just helping me better understand these prices or who's selling? No? Okay. My yellow light's on, but just perhaps maybe for posthearing, but on the capacity in China, I don't know if you've had a chance to respond to that in terms of the Petitioners have argued as part of the threat argument that if you look at how much capacity that they would cite as coming online in China and it's on this particular chart and they referenced it in other places as well, do you have any comments on that that aren't already in your brief in terms of whether that capacity is capacity that we would expect to have an incentive to come here?

MR. MORGAN: I think you heard Mr. Hunley's testimony about that, and I think if you extend out the POI for the imminent timeframe to 2010, then you get a different picture of the capacity. But as Mr. Hunley said, if you're looking at 2008, you have 600,000 tons coming on, and there were some inaccuracies in the reporting of that which was subject.

COMMISSIONER OKUN: I do remember that you said that. Okay. I will make sure I understand how those numbers sort out. Thank you for that.

CHAIRMAN PEARSON: Commissioner Lane.

COMMISSIONER LANE: As I understand the market today, most U.S. shipments are in the form of web rolls and some sheet rolls, but the imports coming in are mostly sheets. Now do you see any increased U.S. imports of sheeter rolls from China, Indonesia or Korea in the future?

MR. HUNLEY: I can speak for China. Sheeter rolls occupy a very special niche. We don't send sheeter rolls just to send sheeter rolls. They are essentially a backup or an emergency source for the distributors in case they run out of stock of a particular size sheet. And as I mentioned earlier, we're 12 weeks away, so they can't wait for us to ship them additional product and we keep no inventory in the United States, so they can take that sheeter roll in an emergency situation, send it out to a converter, have it cut up into the size sheets that they need for that particular situation.

MR. ARONICA: Can I just comment on that too?

MR. HUNLEY: Sure.

COMMISSIONER LANE: Yes.

MR. ARONICA: In my testimony, I said it's a very small amount of sheeter rolls that we get. It hasn't changed for seven or eight years I've been doing business with the Koreans, because they're not interested in selling sheeter rolls here. They're not interested in selling rolls in general here. Again, we do it as an emergency situation to cover our sheet sizes.

If I can give you a for instance, if we have 51-inch rolls and we need 25x38 sheets and we get two 25x38 sheets out of that, then we can sheet it down to that. If we have 51-inch rolls and we should run out of 23x35, we can sheet it down to 23x35. When you have paper in sheets already, you can't really do that, and that's why we keep the sheeter rolls on hand. And again, it's a very small, small part of our business.

MR. CAMERON: Commissioner, one other thing just to make sure you understand. Sheeter rolls are the same as sheets. Sheeter rolls and web rolls are not interchangeable. Sheeter rolls and sheets are interchangeable.

MR. DRAGONE: The only reason that we would have sheeter rolls on the floor or rolls for sheeting specifically is to handle the stockouts that Mr. Aronica was just talking about. The issue, though, is you don't know what you're going to stockout of, and it's a hugely wasteful process. If you had a domestic mill, you'd be ordering it from a domestic mill, because if you have 51-inch rolls on the floor and you get an order that's 23x35, you're going to be taking 46 inches out of a 51-inch roll.

You're going to take a huge loss on it. You might do it to maintain the business that you have while you wait for your inventory to come in from overseas, but if you were in the domestic situation, what you would do is you'd call up the mill and say I need a making order of 23x35, and they would supply you with it. So the sheeter rolls per se are used strictly as a stopgap.

MR. MORGAN: Commissioner Lane, just one point. I mean, the other side has sort of characterized the fact that, oh, well, we do sheeter rolls, so clearly they can do web rolls. And if you actually look, though, at the quantities and the percentages relative to total shipments of the imports, that's not the case at all. In fact, the sheeter rolls are a very small quantity.

So it is the same argument that importing a sheeter roll, it's question of importing a roll, period, and it's not as though we're importing huge quantities of sheeter roll and then saying importing a web roll is somehow different. The fact is the product form being in a roll is what makes that distinction relevant.

MR. HUNLEY: If I could just add that if we could get away from manufacturing and shipping sheeter rolls, we would. However, Al won't let me do that. So it's just something that we do just to support the customer in those emergency situations.

COMMISSIONER LANE: Well, out of curiosity, do you have the same issue on transportation costs for the sheeter rolls as you have on the web rolls?

MR. HUNLEY: Yes. The transportation cost issue is because of the shape and size of the roll, yes. It could be a roll of cardboard and you would still have the same issues with the transportation inefficiencies.

MR. ARONICA: If I could add to that, the sheeter rolls are actually worse than shipping web rolls for the reason being is most sheeter rolls are made 46, 51 inches. You can get too high in a container a lot of times, or 75 inches. You can get too high. So not only do you waste the side of the container, you waste the height of the container in sheeter rolls, so it's actually worse than shipping web rolls.

COMMISSIONER LANE: Okay. Thank you.

Mr. Hunley, as I understand it, you manufacture sheets in China and ship them to the United States.

MR. HUNLEY: That's correct.

COMMISSIONER LANE: Are you experiencing the same high cost of raw materials and energy costs in China that the domestic industry talked about today?

MR. HUNLEY: Yes, that is correct.

COMMISSIONER LANE: And does that cause any problem for you in manufacturing your product and still shipping it to the United States at the prices that you are shipping it for?

MR. HUNLEY: You know, I've heard this issue about pricing bantered around all day today. There is not a person in this room who is either a manufacturer or a distributor, the only ones who I would leave out are the printers, who would not want higher prices. It is a constant battle in the industry to try to get the prices up. And I think Mr. Pearson had referred to earlier the strange nature of the industry and the competition in the industry, but whenever and wherever we can raise prices, we do. And this year actually we tried to lead a price increase in the market. I think we were the first Asian producer to try to do so.

COMMISSIONER LANE: Were you successful?

(Laughter.)

COMMISSIONER LANE: You're not going to leave me hanging here.

MR. HUNLEY: Partly. Partly.

COMMISSIONER LANE: Okay. Thank you.

And, Mr. Lincicome?

MR. LINCICOME: Lincicome.

COMMISSIONER LANE: Lincicome. You may have answered this in your testimony and forgive me if you did. In your prehearing brief at page 7, you state that using the volumes of exports from Indonesia to the United States to calculate negligibility distorts the calculation since the export figures include nonsubject product. My understanding is, however, that export figures are those reported by the Indonesian producers in their questionnaire response. You further argue that staff should adjust those export figures using yet another data source, although you earlier criticized the use of multiple data sources.

MR. LINCICOME: Right.

COMMISSIONER LANE: If it is indeed your assertion that nonsubject exports are included in your data, it is clearly preferable that your client submit a revised questionnaire response that would include data by month for September 2005 to 2006 correcting their original response. I'm requesting that you do so.

MR. LINCICOME: I can get to that, or, Frank, if you'd like to, either way.

MR. MORGAN: Yes. Well, the Indonesian side will definitely address that in their posthearing brief, but I think there's very little we can say in public about it, because it's not an export issue. It's on the import side. It's a question of the use, the end use of the product. So we will deal with it in the Indonesian posthearing brief.

COMMISSIONER LANE: Okay. Thank you.

Petitioner indicates what its cost of capital is on page 81 of its prehearing brief and states that it is a reasonable proxy for the domestic industry. While the number is confidential and cannot be discussed in public, can counsel or industry representatives point to any time period when the domestic CFS paper industry's profit levels were equal to or greater than NewPage's cost of capital?

MR. DRAGON: If you looked at the timeframe of '94 to '95 and the timeframe of '99 to 2000, you would probably find the times that they would be very close, but they might have reached the threshold for the NewPage cost of capital. But those are the only times in the last 20 years that I believe that you would find, so if you checked the industry data, I think '94-'95, '99-2000.

