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Paper companies facing challenge from China

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---- — Local paper manufacturers are watching warily as a trade dispute unfolds between the United States and China that could affect thousands of jobs.

"China's massive subsidies to its paper sector are doing severe damage to the U.S. paper industry, its workers and their families," said Scott Paul, executive director of the Alliance for American Manufacturing, a nonprofit partnership of several leading U.S. manufacturers and the United Steelworkers.

The Chinese paper industry has tripled production over the past decade, killing jobs throughout the United States and driving up the trade deficit with China, a recent report by the Economic Policy Institute found. The institute is billed as a nonpartisan think tank that seeks to broaden debate about strategies to achieve a prosperous and fair economy.

The report alleges the paper industry in China is heavily subsidized by the Chinese government in violation of global trading rules.

The report, titled "No Paper Tiger: Subsidies to China's Paper Industry from 2002 to 2009," says that China's rapid rise in the global paper industry has been fueled by more than \$33 billion in subsidies during that time.

The highly competitive U.S. paper industry employed 474,000 workers in nearly 5,000 plants in the 2005-07 period. However, thousands of U.S. paper producers and these jobs are at risk due to the rapid growth of highly subsidized paper exports from China, according to the report.

Nearly every state in the country has workers in the paper industry, with California, Georgia, Illinois, Ohio and Wisconsin with the highest number.

However, New York also has a substantial number, with some 19,435 jobs at stake, according to the alliance. Also, the 23rd and 20th Congressional Districts, which are home to 200 workers from Georgia-Pacific Corp. in Plattsburgh, and International Paper, with its 800 employees in Ticonderoga, among others, face unfair foreign competition in the face of global overcapacity in paper and China's massive subsidies, the report alleges.

"The only way to stop the bleeding is for U.S. policy makers to take action against China's blatant violations of trade laws, including sweeping subsidies to paper and many other industries," Paul said.

China's export-driven paper industry has added 26 percent of new production capacity on average every year since 2004, increasing the U.S. trade deficit, according to the EPI report. Imports from China's paper industry to the United States are rising faster than those from any other country.

For example, in February 2010, the report estimates, the annualized growth rate of Chinese paper and paper-product imports into the United States was 22 percent.

The report found that China has no natural competitive advantage in papermaking and lacks the natural resources to fuel the industry. China's forest base is among the smallest in the world per capita, and as a result the country is the world's largest importer of pulp and recycled paper.

Labor makes up only about 4 percent of the costs in the industry while, in contrast, imported recycled paper and pulp comprise more than 45 percent.

"Raw materials, which make up three-fourths of the costs of producing Chinese paper, as well as electricity, coal and transportation, have nearly doubled in price over the last decade," said report author Usha C. V. Haley, professor of international business and EPI research associate. "Yet, Chinese paper sells at a substantial discount compared to U.S. or European paper."

Despite the explosion in new China paper mills, the country's paper industry uses outdated, obsolete and polluting machinery and technology, contributing to China's reputation as one of the world's leading polluters, the report also concludes.

Just last week, at least one significant victory was achieved by the paper industry in its battle with China and its trade practices. The U.S. International Trade Commission ruled in favor of Wisconsin's pulp and paper facilities in an anti-dumping case.

The ITC found that China and Indonesia have been using unfair trade practices, and as a result, the U.S. Department of Commerce will issue anti-dumping and countervailing duty orders on coated paper from those countries.

The ruling was the result of a filing to the Commerce Department by two companies that operate plants in Wisconsin and the United Steelworkers.

Wisconsin has 241 pulp and paper mills, which employ about 35,000 workers. Two years ago, mills in Kimberly and Niagara, Wisc., had to close, which caused 1,000 workers there to lose their jobs. The companies blamed unfair trade practices by China for the closures. Last year, another 80 workers were laid off.

However, while the Wisconsin ruling was encouraging, it was a narrow ruling dealing with a specific product and didn't pertain to the mills in Northeastern New York.

For example, while the Georgia-Pacific mill in Plattsburgh produces a number of brands, including Quilted Northern Ultra Plush bath tissue as well as Brawny and Sparkle paper towels, it doesn't produce the kind of product covered by the ruling.

"This is coated paper, the kind you have in magazines and brochures," said Steve Church, senior director, business unit communications, at GP.

"While Georgia-Pacific and all Koch companies are strong supporters of free but fair markets, this issue is primarily a coated-paper issue, and Georgia-Pacific does not produce coated paper."

Donna Wadsworth, mill communications manager at the IP plant in Ticonderoga, said the recent ruling won't directly affect the Ticonderoga plant, either.

"We manufacture high-quality uncoated paper for high-end printing and copying," she said, adding that enforcing trade rules within the current frameworks is what the company favors.

"International Paper believes the use of our trade laws, with the economic remedies they provide, is the best way to deal with Chinese subsidies today and in the future," she said.

Jacob Handelsman, senior director of international trade for the American Forest and Paper Association, the national trade group of the forest, pulp, paper, paperboard and wood-products industry, said that while the coated-paper rulings on dumping and subsidies against imports from China and Indonesia are specific to that sector of the industry, the broader paper industry has to be concerned that paper imports are fairly traded, and that foreign subsidies for capacity building are not negatively impacting the U.S. industry.

However, in Ticonderoga's case for example, the uncoated free-sheet paper products produced there go into a much larger market, and only about one half of one percent of the product by tonnage comes into the U.S. from China, unlike the much higher percentage of coated paper. "So it is a relatively small amount at this point coming into a larger market," he said. Uncoated free-sheet paper is used primarily for commercial printing, copy and office paper.

Handelsman explained that there were two issues in play in the coated-paper trade cases, dumping and subsidies. Dumping means selling products in the U.S. more cheaply than they are sold for in the country of origin. Subsidies are financial or economic benefits provided to a producer by the government that create a competitive disadvantage. In both cases, the U.S. International Trade Commission found that the domestic coated-paper producers are threatened with injury due to the dumped and subsidized coated-paper imports from China and Indonesia.

For unfair trade to be established, the complaint has to be addressed by a company or a group of companies producing a specific product that can be identified as an industry.

"The U.S. forest and paper industry's trade policy supports free but fair trade. The object is to ensure there is a level playing field," Handelsman said.

A country that creates an unfair competitive advantage for their producers "is of concern for us," he said, adding that there are two U.S. agencies that deal with dumping and subsidies, and it's a very transparent system.

However, he said, sometimes industries — who have to prove they've been injured — can think that the burden of proof is too high when it comes to establishing foreign unfair trade practices.

Handelsman said the U.S. also exports paper products to China, mostly in the kraft linerboard and paperboard packaging areas, as well as large volumes of recycled paper and pulp. In 2009, U.S.

recycled paper exports to China totaled 14 million tons. China processes most of this into packaging material and sends it back to the U.S. as containers for export products they sell such as laptops and VCRs.

"We export to China as well, but they're building their capacity by leaps and bounds and now have the world's largest paper industry. We want to be sure that the new capacity is not being subsidized," Handelsman said.