

Pulp truth

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Study Proves China's Subsidies to its Paper Industry Give it Unfair Trade Advantage, Threatening US Jobs

A new study shows how the Chinese government's subsidizing of its paper industry has enabled the country to triple its paper production in the past 10 years and take the lead in 2008 as the world's largest producer of paper and paper products.

Entitled *No Paper Tiger, Subsidies to China's Paper Industry from 2002-09*, the study done by the Economic Policy Institute (EPI) bolsters our union's contention that US policymakers need to intervene to protect American paper worker jobs from losing out to unfair Chinese competition.

The 41-page report shows China's meteoric rise in the paper industry is due to over \$33.1 billion in government subsidies from 2002 to 2009 and not because of advantages in natural resources, economies of scale, new technology or lower cost of production.

"The United States is a net importer of paper and paper products, and imports from China are rising faster than those from any other country," said the report's author, Usha C.V. Haley, a chaired professor of international business at Massey University in Auckland, New Zealand, and an EPI research associate.

"Unless the U.S. government acts to offset unfair and illegal subsidies to Chinese paper exports, U.S. paper production will continue to erode, leading to further job losses and widespread mill closures," Haley said.

Job Loss

From 2002 through the end of 2009, overall employment in the U.S. paper and paper products sector dropped 29 percent, from roughly 557,000 workers to 398,000. This is a loss of almost 160,000 jobs, according to Alliance for American Manufacturing figures.

The increase in Chinese paper imports into the U.S. has expanded our country's trade deficit with China on paper. In February 2010 the annualized growth rate of Chinese paper and paper-product imports into the U.S. approximated 22%.

The study shows that China lacks inherent cost advantages in the capital-intensive paper industry. About 4% of the costs in this industry are attributed to labor. In contrast, recycled paper and pulp that the Chinese import to produce their own paper are over 35% of the costs. Prices have nearly doubled in the past decade for raw materials—which comprise three-fourths of the costs of producing Chinese paper—electricity, coal and transportation. Despite these costs, Chinese paper sells substantially below paper made in the U.S. or Europe.

A Leading Exporter

Despite the lack of cost advantages, a global oversupply of paper, and saturated market demand in China and elsewhere, the Chinese have tripled their paper production since 2000. Much of this production has

been exported. In 2009, with exports of \$7.6 billion, China became a leading exporter of paper and paperboard in the world.

China's meteoric rise in paper production despite market forces has led many to conclude that the Chinese government is implementing an industrial policy that promotes domestic paper production.

The report estimates the following subsidies for the Chinese paper industry: electricity—\$778 million from 2002-2009; coal—\$3 billion from 2002-2009; pulp—\$25 billion from 2004 to 2009; recycled paper—\$1.7 billion from 2004-2008; subsidy income reported by companies—\$442 million from 2002-2009; and loan-interest subsidies—\$2 billion from 2002-2009. Missing data prevented calculation of pulp or recycled paper subsidies in 2002, 2003 and 2009.

The report notes that because the calculations included only those subsidies that could be traced, confirmed and recorded, the total subsidies to the Chinese paper industry were very conservative estimates. The trend of rising subsidies explains why so many small and medium-sized Chinese companies remained profitable despite falling prices for paper products and rapidly increasing raw material prices.

Government Support Continues

In December 2009, the Chinese government announced new policies for continued support of its paper industry. Data show that the Chinese paper industry will continue to expand for at least the next three years based on current policies and planned expenditures.

Attracted by favorable Chinese governmental policy, some U.S. companies, such as Kimberly-Clark, have announced that they will expand their manufacturing facilities in China.

As Chinese imports have risen, U.S. paper mills have shrunk with drops in output, employment, revenues and number of companies. The report warns:

"Unless U.S. government policy and regulation reverse the trend, the United States may well become the supplier of raw materials for Chinese paper production until Chinese plantations reach their planned potential, with continued erosion of profitability and manufacturing jobs in the paper industry."