COMMISSIONER LANE: Okay. Thank you. Mr. Chairman, that's all that I have.

CHAIRMAN PEARSON: Commissioner Williamson.

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman.

This morning Mr. Kaplan stated that 2009 and 2010 were within the imminent timeframe when assessing threat, and I was wondering if the counsel for Respondents, do you agree with that?

MR. MORGAN: No. And rather than taking everyone's time now, I think it would make for much interesting reading than maybe elaboration, but I think that the imminent timeframe has been defined based on the conditions in the marketplace. In salmon, it was a three-year growth cycle, so it was extended out. But if you look at products where you've got a 12-week lead time, that tends to be more definitive of what the imminent future. But we'll be happy to address that for you, Commissioner Williamson, in our posthearing brief.

COMMISSIONER WILLIAMSON: Good. Thank you. Does anyone else want to add anything at this point?

MR. CAMERON: We concur with counsel. It also is a matter of I think that the data that the Commission has collected so that you can actually have full data rather than relying on speculation would not permit a 2009, 2010 definition of imminent, but we will be glad to address it. Thank you.

COMMISSIONER WILLIAMSON: Okay. Thank you. One thing, people were talking about the use of sheeter roll, that a domestic I guess distributor or user didn't want to run out of paper, and what I was curious about since we're talking about commodity product, rather than having the sheeter roll, why not turn to a domestic supplier?

MR. ARONICA: I'd like to add to that, I mean answer that I should say. I don't have any is my answer. I don't have a domestic supplier, so I have to go use sheeter rolls. We have five sheeters in our place, and if we run out of sheets, we have to convert a sheeter roll down or wait or be out of stock and lose orders in the meantime. I mean, we tried for many years to get domestic support.

As I've said to you in the past, I do 30,000 tons a year, over 30,000 tons a year with the Koreans. I've tried many a time to offer that business to the U.S. producers but have been told not in my area, so I find that ironic that they said this morning they're looking for more business. It's right here. They still haven't asked me for it. And I've asked them for it. So, again, sheeter rolls are just to supplement our sheeting outflow.

COMMISSIONER WILLIAMSON: No, I understand that point. I'm just trying to figure out why there isn't a spot market for sheet.

MR. ARONICA: The short answer is I'd like to. Can you arrange for me to buy from one of them?

COMMISSIONER WILLIAMSON: Okay. And this raises another question, and, Mr. Dragone, you might want to address this. Who has the market power when it comes to basically sheet in the United States? I get the impression from the answers that the domestic suppliers limit who they sell to because of their relationship with the distributors, and so that makes me wonder when it comes to sheet, is it the distributors who really have the market power?

MALE VOICE: Can I answer that?

(Laughter.)

MR. DRAGONE: You know, that's a good question. I think that, as I tried to portray earlier, certainly the largest distribution company in North America is a company called Expedex, which is owned by International Paper. They have a tremendous amount of market clout, probably more so than any individual mill in their ability to not necessarily dictate terms to a mill but at least influence a mill dramatically. I don't think there's any question that that takes place every day. And they are not looking for additional competitors in any marketplace, at least none that I'm aware of.

As far as Unisource is concerned, we're the second largest distribution company by a good ways, and yet we don't have the ability to influence the mills as Expedex does.

And from there, the regional clout for different mills and different distributors is very interesting. In the east coast, Lindemeyer has a tremendous amount of clout in the marketplace. They also represent all of the domestic mills. In the south, MAC Papers has a tremendous amount of regional clout. We're a national distribution company across all of the states. I think we're in 44 of the 50 states, and yet we still probably would say that the two major regional distribution companies and the larger domestic-controlled, Expedex, are able to dictate terms as far as who gets what lines and what marketplaces.

MR. ARONICA: I'd like to just add to that, you know, I am one merchant in New York selling in the Northeast. There are literal probably hundreds of little, small merchants, like I am, around the country that cannot get supply from the domestic suppliers. So if you look at just the tonnage I do, and multiply that out, between the merchants around the country that cannot get domestic supply, it's a lot of tons that you might be cutting off.

COMMISSIONER WILLIAMSON: I thought you

could get anything in New York City.

MR. ARONICA: I thought you could, too, but it didn't really work out that well.

MR. WILLIAMSON: Okay. I'll stop that line of questioning.

Petitioners assert that their producers in China, and also Indonesia, are starting to reclassify their exports to the United States in 2007 as coated ground wood paper and not CFS. In support, they present Department of Commerce data on coated paper from China and Indonesia. How should we interpret these trends?

MR. MORGAN: Well, Commissioner Williamson, we were very pleased to learn that this is not going to be an issue for the Commission. The Petitioners' request to the Department of Commerce to expand the scope was rejected today. So, as we had stated in our prehearing brief, the issue of this nonsubject merchandise only would arise if Commerce had expanded the scope.

So, as far as the Commission's record is concerned, the product is nonsubject merchandise. In terms of trends, it should be treated as nonsubject merchandise, and as we've represented to the Department of Commerce, it's a different product. So that is our position on how the Commission should be treating it.

MR. WILLIAMSON: Thank you for that clarification.

Mr. Hunley, you mentioned that you're producing quite a bit of paper in China. Are they relatively new factories? Where does the machinery come from for these?

MR. HUNLEY: We have a mixture, but the majority of our paper manufactured in China is coming out of fairly new and technically sophisticated factories. The equipment tends to come from Europe. The production staff tends to come from Taiwan. Some of the handling equipment comes from the United States.

So it's assembled from all over the world, but, actually, I would say the majority of the paper machine is actually bought from countries outside of China because of the technical sophistication of the equipment.

MR. WILLIAMSON: Okay. Thank you. I think you've already indicated that, in terms of capacity increases in the near term, was it 600,000 or something?

MR. HUNLEY: We actually just got some

information before we came in this afternoon. The Petitioners had said that they were looking at about a three-million-ton increase in capacity. Of that three million tons, they had identified 1.6 million metric tons, which was going to be added at ATP, the Hynon pulp mill.

That 1.6 million tons is an error. The information that we got right before we came in here says that it's actually 1.4 million metric tons, and it's going to be uncoated paper. So it will be producing photocopy papers, electronic forms, filler paper, so on and so forth.

Of the rest of the three million tons, there is about an 800,000-ton mill that's being built in China by Oji Paper, which is a Japanese company. That mill will come on line in 2010. So if you subtract those two out of the three million tons, there's about 600,000 metric tons of new capacity that will be coming on line in China sometime in 2009.

As I was saying, the Chinese market itself is growing at enormous rates. It's growing literally at 500,000 tons a year or more, in some cases, and, actually, next year it may be more because of the Olympics placing some additional demands, and I think there is the World Fair in China the year after.

MR. WILLIAMSON: Are you talking about coated free sheet?

MR. HUNLEY: That's coated free sheet or coated paper.

MR. WILLIAMSON: Okay. So in the near term, in the next year or so, what are we talking about in terms of capacity?

MR. HUNLEY: In the near term, let's say, by 2009, it looks like there's about 600,000 metric tons of coated paper coming on line. But as I said, by 2009, the Chinese market will have grown another 500,000 to a million tons, so the Chinese market would probably absorb most of that capacity anyway.

MR. WILLIAMSON: Thank you. My time is up.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: Staying with you, Mr. Hunley, in terms of this issue of the web rolls versus the sheets, what is the demand for in the Chinese market?

MR. HUNLEY: The demand in the Chinese market is primarily sheets. As a matter of fact, most of the world is sheets. It's only primarily in the United States, somewhat in Japan, and somewhat in Europe that you really have any kind of roll volume. The United States is, I would say, by far, the most roll-intensive market in the world.

COMMISSIONER PINKERT: What would give Chinese producers and exporters occasion to ship web rolls to the United States?

