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Cartoons

Photos

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Wisconsin battles Chinese papermakers

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Wisconsin papermakers are touting a new report by a Washington D.C. think tank that says the massive growth in China's paper industry is due to more than \$33 billion in government subsidies since 2002.

The paper companies, still bristling from China surpassing the United States as the world's largest paper producer in 2008, say the study supports complaints they've lodged with the U.S. International Trade Commission asking it to levy higher tariffs on Chinese paper imports to protect the American market.



Three paper companies – NewPage Corp., which has four plants in Wisconsin; Appleton Coated, which is headquartered in Kimberly, Wis.; and Sappi Fine Paper North America, which doesn't manufacture in Wisconsin but gets raw materials (wood) from this state – sought the tariffs along with the United Steelworkers labor union.

In response, the U.S. commission temporarily hiked the tariffs (to a level ranging range from about 4 to 13 percent) on Chinese and Indonesian-made glossy paper used in magazine, catalogs and gift cards. A final decision by the commission as to whether to permanently enforce the tariffs is expected sometime this month.

The study was commissioned by the Alliance for American Manufacturing, which is funded by the Steelworkers, the U.S. Steel Corp. and other manufacturers.

Since the late-1990s, Wisconsin has lost about a third of its paper industry jobs, according to the Wisconsin Paper Industry Council, though it still produces more paper than any other state. Other Wisconsin paper companies have filed similar trade complaints against China in recent years, saying its paper exports are priced unfairly low and driving them out of business.

The study they're praising is by the Economic Policy Institute, a non-partisan think tank that focuses on labor issues. It says the heavily-subsidized Chinese imports are partly to blame for job losses in American paper mills and adds, "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."

China's own demand for paper continues to grow, but the report argues its paper industry is achieving dramatic growth largely through imports, not domestic sales. The growth is happening in an already over-saturated international paper market, hurting producers from the United States and other countries.

EPI found China has tripled its paper production since 2000 despite having almost no commercial advantages that would help it compete with American producers, other than government subsidies. China has relatively few forests and, as a result, has become the world's largest pulp importer as its paper industry explodes. Pulp subsidies account for the lion's share of those the Chinese government gives to its paper industry. They totaled \$25 billion between 2004 and 2009.

The report says subsidies have also helped Chinese papermakers cope with rising electrical and transportation costs. The coal burned in the paper mills is also subsidized. "China's paper industry generally uses outdated, obsolete and polluting machinery and technology," it says. "It has evolved into a major source of China's industrial pollution."

The study says the industry is fragmented and dominated by small, inefficient manufacturers. China's 10 largest paper companies account for only about 20 percent of the country's domestic paper market. Despite being the world's largest paper producer, none of the world's 15 largest paper companies are Chinese – but that will change later this year with the planned expansion of one Chinese company, Nine Dragons, which could become one of the world's five largest.

Low labor costs have added to China's trade advantage in paper. They make up between 4 and 6 percent of its paper-making costs. In the United States, the figure is 8 percent.

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