The full report can be accessed at http://www.epi.org/publications/entry/no_paper_tiger/

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USW Coated Paper Trade Case Moves Forward

No other international union fights unfair trade that threatens our jobs like our union does. We file trade cases with the U.S. Department of Commerce (DOC) and U.S. International Trade Commission (ITC) when producers in other countries dump their products into the U.S. and when these products are illegally subsidized.

Our union, along with Appleton Coated LLC, NewPage Corporation and Sappi Fine Paper North America, filed unfair trade cases with the DOC and ITC on September 23, 2009 to stop the dumping and subsidy of certain coated paper produced in China and Indonesia.

The coated paper covered in the trade cases is in sheet form and is used for high-quality writing, printing and other graphic applications.

These predatory trade practices have led to mill closures, job loss, and underutilization of mill capacity.

The three company petitioners employ about 6,000 production workers represented by the USW at 20 paper mills operating in seven states.

Your Mill May be Next

All USW paper workers need to pay attention to these

Paper Workers Fight Back Against Unfair Trade

USW paper workers are gathering support across the country for the paper industry and the coated paper trade case. They are giving the Economic Policy Institute China subsidy report to their representatives and senators and getting them to sign a letter to President Obama urging him to examine the Chinese subsidies' harmful effect to the U.S. market and apply trade remedies.

They are also getting resolutions of support for the trade case from local and state governments and are videotaping their interviews with local townspeople who are saying how their communities would be affected if their local paper mills shut down because of unfair trade.

Our union's Rapid Response network also is being activated. The first flyer distributed to USW locals focused on how China undercuts U.S. paper jobs with its illegal subsidies that make its products appear cheaper. There are plans for more paper sector activities that the entire union will be involved in.

The Alliance for American Manufacturing, which our union is a member of, also is gathering support for the trade case from elected local, state and national officials across the country who have then contacted the ITC and Department of Commerce (DOC) to let them know the U.S. government has to respond to China's and Indonesia's unfair trading practices.

The merger of PACE with the Steelworkers has given us the resources to fight unfair trade and protect our jobs. We now can file trade cases with the ITC and DOC over illegal trade practices by other nations and fight for

trade cases because it is only a matter of time before the grade of paper you make is threatened by unfair trade.

The DOC has preliminarily decided that certain coated paper imports from China and Indonesia have been dumped into the U.S. and have been unfairly subsidized. It has determined that dumping margins—the difference between the fair price and the price charged for export—and tariffs will be imposed on these imports after a final decision is made Sept. 20, 2010.

In addition, Commerce is investigating whether the undervaluation of China's currency is a subsidy as well as other new subsidy allegations in the China case. These items could impact the final assessed rates.

Last November the U.S. International Trade Commission made a preliminary determination that the U.S. paper industry had been harmed by certain coated paper imports from China and Indonesia. It unanimously voted to investigate the unfair trade charges.

The ITC will hold a public hearing Sept. 16, 2010 in Washington, D.C. and hear from each side to make a final determination as to whether the U.S. domestic industry is injured or threatened with injury because of certain coated paper imports from China and Indonesia.

trade remedies before our mills, plants and machines get shut down because of unfair imports.

Ohio USW Paper Workers

Local 988 members from Glatfelter's Chillicothe, Ohio, plant along with two USW staff met with a staffer from the office of U.S. Rep. Zack Space (D) to discuss China's subsidies. They got Space's signature for the letter to Obama.

James Beatty, Local 988 president, has worked at Glatfelter for 35 years and said he wants to ensure his area has good, high-paying jobs available.

"I'd like to see the plant here for another 35 years so my grandchildren have a good place to work," he said.

Contact was also made with the office of U.S. Rep. John Boehner (R) to get his signature on the Obama letter. The paper industry employs more than 4,000 people in his district.

SMART Papers in Hamilton, Ohio, has laid off about half its work force in the past 18 months because of China's predatory trade practices.

Boehner missed the meeting because he was in Washington, D.C., but his spokesman Cory Fritz gave this response when asked if his boss would sign the letter to Obama: "At this time Congressman Boehner is continuing to monitor the investigation, and he believes that the investigation should continue unimpeded by politics."

(In the next issue of Pulp Truth we'll feature a story about two workers who are building grassroots support for the paper industry and our trade case.)