MR. HUNLEY: Are you asking under what conditions we would ship web rolls?

COMMISSIONER PINKERT: Yes.

MR. HUNLEY: Essentially, the markets would have to be turned up on their heads. If you look at the conditions in China, typically, are web roll pricing in China is actually higher than our sheet pricing. So I would assume that the same thing would have to happen in the overseas markets, but that's pretty much an illogical event to see happen in the United States.

COMMISSIONER PINKERT: Now, you also talked a little bit about having tried to lead a price increase, and I know that there was some testimony about market power in the United States market in terms of allocation of supply, but what I'm wondering is whether producers have pricing power in the U.S. market, and, if so, under what conditions?

MR. HUNLEY: You ask any producer, and he'll also kind of pause at that question. Okay. If New Page had pricing power, would they be sitting in front of you saying that they needed price relief?

It's a very hard question to answer because the market dynamics are very complicated. So, as a producer and as a supplier of coated paper into the U.S. market, I supply a very small, limited amount of paper relative to the overall size of the market. We're minuscule, to be quite honest about it.

So, for me to try to lead a price increase, essentially, I would call Al, Mr. Dragone, and say, "Al, I'm going to increase your prices by $50 to $100 a ton," and the usual response is, he laughs at me. Okay?

But what you'll see happen is, if somebody tries to get a price increase, a few days later, another producer will try to get a price increase, and so on and so forth, until there is enough pressure in the market to try to push that price increase through.

Now, on the sheet-fed side, we push it through the distributors, and that essentially leaves a problem for Mr. Dragone because then he has to go to his customers and try to push that price increase through.

So, to actually get a price increase through the United States on the sheet side is a fairly complicated process. The web side is a lot easier because the domestic producers have a much more direct link between their mills and the customers themselves, the printers.

COMMISSIONER PINKERT: Perhaps Mr. Dragone would like to comment on this, but I take it that your testimony is that, on the web roll side, the producers in the United States do have pricing power.

MR. HUNLEY: No. Actually, I would say that if you look at the web roll market, and I'm giving you my opinion on this -- I don't have the facts to necessarily back this up -- in the web roll segment there tend to be a lot larger customers, so you would have big printers like Donnelly and Quebacor and Quad Graphics. Those printers also have a lot of pricing power.

So you may have a mill or a producer that theoretically has a much more direct link with those customers, but those customers also have a lot more pricing power.

So it's a constant battle between producers, distributors, and printers on trying to get a price increase through, and I'm sorry there is no clean answer to this, but it is a fairly complicated process and messy.

COMMISSIONER PINKERT: First Mr. Dragone and then Mr. Cameron.

MR. DRAGONE: My experience, both on the distribution side and on the manufacturing mill side, is that our industry is very much supply driven. We have never been able to get price increases based upon costs, never.

That's a very hard concept to believe, but, in spite of the fact that costs may have gone up five percent, unless we're in a situation where we have a supply that is balanced by demand, it is extremely hard to get any sort of price increase for any protracted period of time. You may announce one, and you may get something for a month, but if the supply and demand are not aligned, you won't be able to push through the price increase.

What's interesting, from the standpoint of the last couple of years, is that supply and demand have been very closely balanced in the coated free sheet market, and what you've seen is that there has been success in raising prices, that, in fact, prices have gone up. While they may not have gone up as much as costs, in many cases, they did go up, and they only went up because supply and demand were reasonably balanced. Historically, that's always been the case.

A good example of a failed situation is

that, in newsprint, for instance, there has been a tremendous amount of rationalization of equipment, and yet the pricing has been very hard to maintain because the consumption among major publishers has been going down as they change the trim size, as they lost a lot of advertising, the consumption went down at the same time that there has been a huge amount of rationalization within the supplier base for newsprint.

If you looked at it strictly on a cost basis, especially since a lot of these mills are Canadian, and the parity with the U.S. dollar has raised their costs tremendously, if you looked at it from a cost standpoint, you would say they have to be able to raise costs, but the fact of the matter is, as much as they would like to and need to raise prices, the demand is dropping, and because the demand is dropping, they continuously rationalize their older equipment in order to try to balance the supply-demand equation.

At least, in the coated free sheet arena, what's working in our favor, and, rest assured, the comment was made earlier, "No one wants to see prices go up more than me." The commission that we get, or the commission we're paid, from a mill, if it's off of

$100, and then we have the opportunity to get it off of $110, we like that $110 much better than $100.

What's been happening in coated free sheet is, at least, there is an increase in demand. The consumption has been going on, and so you have been able to justify and implement a number of these price increases.

Again, speaking as someone who has been on the manufacturing side of the business, maybe not as much as the costs are going up, but you have been able to see that happen, and that is something that you would not see in our industry unless supply and demand were reasonably balanced.

COMMISSIONER PINKERT: Okay. Mr. Cameron needs to say something, I think.

MS. MENDOZA: I was just going to say that I think, you know, we're talking about the record in this investigation, and you look at what demand patterns have been, and the costs have really been stable, on an overall basis, and the fact that the U.S. industry has been able to push through price increases, both in 2006 and 2007, I think that evidence, you know, speaks for itself because if you're able to push through price increases even when the market is stable, and costs are stable, I would say that's a pretty good sign.

MR. CAMERON: The only thing I would add to that, if it's permissible, Commissioner, is --

COMMISSIONER PINKERT: I want to give you the last word on this.

MR. CAMERON: You know something? I sincerely appreciate this.

If you would like to refer to Slides 4 and 5 of Mr. Klett's testimony earlier this afternoon, with respect to number one, the relationship between the net sales AUV and unit cost of goods sold to the domestic industry, and then, secondly, the fact that the ratio of costs to sales has been declining.

Again, it goes to the same point. Obviously, there is some market power. That's the way they have gotten the price increases, and these price increases started in 2004.

COMMISSIONER PINKERT: Okay. For the post-hearing, I would appreciate it if you would give us an estimate of the number of producers in China, their production capacity, and your estimate of production capacity in the near future, 2007-2008. Thank you.

CHAIRMAN PEARSON: Mr. Aronica, back to you. I have some exposure to commodity transportation issues. I wanted to make sure that understood what you were saying when you made reference to shipment of web rolls, or whatever kind of rolls, from Europe in a break bulk vessel. Is this a vessel that is dedicated specifically to that trade, or is it a break bulk vessel that can handle a number of products?

MR. ARONICA: I think the gentleman in front of us was talking about the break bulk vessel.

CHAIRMAN PEARSON: Excuse me.

MR. ARONICA: I mean, I sort of know about it also.

CHAIRMAN PEARSON: He has got more hair than you. I should have noticed the difference. I'm sorry.

MR. ARONICA: All right. Well, I'll just be quiet now. I've never heard that before.

CHAIRMAN PEARSON: Well, it's one of these marginal differences we look for.

Please tell me what you can about this bulk transportation in break bulk, if you could.

MR. HEDRICK: Is there a specific area you would like?

CHAIRMAN PEARSON: What I'm particularly interested in is, are these vessels that are built specially from the keel up to do this trade, or can you take any old break bulk vessel, make modest modifications, and then use it for this purpose?

MR. HEDRICK: I can only speak to the vessels that I know about, and these are purpose-built vessels to move web rolls of paper. So these boats were commissioned initially by Finnish paper manufacturers. By "Finnish," I mean the country of Finland as opposed to "finished." They were purpose built to move web rolls.

They have large elevators on the side, as I indicated. You take forklift that can take rolls that are very high, up to 80 inches in length, stack two of them together. You put a whole bunch of these rolls on the elevator. The elevator goes down, and all of this is happening simultaneously. They also have huge gang doors on the side that open up.

So the short answer is absolutely purpose built for moving paper.

MR. ARONICA: Could I just add to that?

