**WRITTEN STATEMENT OF**

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**BEFORE THE**

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**OF THE**

**UNITED STATES SENATE**

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Mr. Chairman, Mr. De Mint, and Members of the Subcommittee:

I appreciate the opportunity to appear on this panel to discuss China's exchange rate policy and trade imbalances. My name is Mark Suwyn and I am Chairman of NewPage Corporation. NewPage was founded in 2005, when the company purchased certain paper operations of MeadWestvaco. NewPage produces printing and writing papers, including coated and uncoated free sheet and groundwood papers and paperboard, newsprint, supercalendered paper, and specialty paper. NewPage is headquartered in Miamisburg, Ohio, and has production facilities in Kentucky, Maine, Maryland, Michigan, Minnesota, and Wisconsin. NewPage has about 7,500 employees, and is the largest producer of coated printing and writing papers and paperboard in North America. Production of these papers is a multibillion dollar industry in the United States. Today, I would like to speak about how the U.S. paper industry has been impacted by China's exports of coated paper and paperboard, and in particular about the large and distortive subsidy that Chinese paper producers benefit from as a result of China's undervalued currency.

China's undervalued currency is a very significant problem for U.S. paper producers, as it is for many other U.S. manufacturers that compete with imports from China. The United States has a significant competitive advantage over China in the production of paper and paperboard used domestically for printing and writing, a fact that has been confirmed regularly in market research studies. Paper producers in this country have access to abundant and renewable fiber sources, and we have a plentiful supply of water required for paper processing. We have a highly skilled workforce with generations of experience producing paper, and state-of-the-art paper equipment. And we have the advantage of being close to our customers in the U.S. market. By contrast, the Chinese producers have to import the vast majority of the virgin fiber they use to produce paper, much of it from Latin America. They also lack an adequate water supply. And although wage rates are lower in China than they are in the United States -- paper manufacturing is not very labor intensive, accounting for only about 10 percent of the cost of producing paper -- the Chinese do not gain any real advantage from having lower wage rates. The Chinese use comparable state-of-the-art production equipment that U.S. producers use. Finally, Chinese producers are an entire ocean and half a continent away from our customers in the Midwest.

Nonetheless, Chinese paper producers have been able to lower prices, increase exports, and gain market share in the United States, all because of large subsidies provided by the Chinese government and their willingness to dump their product in the U.S. market. <u>And the biggest subsidy of all is the 40 percent undervaluation of the Chinese currency</u>.

In September of last year, NewPage, along with other members of the domestic industry and the United Steelworkers Union, filed antidumping and countervailing duty petitions covering certain types of coated paper from China and Indonesia. In the countervailing duty petition covering Chinese subsidies, we listed a host of subsidy programs that benefit Chinese paper producers, including an allegation covering China's undervalued currency.

Our currency allegation provided information demonstrating that all three legal requirements for finding the existence of a countervailable subsidy were met: 1) that the Chinese government had provided a financial contribution, which 2) resulted in a benefit, and 3) which was specific to a particular industry or group of industries in China. With respect to the financial contribution, we explained that by requiring foreign exchange that is earned from export activities to be converted into Chinese yuan at a rate that is set by the Government, a rate which is universally recognized to be about 40 percent below its true value, Chinese exporters reap an enormous windfall. Specifically, Chinese exporters get 40 percent more yuan for every dollar that they exchange than they otherwise would absent Chinese government intervention in the foreign currency markets. This provides an enormous, continuing benefit to those exporters, and allows them to significantly under-price U.S. producers. We also alleged and documented that this subsidy was specific to exporters in China, because it is directly linked with exports and creates a powerful incentive for Chinese producers to export their products to the United States, rather than sell them at home.

The Chinese currency is clearly undervalued. A January 2010 policy brief by Dr. Lardy's colleagues at the Peterson Institute estimates that China's currency is undervalued by 41 percent on a bilateral basis against the dollar. Other estimates are within this range.

