

Congress of the United States
Washington, DC 20510

October 2, 2012

Hon. Ron Kirk
U.S. Trade Representative
600 17th Street NW
Washington, DC 20508

Hon. Rebecca Blank
Acting Secretary
U.S. Department of Commerce
1401 Constitution Avenue NW
Washington, DC 20230

Dear Ambassador Kirk and Acting Secretary Blank:

We write to call your attention to a serious problem facing the paper industry throughout the United States, as well as to request further action from your agencies.

The United States is home to over 420 pulp and paper mills, which together employ an estimated 445,000 Americans. In recent years, though, these mills and the good paying jobs they support have been put at risk. According to the Pulp and Paper Research Council, an estimated 105,000 jobs have been lost across the paper and paper products sector in recent years, leaving families and communities devastated. In 2011 alone, America's oldest recycled paper mill closed in Oregon City, Oregon, while SP Newsprint mill in Newberg, Oregon declared bankruptcy.

The U.S. International Trade Commission has already recognized, through the imposition of duties on a number of specific products, that large subsidies from state and local governments in China are putting United States manufacturers at a significant and unfair competitive disadvantage. Recent events suggest that if we do not take further action to restore a level playing field, the American paper industry will be in serious danger.

Home to cutting-edge machinery and blessed with far more forest cover per capita than China, the United States is a natural fit for the paper industry. With labor only accounting for 4-8 percent of paper mill operating costs, this is not an industry that China can compete in based on wage rates alone. Instead, China is using subsidies to achieve a dominant position in an industry where it has little natural competitive advantage.

Indeed, in its 11th Five Year Plan and elsewhere, the Chinese government has been explicit about its strategy to subsidize the paper industry. And China's subsidies to its domestic paper industry have been enormous. Between the years 2002 and 2009, the Economic Policy

Institute estimated that China's subsidies to its paper industry totaled approximately \$33.1 billion, with subsidies for electricity amounting to \$778 million; subsidies for coal, \$3 billion; and subsidies for pulp, \$25 billion between 2004 and 2009 alone. China's recycled paper producers also received a subsidy of \$1.7 billion for recovered paper between 2004 and 2008, giving them a crucial advantage in acquiring an increasingly expensive raw material. The industry also receives sizable but opaque subsidies that come from low-cost preferential loans from China's state-owned banking system. The extensive role of local governments in providing incentives for local paper production—constituting yet another layer of non-transparent subsidy—suggests that the above estimates are extremely conservative.

The data shows that these subsidies have resulted in a surge of paper-product exports. According to the Economic Policy Institute, Chinese paper and paper-product exports to the United States have been rising at an annualized growth rate which as of February 2010 was 22 percent, faster than those of any other country. Recently, the effects of these subsidies appear to have gone so far as to be driving the rising cost of "recovered paper," the recycled paper pulp used in finished recycled paper production. An export-led paper development strategy poses great risks to our own paper industry and the subsidies that back it are likely violations of both U.S. trade laws and the World Trade Organization (WTO) agreements to which China is a party.

We strongly believe that international trade and investment are critical components that fuel economic growth. But trade must be on a level playing field – where countries can benefit from their comparative advantages and the investments they make in public goods like education, infrastructure, and the rule of law – and not upon unfair, unaccountable subsidies.

We therefore ask that you immediately open a broad-based investigation of the subsidies China provides to its paper manufacturers; the degree to which such subsidies violate the rules of the WTO and other relevant trade agreements; and the impact of such subsidies on American paper producers. We further ask that, based on that investigation, you take swift action to counter these unfair Chinese subsidies and provide a level playing field for our paper producers. With hundreds of thousands of workers at risk, we cannot afford to wait any longer.

Thank you for your prompt attention to this matter.

Sincerely,