CHAIRMAN PEARSON: Please.

MR. ARONICA: These ships were built specifically for the Finnish, and like he just said, most of the Scandinavian, actually, mills do it that way. The reason why they built these ships is because they dock these ships right at the mill.

It's an important point to make because, as these mills are around the world, not all of the mills, obviously, are built right on the sea. So the shipping break bulk works for some people but does not work for everyone. So some people have to ship in containers. I just wanted to point that out.

CHAIRMAN PEARSON: So --

MR. HEDRICK: I think there is one point I would like to add, Mr. Pearson, if you don't mind. While the boats are purpose built, and they are out there plying the water on a regular basis, it's not as if any distributor or manufacturer could, all of a sudden, say, "I want to be in the break bulk business. Build me a boat," and it would happen in three or four months.

Shipbuilding is a time-intensive business, and my understanding would be this would be an 18-month or two-year sort of investment in order to get a boat up and ready, if somebody wanted to do that.

CHAIRMAN PEARSON: Right. Probably not within a reasonably foreseeable timeframe.

Do you know, once these vessels have discharged their cargo at a destination, do they then return empty, or do they have the capability for taking some sort of cargo on the back haul?

MR. HEDRICK: The vessels that I'm aware of take a back haul. In many cases, it's clay, which becomes latex in the coating formulation. So the boats are then going straight back to the mill sites. In the case of UPM, the mill is at the port, the boat pulls up, discharges its load, they clean it out, put paper back on it, and it turns right around and makes its run back to the U.S.

CHAIRMAN PEARSON: Since the United States is a reasonably efficient producer of web rolls, at least from what I can gather, does the United States ever export any web rolls on those vessels? Is there any specialized type of product that would be going back to Europe, for instance?

MR. HEDRICK: I'm honestly not in a position to answer what vehicle the U.S. manufacturers are using to get their exported coated web to Europe.

CHAIRMAN PEARSON: Mr. Aronica?

MR. ARONICA: These boats are apparently owned by the Scandinavian mills. If you were a Scandinavian mill, I don't think you would want U.S. product being shipped back to Scandinavia on your boat to compete with your products.

CHAIRMAN PEARSON: No, but I could envision dropping it off in Rotterdam and then going back to --

MR. ARONICA: Well, maybe. I'm not sure

that they would let that happen.

CHAIRMAN PEARSON: Point well taken. So, in the event, the hypothetical situation, in which an Asian producer of web rolls wished to get into this business and had the port logistics arranged to do it, that firm would have to build a vessel, and this might be a question more for Mr. Klett. What I'm interested in is the economics of using that type of dedicated vessel on a longer-haul route across the Pacific as compared to across the Atlantic.

I'm wondering, you know, you tie up that capital, and the number of rolls you can move in a year is going to be less than if you're doing it from Europe to the United States, I assume. I don't have a sense of whether there is enough of a disadvantage there to make it unlikely that any of the Asian producers would ever go down that road or down that shipping lane, whatever.

I'm not being terribly clear with my question.

MR. KLETT: I think, generally, I understand it. What you're basically saying is that if the cost of going down that kind of investment would ultimately pay off, based on the volume that you can move over time. I think Mr. Aronica said that the cost of going down that route, in part, depends on whether you're even situated to make that worthwhile, base on the location of the mill.

So I think that, theoretically, maybe that's a possibility, but, practically, I don't see that happening, and actually the gentlemen here, with respect to whether it's practical or not, probably are in a better position to speak to that than I am.

MR. ARONICA: What I would just like to add is that obviously shipping a boat like that a week, or less than two weeks, across the Atlantic. Most of them come into -- I think it's PA, actually, most of them come into where they unload them. I don't think it comes into Maryland or New York.

Being on the ocean is sometimes rough, so sitting on a boat for 30 days is different than sitting on a boat for seven -- I don't know the exact sailing time on those boats. I would be curious to find out. I'm sure the lawyers here will find that out.

But there has been many a time where that paper comes in all jumbled up because it's hit rough seas, so spending a long period of time and the cost of insurance and the cost of everything, there is a big difference between shipping paper from Europe, cost-wise, than shipping paper from Asia.

Again, I stress, it's a week on the water as opposed to 30 days, so it's a big difference.

MR. HEDRICK: The shipping time across the North Atlantic from the European ports on these purpose built boats, which were also built to be faster, not only purpose built, is about 14 days, and that shipping time was reduced from 21 days with the old vessels that the Scandinavians used to use. So the boats are not only purpose built; they are fast as well.

I'm aware of boats being caught in the North Atlantic during hurricane season and that paper showing up in perfectly good shape as well because it's been packed properly, et cetera, and so on, in a boat that was designed to deliver it that way.

CHAIRMAN PEARSON: Okay. Mr. Klett, for purposes of the post-hearing, if you can provide any information regarding these economics, perhaps even the cost of construction of such a vessel, because, I assume, that's not insignificant -- I don't have an idea of what type of number we're talking about -- perhaps that would be of help to us.

MR. KLETT: We'll look into that. Thank you.

CHAIRMAN PEARSON: The only other comment I would make on transportation is, since these are web rolls we're talking about, do they ever try moving them on a roll-on, roll-off vessel, one of the row-rows?

MR. HUNLEY: I can give you some experience from Indonesia. We've tried, not row-row boats, but we've tried regular break bulk back in the nineties, and the effects were pretty awful. We had a boat sink. We had huge amounts of cargo damage. We actually had paper arrive into the United States where it was green from mold that had accumulated on the paper because of the dampness as it came across the Pacific.

CHAIRMAN PEARSON: Okay. Good. It was a poor attempt at humor, moving rolls on a roll on, roll off, but never mind.

Vice Chairman Aranoff?

VICE CHAIRMAN ARANOFF: Thanks, Mr. Chairman. A few more questions.

For the Chinese-Indonesian panel, one of the arguments that the Petitioner makes with respect to cumulation in the threat context is that because of some cross-ownership, the Commission should not consider decumulating China and Indonesia. Do you want an opportunity to respond to that argument?

MR. MORGAN: Yes. I would be happy to respond to that in the post-hearing brief, but Mr. Hunley can actually speak to that directly in terms of having had experience with both. You're talking about Indonesia having essentially one customer substituting for China or vice versa.

MR. HUNLEY: The fact is that the Indonesian operations focus primarily on the Indonesian home market and that Southeast Asia region, including Australia. Those are the markets that they typically serve. They do ship some product here to the United States, but there is literally just one customer that they ship to.

If Indonesia tried to support all of the China mill customers in the United States, they would not have the capacity to do so. Also, the product coming in from Indonesia is a little bit different. The quality levels are a little different. It's not as reliable a product coming out of Indonesia.

VICE CHAIRMAN ARANOFF: I don't believe we have anything on our record that would support that last statement that you made, that there are quality differences with the Indonesian product. So if there is anything that you would like to submit on that point, I invite you to do so.

MR. HUNLEY: I could probably show you some claims that would demonstrate that fact, yes.

VICE CHAIRMAN ARANOFF: Okay. Thank you. One last question. In my last round, I had a conversation, mostly with the Korean producers' panel, about why we might not expect web roll products from Korea to come into the U.S. in the future. I've heard their argument on that, but I think the factual situation with respect to Chinese producers is different because they are shipping web roll into the U.S. market.

So I wanted to offer you the opportunity to make the argument, given that we see an increasing trend, albeit from a small base, of what is likely to happen in the immediate future.

MR. MORGAN: We would be happy to address that, Vice Chairman Aranoff.

A couple of points on that. When you say "an increasing trend," even if you look at the end of the period, if you doubled that every year or two or three and compared that to what it would account for in percentage relative to U.S. consumption, you would still be at an insignificant figure. That's the kind of small number we're talking about. We're talking about a number that, even after an increase, is so small.

