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Subsidies fuel China paper industry's growth

By [Thomas Content](#) of the Journal Sentinel

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China's paper industry has expanded dramatically since the country's entry into the World Trade Organization nearly a decade ago, and China is now the largest paper producer in the world.

That growth has been fueled by \$33 billion in Chinese government subsidies - subsidies that have led to declining sales and job losses at paper mills in Wisconsin and across the United States.

That's the assessment of a [report](#) published this week that warns that the Chinese government's heavy subsidies to its paper industry are making it tougher for paper companies in the United States to compete.

China's exports of glossy paper used in magazines and catalogs have soared in recent years - and its exports of all paper to the U.S. are growing 22% a year, according to the report by the nonpartisan Economic Policy Institute. Total paper industry production has tripled since 2002, the report found.

"Exports have served, and are expected to continue to serve, as the primary engine of growth for China's paper industry, adversely affecting the U.S. and global economies," said the report, which was supported by the Alliance for American Manufacturing.

In a separate report, paper industry analysts with the investment bank J.P. Morgan note that in 2010, as the U.S. economy has recovered, U.S. exports of coated paper are on the rise and imports are on the decline. The analysts also said imports from China and Indonesia are likely to decline further because of tariffs imposed at the request of two papermakers with major operations in Wisconsin.

In March, three paper companies - Appleton Coated and NewPage Corp., both with operations in Wisconsin, as well as Sappi Fine Paper North America - won a preliminary victory in an unfair trade case at the U.S. International Trade Commission.

The Commerce Department imposed tariffs ranging from 3.92% to 12.83% to offset government subsidies from China, and also levied a 17.48% duty on Indonesian firms in the same case. A final decision is expected by the end of the year, NewPage and Appleton said in regulatory filings.

The Economic Policy Institute report found China's far-reaching subsidies of its paper industry - including subsidies of electricity costs and direct government control of major companies - have helped the Chinese industry grow. More government subsidies and investment are expected in coming years.

That concerns Jeff Landin, executive director of the Wisconsin Paper Council in Appleton.

"China is certainly a big player and becoming a more dominant player," he said. "They have built new mills faster, and more efficient mills .&ensp.&ensp. and they're continuing to build more. The threat of new mills is one thing, but when you add on what we believe is illegal subsidies from the government, the threat is even more serious for domestic producers."

The report, written by Usha Haley, professor of international business at the University of New Haven in Connecticut, found China now has the fastest-growing paper industry in the world.

"Yet, China also has among the smallest forestry resources in the world to support this industry's expansion," Haley wrote. "Consequently, it imports the bulk of its raw materials at world prices. Yet, paper in China generally sells at prices much lower than in the United States or European Union."

However, China's need to import pulp hasn't provided much benefit in the form of exports for Wisconsin paper mills, many of which closed down their pulping operations as the industry consolidated and weathered an extended downturn over the past 10 years.

The dumping of coated paper by China and Indonesia into the U.S. market for magazines and circulars comes as publishers responded by a drop in advertising by reducing their paper buys.

"The fascinating part to me - and the part of the China explosion that perhaps could fall flat in the future - is the use of raw materials and their need to import pulp from overseas, from South America and North America," Landin said. "If the playing field is leveled, which we hope the ITC makes sure happens, it puts them in a difficult position."

The three papermakers involved in the trade dispute, as well as the United Steelworkers union, contend that some of the cutbacks at Wisconsin mills in recent years, including the shuttering of NewPage's mill in Kimberly, were linked to the China issue.

"China is a non-market economy that simply doesn't play by the rules," said Mike Marziale, senior vice president at NewPage, in a statement. "All we're seeking is the restoration of a level playing field."

The unfair subsidies in China and Indonesia have enabled papermakers from those countries to double their share of the U.S. sales market for coated printing papers to nearly 30%, the domestic paper companies said.

"Their policies have fueled the development of their industry," said Sandra Van Ert, president and chief executive of Appleton Coated, in a statement. "Their policies have damaged production here in the U.S., and cost jobs."

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