Much to our disappointment, the Commerce Department did not initiate an investigation into our allegation when we first made it in September of last year, claiming that we had failed to sufficiently allege that the receipt of the excess yuan is contingent on export or export performance -- in other words that we had not shown how the subsidy was specific. But in January of this year, we submitted a revised allegation, this time providing an expert report from an independent economist which demonstrates that based on the Chinese government's own data, 70 percent of China's foreign exchange earnings from Current Account transactions and from long-term Capital and Financial account transactions were derived from the export of goods. The study concluded that no other category of foreign exchange inflows comes close to matching the $1.4 trillion foreign exchange earnings of Chinese exporters. Because Chinese exporters garner the overwhelming share of benefits from the undervaluation of the RMB, the subsidy benefit is *de facto* specific to exporters as a group.

As of the preparation of this written statement, the Department of Commerce has not announced whether it will initiate an investigation into whether China's undervaluation of its currency confers a countervailable subsidy. We believe, as do many Members of Congress, that Commerce has a legal obligation to investigate this practice. We hope an initiation occurs soon, so that Commerce will have sufficient time to fully analyze this allegation.

China's undervalued currency, as well as the other subsidies from which Chinese coated paper producers benefit have had a significant negative impact on NewPage and other members of the U.S. coated paper industry. These consequences are documented in the preliminary unanimous injury determination by the International Trade Commission ("ITC"), which was issued in November of last year. Among other things the ITC noted:

- The increase in the U.S. market share of imports from China (and Indonesia) which rose from 15.3 percent in 2006 to 25.7 percent in the first half of 2009.
- The large increase in the supply of low-priced subject imports in the first half of 2009 was accompanied by a decline in prices for the domestic product in the first half of 2009.
- The domestic industry faced increasing pressure to lower prices or lose market share, particularly in the first half of 2009 as a result of the pervasive underselling by subject imports.
- Significant underselling by Chinese producers led to price depression during the first half of 2009.
- Imports from China led to decreases in U.S. producer's production, shipments, and employment in 2009.
- NewPage and others in the domestic industry have had to close many mills and converting facilities over the past four years, including mills in Kimberly and Niagara, Wisconsin; Muskegon, Michigan; and Columbus, Mississippi, and a converting facility in Chillicothe, Ohio.

- The U.S. industry's financial condition deteriorated in the first half of 2009 as the U.S. industry was forced to reduce prices in order to compete with substantially increasing imports, with operating losses of $17.2 million in the first half of 2009 compared with operating profits of $44.3 million in the first half of 2008.

The impact of Chinese subsidies on the U.S. coated paper industry, including currency undervaluation, is well-document in the ITC determination. It is notable that the deterioration in our industry accelerated in the first half of 2009, which coincides with the time when China halted its gradual appreciation of the yuan in November of 2008. However, the impact goes beyond the borders of the United States. Despite the fact that we have had some success in the past year in increasing our exports to other markets, we have not been able to export paper products to China. The severe undervaluation of China's currency effectively imposes a 40 percent tax on any potential exports from our U.S. mills. This affects not only exports to China, but also exports to other third markets where we compete with the Chinese.

So what is the appropriate response to China's undervalued currency? We believe that the best outcome would be for China to allow its currency to float freely and reflect market forces. This would be the most favorable outcome for all U.S. manufacturers. I would note, however, that past efforts to negotiate with China either bilaterally or multilaterally through the IMF, have thus far produced no result. Whatever may be accomplished through long term negotiation, we believe that the Department of Commerce needs to investigate China's undervalued currency as a countervailable subsidy to Chinese coated paper producers, and to ultimately impose countervailing duties to offset the level of undervaluation. We believe this is required by the U.S. countervailing duty law, and is critical to prevent material damage to the U.S. paper industry and the jobs and local communities that rely on our industry.

Again, I appreciate the opportunity to appear before you today, and would welcome any questions you might have.