The other point there is that, I think you've heard Mr. Hunley say that there is a demand in the market. He has been asked to supply this product, and, after three years, all you see is a very small number.

I think you can speak to some of the conditions under which that actually entered and the facts that make it unlikely that there is going to be additional web roll from China.

MR. HEDRICK: I think we've beaten the supply chain costs or the container costs to death, and there is going to be some more information supplied.

The other issues are, it costs us more to produce the web roll. We use a different coating formulation, which is more expensive. We have to buy special pulps to support it. We have to dry more moisture out of the sheet, which costs us more energy, and probably the biggest additional cost is, because we run very larger, modern machines, the lighter basis weights on the web rolls really add to the fixed-costs component that we have to add in and cover on the web.

In terms of the numbers that you saw, what we did in the summer of 2006, for about two months, we actually tested our ability to service the web roll market in the United States.

So, if I remember correctly, I want to say, like, June, July, August in 2006, we actually did ship a small amount of web rolls into the United States to see whether or not we could make this a commercially viable product, and we failed. So we've essentially stopped selling web rolls altogether.

VICE CHAIRMAN ARANOFF: Okay. I appreciate those answers. Let me turn to one last question that I have.

I was having a conversation with the Petitioners earlier today about what is their theory of price suppression, and I think Commissioner Okun had raised the issue that you could see a price effect, or you could see in the volume machines if a domestic producer were choosing to maintain their prices but thereby losing some sales. The general answer was, if you look at the data, they don't show that.

I did want to give you a chance to respond to Table 4 on page 44 of Petitioner's prehearing brief. The actual data in that table are confidential, but I think that it says something about the issue of, you know, market effects being seen in terms of market share when you're looking specifically at the sheet product. There is probably not anything you can say publicly. Maybe there is, but I would like to ask you specifically to respond to that table because it presents an interesting story.

MR. MORGAN: We'll address that.

MS. MENDOZA: I think the only thing we can say is that we would suggest looking at the absolute volumes there, and we will be presenting, in our post-hearing brief, a similar calculation, including sheets and sheet rolls, both the numerator and the denominator.

VICE CHAIRMAN ARANOFF: Okay. All right. With that, I think that is all my questions, so I want to thank the afternoon panel. Thanks, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: I think, just one question that hasn't been covered, and I know, in your briefs, you've talked a little bit about the Brask-related questions, but I did want to have an opportunity -- maybe I'll start back with Mr. Cameron or Ms. Mendoza. I know you've argued the presence of a larger number of nonsubject Koreans than subject Koreans and that we should take that into account when evaluating it.

For purposes of the Brask analysis, would you advocate that we were then looking separately at these nonsubject Koreans and saying that they are more price competitive, or is there evidence of there being price-competitive nonsubjects in the market and, therefore, likely to replace the subject imports, or how should we look at that versus the other nonsubjects in the market?

Then I would ask, after you respond, Mr. Morgan, to just talk about that in terms of what else you would call attention to with regard to the competitiveness of nonsubject imports.

MS. MENDOZA: I guess I would say that, basically, our analysis was of nonsubject Korean imports compared to Korean imports, but I think that if you look at the overall U.S. import data, as opposed to the responses to the Commission's questionnaires.

One of the problems, obviously, is always in these cases, and I know the Commission is well aware of this problem in Brask analysis that you don't get a particularly good response rate to the questionnaires that you send out.

To some extent, in our brief, we use the import data and average unit values for the import data, and I think that our position is that, even on a cumulated basis, nonsubject imports from other sources, given the diversity and the product price ranges of those AUVs, that they could clearly replace any subject imports in the market, even on a cumulated basis, and certainly, in terms of price levels, they are very comparable, at least for a sufficient quantity.

This case is kind of unusual, as we pointed out in our brief, because we really don't have a very large amount of imports here. I mean, the total number is confidential, but it really isn't very large, particularly now that more than half of the Korean imports have been eliminated, so you don't really have a situation where it's not credible to say that nonsubject imports can easily replace them in terms of the volumes. Nonsubject imports are very large and a significant share.

So I think our position would be that whether you look at it, Korea, subject versus nonsubject, or you look all subject versus nonsubject, I think, under either analysis, you've got nonsubject substituting both in terms of volume and being very price competitive with subject imports.

MR. CAMERON: I would just add one thing, and that is that, in addition to the normal Brask argument with respect to substitution, we also have a lot of testimony from the distributors today, and you had it as well at the preliminary conference, but it's important.

It's very clear that Mr. Aronica, if he can't get enough paper from EN, which is the subject Korean producer, he is not going to be replacing that missing supply with the domestic industry, and it's not even because he doesn't want to get the domestic industry. It's because they won't sell to him.

This case doesn't change that basic fact of the way that this industry works, which means that the Brask analysis in this case actually is more poignant and relevant to the Commission than it normally is because it isn't as if he has a choice. They haven't allowed him the choice, and I think that Mr. Aronica is clearly not alone here. So that element of Brask actually is greater rather than academic.

COMMISSIONER OKUN: Just one follow-up on that. You've talked about that, and we have his testimony, and the information that we have on the record, but if there is anything more that could be said on how big a portion that is of the market. In other words, sometimes when we get witnesses here, they are speaking to their particular situation. That is his situation, and I believe it. It's just trying to understand whether he is representative of a large volume or not of --

MR. ARONICA: I would say, because I'm solely imported supplied, you have a supplier over here that's $5 billion. Am I right? Five and a half billion dollars. I am not that big, by the way. I'll just let you know. I would like to be, but I'm not that big.

There's a lot of people that would love to step forward and make comments about this issue, but for fear, since I, quite honestly, after today won't get any domestic supply, had not much hope of it anyway -- that's why I'm here. There's a lot of people that have not come forward and answered your questionnaires and stuff like that because of a fear of repercussions from New Page.

So I'm just one person, but you can multiply it out a lot. We could spend all day on that subject.

MS. MENDOZA: I just want to make a final comment very quickly, and that is that I think this is a very unusual case also for Brask because nonsubject imports are so large and so diverse, and from so many different sources, and you have subject imports being so small. That's not your normal case. So I think that for all of the reasons Don said, plus the fact that the volumes are so large and so significant, and they have been in the market for such a long time --

COMMISSIONER OKUN: You may want to look at it because I don't know if it's true or not, but I did think, in looking at the figures, that it may be the largest amount of nonsubjects in a post-Brask case that we've had. So it would be interesting to actually see if that's true. Mr. Morgan?

MR. MORGAN: I just wanted to point out, I've been in a lot of hearings where respondents have asserted that they could not obtain supply from domestic manufacturers, but I can't recall a case where the domestic producers actually knowledged that they had supply available to sell, but because of the conditions of competition in the marketplace, that they structured their business in such a way they wouldn't sell to someone who wanted to buy.

I don't know if Al can comment publicly, or if we can do it in the post-hearing, but to give a sense, at least, Al, of the volume value that you were talking to New Page about that they willing to supply.

If you want to do it in confidence, that's fine, but if you could give an estimation that you would feel comfortable being public.

MR. DRAGONE: I think that, in our particular case, and we were looking for a national distribution program with New Page, in not getting that and, by the way, not getting it. I don't want to paint New Page. As I said earlier, New Page is a tremendous supplier of Unisource. They are a high-integrity company, a fantastic group of individuals. They have their reasons, I'm sure, for their marketing program, but, in effect, it damages my company significantly in our national platform.

Having said that, we asked them if they would participate in a national program, indicated what we thought we could do, and not getting it, not only from New Page but not from Sappi and not from Stora Enzo or any other domestic mill, we went out and created a program that's about 125,000 tons.

We have that much strength in the marketplace with our sales organization that we are able to start from scratch and create a 125,000-ton program on a brand-new product.

So, certainly, was that available to a domestic mill, from our standpoint? Absolutely. We went there first, and, in not getting it, we developed a program with APP, and we also developed a program with UPM Kimminee along the same lines because of the same issues. It was a higher-quality product and going to that better-best type of best-better type of grade lineup. In fact, we have 2,000 tons that could have easily been with domestic mills if we had been able to have the opportunity to sell them on a nationwide basis.

COMMISSIONER OKUN: Okay. I appreciate all of those answers and all of the answers you've given this afternoon. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: I have no question and thank the afternoon panel for all of your answers.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman. I just have one final question.

Taking into account that the scope will not be clarified or expanded regarding the this ground wood paper, what has happened with regard to China and Indonesia in 2007, and why the increase in ground wood paper inputs?

MR. MORGAN: I think the answer to that, in part, may involve confidential information because we can't speak for all of the Chinese producers.

With respect to Indonesia, I believe that that would also be confidential, so I would prefer if we could treat that in our post-hearing brief.

COMMISSIONER WILLIAMSON: That's the only way I can get it, I guess. Yes, you can.

MR. MORGAN: Thank you, Commissioner.

COMMISSIONER WILLIAMSON: Thank you.

I have no further questions, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I would just like to thank this panel for the testimony, and I look forward to the post-hearing submission.

CHAIRMAN PEARSON: Gosh. At the risk of earning the award of least-popular commissioner, I do have a couple of questions.

Mr. Hunley, since demand for coated free sheet is rising rapidly in China, is there some probability that domestic printers would put in web offset machines to handle this higher volume of business and that we might then see a structural change in the Chinese market over the coming years?

MR. HUNLEY: I don't have any facts to really address that. I would say that it's a possibility, but the timeframe, in order for the market to become a significant web user, is probably pretty long.

CHAIRMAN PEARSON: Do you have a sense of whether the current printing shops in China are smaller or larger than we might see in other countries, for instance, what we might see in Korea?

MR. HUNLEY: I would say that the printing shops in China are -- there's essentially two printing communities in China. There are what are called the "export printers," and then there's the domestic printers inside China. The export printers are the ones with, I would say, the largest percentage of equipment that is of a later generation, and there are a few web presses in there, but the majority of those so far are still sheet fed.

CHAIRMAN PEARSON: Okay. Is there a labor cost reason for them to maybe stay with sheets? Are those machines more labor intensive than the web?

MR. HUNLEY: Again, this is my opinion, so no facts to back this up. I would say it's primarily because of the flexibility.

CHAIRMAN PEARSON: Okay. This relates to a point that the Petitioners have made, so I'm just seeking clarification.

On the issue of attenuated competition, Petitioners asserted that a significant number of printers operate both web and sheet-fed printers. Do you agree with that? I know that Mr. Dragone addressed it in regard to Chicago earlier.

MR. DRAGONE: Can I just answer that to clarify what I said earlier?

CHAIRMAN PEARSON: Certainly.

MR. DRAGONE: There are a number of printers that have both web and sheet-fed equipment. There are relatively few, very few, printers that have the sophisticated roll-to-sheet type of in-line capabilities that I was talking about, that would take a web product and sheet it in line, specifically, as an in-line printing and sheeting operation. That's what I meant to say. A lot of printers do have both sheet and web equipment in their shops.

CHAIRMAN PEARSON: Okay. Thank you for that clarification. I imagine that's what you did say; I just didn't understand it that way. Mr. Davis?

MR. DAVIS: Yes. I would like to comment on that. Of the approximately 39,000 printing plants in the U.S., certainly a very small percentage have both. The printing plants in the U.S. are predominantly sheet fed or web.

There are some that run both equipment, but then, again, the key decision point for a printer, in terms of whether to run something on a web press or a sheet-fed press, even if they have both, even for the small share that have both, would not be the price of the paper but would be the specifications of the job, particularly the run length of that job.

MR. CAMERON: Ron, I think he is also asking a question about how common is it for someone to buy web and sheet, which is what they testified to this morning, and suggested that that was common.

MR. DAVIS: In that case, that is, I would say, very rare. In my experience, I have not really heard much of that going on, so I think that's very rare.

CHAIRMAN PEARSON: Okay. There is enough overlap among printers that would have both web and sheet capabilities so that, for some significant percentage of printing jobs, they could go one way or the other, depending on the customer specifications, basically.

MR. DAVIS: Well, I would say, certainly, less than 15 to 20 percent of the printers, and probably significantly less than that, have both web and sheet-fed presses, but then there would be a very small majority of the jobs that they would come in contact with where they could run on either piece of equipment, so a very, very small percentage.

CHAIRMAN PEARSON: Mr. --

MR. ARONICA: -- Aronica. I just wanted to comment on the web and sheet because I think it's a little misleading here.

Most imported coater sheet fed paper is sold in relatively small quantities, meaning that we ship out one, two, three skids of paper. Most web jobs are much more than that, and that's what makes the difference between a web job, and it's the efficiency of the press and how fast they can print and how many catalogs you want to produce.

Insofar as the way the coated free sheet goes, in effect, our business, imported coated paper, is sold primarily to the commercial printer, small mom-and-pop shop, that runs one, two, three skids a day, not a day but on jobs. There is no overlap there between web jobs and sheet fed.

I'm sure there is, on a very small, small scale, but it's totally insignificant.

CHAIRMAN PEARSON: Okay. So a printer would need to be of some minimum size in order to have both web and sheet equipment.

MR. ARONICA: Yes. They are usually large printers, which is not the majority of the printers in the United States. It may be the majority of tons of the web tons in the United States, but it's certainly not the majority of the sheet-fed printing business.

CHAIRMAN PEARSON: Thank you for that.

My last comment is just to you, Mr. Lincicome. I know you responded earlier to Commissioner Lane's detailed question. I would just say, from my discussions with staff on this issue, if you've got something to put on the record, we would need it because, right now, I don't think we have what's required to do what you're asking us to do.

MR. LINCICOME: You're regarding the modification of the export volume. Is that what --

CHAIRMAN PEARSON: Right, right. I'm sure our staff would be willing to explain more about that. We can't get to where you're asking us to go based on what we've got now. I'm darned sure of that.

MR. LINCICOME: We'll definitely. As Frank mentioned, based on the proprietary nature of the information we have, we'll put it in our post-hearing.

CHAIRMAN PEARSON: Okay. Thank you.

Are there any further questions from the dais?

(No response.)

CHAIRMAN PEARSON: Do members of the staff have questions for the Respondents' panel?

MS. MAZUR: Mr. Chairman, the staff has no questions.

CHAIRMAN PEARSON: Does counsel for the domestic industry have questions for the Respondents?

MR. KAPLAN: No, Mr. Chairman.

CHAIRMAN PEARSON: Okay. Well, in that case, I would like to thank the afternoon panel very much for your patience and your perseverance and your help to us.

As a time check, the Petitioners have seven minutes left from direct questioning, with five for closing, for a total of 12, and the Respondents have six left from direct, five for closing, for a total of 11. That's practically a tie. That's much closer than we normally end up.

Mr. Kaplan, how do you wish to proceed? Do you want to take your 12 minutes straight, or do you want to split it up and do a rebuttal and then closing?

MR. KAPLAN: Why don't I take it straight? I think that might be more efficient for the whole process here.

CHAIRMAN PEARSON: Okay. Very well. Let's take a couple of minutes. You may be excused, and we'll bring the domestic industry counsel forward. Thank you.

(Off the record at 6:14 p.m.)

CHAIRMAN PEARSON: Mr. Kaplan, are you ready to proceed?

MR. KAPLAN: Yes, I am, Mr. Chairman. Thank you very much for all your time today, and I would like to thank all of the commissioners.

I'm going to try to be very brief because, needless to say, the hour is late, and I'm a Boston Red Sox fan.

On pricing, I like what Mr. Aronica said. He said, This is a commodity business. If you lower your price, you get the business. That's what this is about.

We will put argument in, in response to the questions, that shows that the Commission has data that show that, absent the subject imports, a major suppressive force on the prices will be removed.

Mr. Hunley said APP is the most technically sophisticated producer in the world. They are also probably the largest producer in the world. We now know that, from their China plants, they have combined dumping and subsidy margins of almost 30 percent. From their Indonesia plants, it's slightly above 30 percent.

So what are we supposed to do, just compete with that, as they build up their capacity with no relief? That's just simply untenable. And where are we in terms of building up a capacity?

Mr. Hunley said, oh, no, no, there is no more capacity coming on. I would like to quote from a joint APP-Voight press release, which came out on August 2, 2007. This is on their new machine in Hynong. It says: "The online coating machine especially offers a great deal of flexibility for a very broad range of grades."

I would like to draw your attention to Exhibit 32 to our preconference brief. Hynong Jenhai Pulp and Paper Industry Company, Ltd., one of the APP subsidiaries, plans to build a new CFS production line with an annual capacity of 1.6 million tons by 2008.

You heard from Mr. Dragone that he can't get product, but you heard from Mr. Tyrone that we agreed to sell to Unisource on the West Coast, and they turned us down.

There have been a lot of misconceptions about web. Mr. Dragone, at the preliminary staff conference, said, "There is no web that I am aware of coming into this country from Asia right now." We know that's not a true statement.

Mr. Cameron said, "They have approximately 70 percent of the market is insulated because the web product is not imported from subject producers." We know that's not true. They produce no printer to talk to you about what's going on in the printing industry. We did, and he told you what was going on in terms of web.

EN admitted that they have nine percent we roll, in terms of their capacity. We'll put this in our post-conference brief, but just to make clear, it's not new information. If you look at our brief of November 28, 2006, we cite the web sites of Kesong, Hangook, and other Korean producers. They very specifically say, including Kesong, that they make web paper. Hangook, which is now covered by this case, after the decisions of Commerce this morning -- they are covered by the countervailing duty decision -- offers to export web paper on their web site.

They talk about how you could never sell web in the United States, but UPM sells web in the United States. UPM is also a major Chinese producer.

I don't think it's going to be that hard for the Chinese to figure out how to move the boat from Finland to China and ship in the web, if they want to.

I appreciate your questions on the economics of it, but UPM is a major Chinese producer.

Many of the Chinese producers did not even respond to your questionnaires. What kind of a position does that put us in, in terms of what's going to go on in the future? They are required to respond. I think you've got to make assumptions about that.

Some of the merchants here said, well, they can't get a full line of supply. I would just say about that that it's sort of like if you have a Safeway market on one side of the street, and somebody wants to build one on the other, it's not exactly irrational to say, "Well, we're not going to let you build another market when you're supplying the exact same customers."

These distributors came in and said, oh, they are being held up from selling U.S. product. The point is, they are all going to the same customers. We have a full distribution network in the United States. We don't need necessarily to supply to every single distributor to get to the people who are really using the paper, who are the printers.

Mr. Dragone says that "if imports are eliminated, we will not be able to survive." That's what he said to you this morning. If that's the case, why are imports such an insignificant part of this market?

Let me turn now to my conclusion. I thought a lot about your question, Mr. Chairman, about how we look at causation. I tried to address that and will certainly answer your question more in the post-conference brief. But I would look, in response to your question, at employment effects, investment, the share of sheet product, the pricing and how that relates to the cost of capital, the closures of capacity, the fact that it's uncontested that volume is increasing, the underselling.

If you listen to what some of the people up here, a few minutes ago, said, it sounds like the U.S. business is full of fools. We're just here to lose money. Demand is up. CFS demand is up. Everyone agrees with that. The reason there is suppression is because of the underselling.

We have heard a great deal today, but I would urge you to keep the following points at the center of your deliberations.

Condition of the industry. Every one of the companies who was here today in the U.S. side and a great majority of the production in the U.S. industry is the product of a very recent restructuring with more to come. None of the traditional paper manufacturers, the household names, remain in this segment of the industry. They have all fled it.

The people here with me today have been willing to try to keep these manufacturing assets in the United States open and operating. To do so takes debt financing, and, as such, you have to look at the costs of the restructuring and net income in considering whether there is injury to this industry.

With respect to employment, even with the courageous efforts of these companies, the effect on employment has been huge. Just looking at the public data, about 8,500 jobs existed at the beginning of this period. About one in five of those is gone. Wages per hour declined by 14 percent. Wages overall declined by 27 percent. This is not a sustainable employment base, and for the workers at issue in this industry, it is injury, hard, fast, and simple.

Chinese subsidies. Much of this follows from subsidies in China, which have undercut the U.S. producers, as well as undercut the market opportunities for Korean and Indonesian producers in Asia.

As we said, the Chinese filed a dumping case on coated free sheet against Korea, and there is an order on the books in China. The Chinese subsidies are large and expanding. You heard about that from many people today.

It's one thing to lose jobs to China in free competition; it's quite another to do it as a result of unfair trade. That should not be allowed to stand.

Underselling. What is the mechanism that is accomplishing this result of increased imports for the Chinese, Korean, and Indonesian exporters? Quite simply, the overwhelming amount of underselling.

In some ways, I find it difficult as to why the U.S. producers have any revenues at all. Think about it. There are three major supply bases in the three subject countries, all with increasing capacity and all underselling U.S. producers by an average of over 20 percent in a commodity product.

When you think of all three of them together doing that, and that is what cumulation is about, it sends a real shock to the U.S. industry.

Web and sheet. We have heard from Mr. Reindl about how the low price of imported sheet is beginning to compete directly against web; this, despite a substantial premium for sheet and the additional cost of sheeting.

We have heard from Mr. Gallagher about the presence of web offers and sales on the West Coast. Our brief highlights the interchangeability of web and sheet at the printer level and lists all of the web producers in the subject countries.

As I said, Respondent representatives at the preliminary staff conference, including Mr. Dragone and Mr. Cameron, said that web from subject countries was not sold in the United States. We know those statements are not true.

I wasn't had a chance to talk about this, but I would ask you seriously to look at the currency-manipulation issues in this case as a condition of competition. The Department of Commerce has not decided that practice is a subsidy, but given the large underselling by the Chinese in this industry, I think you have to consider it to be a condition of competition.

The bottom line is subject imports are increasing, both in terms of value and volume; underselling is extensive and focused on the highest-value segment; the underselling is becoming so large in that area, imported sheet is competing with web; U.S. producers have no profits, diminishing investment capital, which is declining at an alarming rate; and employment, as well as wage rates, dropping by double digits.

Capacity in China, Korea, and Indonesia is growing at a very fast rate, fueled by government subsidies and unfair trade practices. Every one of the CEOs who has come here today has closed down lines and laid off workers because of unfair trade. Each of them has had negative returns.

The union representatives you saw here have seen their members' pay, benefits, and, ultimately, jobs lost. The Commission must act to prevent further injury. Thank you very much.

CHAIRMAN PEARSON: Thank you, Mr. Kaplan.

Mr. Morgan, you have 11 minutes. Are you using it all yourself, or are you going to share some of it with that other gentleman? Excellent. So we should set the clock for six minutes for Mr. Cameron. Are you sure you want to take it yourself and not give it to Ms. Mendoza.

MR. CAMERON: She gave me permission. Come on.

CHAIRMAN PEARSON: Okay.

MR. CAMERON: I did want to start out by saying, you know, I didn't really think that there was anything that Gil and I agreed on, but that's not true. He is right about tonight. It is an important night, but that is the limit of my agreement with him because I'm a Cleveland fan, and he has got a problem.

Now, with that in mind and knowing that the hour is getting increasingly late for other important issues, look, the first issue, and I know that Frank is going to get into this in his closing, we agree that there are some credibility issues in this case. Those credibility issues are not on our side, and we will address all of those in our post-hearing brief.

Secondly, Mr. Kaplan again stated, for the umpteenth time today, that "Korean capacity is increasing." Korean capacity, subject to this order, is not increasing. It is declining. Again, we'll discuss that in our post-hearing brief again.

Thirdly, I believe that Mr. Kaplan just stated that Mr. Aronica said that competition is all on the basis of price. If that's not what Mr. Kaplan said, then I apologize. But if that is what he said, that's not correct. That is not at all what Mr. Aronica said. What he said is, number one, prices are basically the same; and, number two, competition is based upon service, not price, service, to the customer. That's the way he gets business.

Finally, Commissioner Lane asked earlier in the day when the West Coast is a "real issue" or just an issue that was raised to confuse us. The answer from West Linn, who produces on the West Coast, is "basically yes. It was just raised to confuse you. It's not an issue of attenuation, and 'there is plenty of paper on the West Coast.'"

There's a couple of things that I think are useful to say with respect to this.

Number one, you also had U.S. producer witnesses on the first panel, who said that transportation costs to the West Coast from the East and Midwest mills are, indeed, significant. They are not prohibitive; they are significant. We agree with that. Nobody said that they are not on the West Coast.

Number two, I hope it didn't escape the Commission's notice that West Linn, as they testified, only produces web. They don't produce sheet. They are not selling sheet on the West Coast. And, of course, when he said that I sell some web to people who use sheets, what he said was, I don't guarantee it, but I sell it to them. I don't guarantee the use.

Let me ask you a question. I realize that automobiles has been, in past investigations, a somewhat delicate topic among the panelists, so I really don't want to get into a real in-depth discussion of automobiles and the types of automobiles that various commissioners drive, but let me ask you a question.

When you buy an automobile, if the dealer says, "This is a great car, and I'm going to give it to you at this price, and, by the way, I'm not giving you any of those guarantees. There's no warranties that go with it." Is that significant to you? Is that competing with the dealer next door, who says, "Oh, yeah. It's got a 50,000-mile warranty, you know, bumber to bumper"?

No. I think that that says exactly what it says.

Finally, I would suggest, Commissioner Lane and the rest of the Commission, look at the data that's on the record. The data on the record suggest that, no, we did not raise that issue just to confuse the Commission.

We raised that issue because it's a very real issue with respect to points of competition and the degree to which imports of sheet on the West Coast impact the overall domestic industry, and we stand on our position, and we'll expand on it in our post-hearing briefs.

We have absolutely nothing to apologize for with respect to that position. It is a further degree of attenuation, and it is significant. Thank you.

MR. MORGAN: Gosh. How to follow up on that. One of the things I noticed today is that, from what I heard, at least, this was the first CVD case that's been brought against China. But that's at the Department of Commerce.

New Page has a lousy injury case. And my apologies if much of this testimony was encapsulated by one of Chairman Pearson's questions to the domestic panel earlier, foreseeing what we might argue, given the fact that respondents often shy away from indicia of injury. In this case, we're talking about the indicia of injury, and there are none.

Today, you heard, as you often do, two theories of the case. Our explanation shows why, despite an increase in subject imports, U.S. producers have moved from an operating loss at the beginning of the POI to an operating profit at the end of the POI and in interim 2007. Not only does our theory explain why operating profits improved, but it accounts for how the U.S. industry's market share could increase, and its U.S. shipment values increase, while the cost of goods sold remained almost flat, even though subject imports increased.

Our theory of the case explains why, despite underselling, U.S. producers have been able to achieve price increases. We can also explain why there has been no adverse impact on the U.S. industry and why no future adverse impact is likely.

If constancy is a measure of accuracy, our theory has not changed one bit since the preliminary phase, even in the face of changing data.

What of New Page's theory of the case? Well, for starters, New Page never even identified that there might be an issue with web rolls or sheet rolls or sheets. That was entirely absent at the preliminary phase, and it wasn't until the Respondents brought it to the Commission's attention that it deserved further investigation that staff took us up on that.

First, New Page told the Commission that a printer decided whether to run a web roll or a sheet roll based on the printing press they had, and you can find that in the transcript at 68. That was Mr. Tyrone's conference testimony.

Then New Page told the Commission that those distinctions did not matter. It didn't matter what kind of press you had. Now, it's unclear, actually, what New Page's position is. I think they are saying that they compete across. It doesn't matter if you have sheets or webs, if you have a web-sheet printing press, it's all kind of the same. They are hiding from the fact, clearly, that the U.S. industry maintains a dominant share of the market for web rolls.

In the preliminary phase, New Page argued that the U.S. industry has not been able to obtain long overdue price increases. You'll find that at their post-conference brief at two. Now the record shows there have been price increases, but New Page claims they are not as high as they should have been.

In the preliminary phase, New Page argued that the domestic industry was in a cost-price squeeze, and now the record shows that costs remain flat while average sales values increase markedly. New Page insists, without support, based on a very novel theory of price suppression, that their prices have been suppressed.

It would not be at all surprising if New Page changed its theory once again, given recent revisions to the data. For instance, does New Page really want to stand by its assertion that they have not obtained any effective relief, given what the revised data show?

Our theory, however, holds. It's even strengthened by the recent changes.

What, then, supports our theory that competition between the subject imports and the U.S. industry is attenuated? Start with a market where demand for CFS is predominantly for web rolls, and subject imports are almost all sheets. Add in the fact that U.S. paper merchants are the gate keeper of the U.S. market and that they must carry a full line of products, including a U.S. line, a European line, and an Asian line. Add to this the fact that U.S. producers can sell direct to end users, and imports cannot.

All of this is topped off by the fact that the West Coast market, which Don has just been talking about, has long been served by imports, going back years to European imports, but it is one in which the U.S. producers historically have not had much of a presence because of high freight costs, which they acknowledge today, at least the high-freight-costs part of it.

Can there be any doubt that competition is attenuated, and can there be any doubt that this accounts for what the record shows has occurred throughout the POI?

And, last, leaving aside allocations, can there be any doubt that purchasers sought out imports and need those imports because the U.S. industry restricts sales by purchasers, product, and region?

None of the fundamentals I just described are set to change in the future. New Page has recently affirmed this point by making a $1.5 billion cash acquisition of Stora Enzo's U.S. assets. Notice that I did not refer to this as a bet because I doubt very much that New Page gambled billions on a market whose prospects it views as threatened. If anything, New Page's acquisition of Stora will further strengthen the domestic industry's position in the sheet market.

From our perspective, this case always has been, and always will be in the future, about a market that is attenuated in terms of the competition between subject imports, and just because this is the first CVD case brought against China at the Department of Commerce does not mean that this Commission should reach an affirmative decision. There will be other cases, and the Commission should decide them as the facts warrant. Thank you very much.

CHAIRMAN PEARSON: Thank you, Mr. Morgan and Mr. Cameron. I'm about to say for the first time for you today, but not quite.

In accordance with Title VII of the Tariff Act of 1930, post-hearing briefs, statements responsive to questions and requests of the Commission, and corrections to the transcript must be filed by October 25, 2007. Closing of the record and final release of data to parties is November 13, 2007, and final comments on November 15, 2007.

Thanks very much to all of you. This hearing is adjourned.

(Whereupon, at 6:37 p.m., the hearing in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Coated Free Sheet Paper from China

INVESTIGATION NOs: 701-TA-444-446 and 731-TA-1107-1109 (Final)

HEARING DATE: October 18, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: October 18, 2007

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: John Delpino
Signature of Court Reporter