

"Paper Contract with China" 2010 First Quarter Report

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The "Paper Contract with China" quarterly report has been upgraded for the 2010 First Quarter Report. With the new design, the report provides insights into selected industry topics and builds a comprehensive communication platform for the paper industry in China. Besides, updates of APP-China's efforts in sustainable development will still be enclosed in the report, to sustain an open dialogue with the related stakeholders.

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International Trade Disputes over Paper

Following the recovery after the global economic downturn, the Chinese paper industry is now facing new challenges, the international trade disputes over the paper industry.

In September 2009, the U.S. International Trade Commission (ITC) accepted a petition jointly filed by three U.S. paper companies and the United Steelworkers Union accusing China of "dumping" and subsidizing certain types of coated paper in the U.S. market, and prompting anti-dumping and countervailing duties (AD/CVD) investigations. Challenges come in pairs: in February 2010, the European Union (EU) launched an anti-dumping investigation into fine coated paper imported from China, followed by an anti-subsidy (AS) petition jointly filed by CEPIFINE on behalf of four companies (Sappi Ltd. of South Africa, Burgo SpA of Italy, Scheufelen GmbH & Co of Germany and pan-European Lecta) in this March. In April, the European Commission accepted the petition, which is the EU's first AD/AS case against China.

Trade defense measures, such as AD/CVD (AS), are meant to ensure a level playing field so that all companies and industries can compete on equal terms. However, if they are misused as trade barriers, it will harm the markets on both sides and impede the world economic recovery in the long run. As Premier Wen Jiabao stipulates, cooperation leads to win-win situations, trade disputes will harm both.

Taking the U.S. AD/CVD investigations as an example, if the unwarranted tariff is approved by the ITC, the disparity caused excess supply and decreasing demand will be intensified in China, which may ultimately distort the global market. In the same vein, the ruling will impact the U.S. printing, publishing and other downstream industries, facing higher costs and a decrease in their own competitiveness, and will ultimately hurt all consumers in the U.S. who use finished coated paper products.

The Copenhagen Conference highlighted global cooperation on environmental issues and pushed sustainable development to the forefront for all nations. The idea of sustainable development requires balancing environmental, economic and social concerns and developing ways to further growth in all three areas, which is something arguably complicated for developing countries. Given the industry challenges and sensitivity, APP-China is to manage the sustainable development in a way that ensures equal balance to the three pillars of sustainability. To achieve this goal, APP-China is committed to support free trade and promote low carbon economy in the long run.



International Trade Disputes over Paper

The current AD/CVD(AS) investigation over paper is only a small part of 77 ongoing global trade probes into imports from China, but it provides a good case study to assess the negative impact of trade protectionism on the sustainable development of paper industry as well as the world economy.



Australia

- Feb 28, 2008, Kimberly-Clark Australia and SCA Hygiene filed a petition accusing China of dumping and subsidizing tissue paper in the Australian market.
- March 26, 2008, the Australian government launched an AD/AS investigation on tissue paper imported from China - this was the first anti-subsidy case filed against China initiated by Australia.
- December 31, 2008, Australian Customs announced the final ruling in the case regarding dumping. Relevant companies and importers appealed then.
- January 11, 2010, Australian Attorney General revoked dumping duties against imports from China.



Europe

- January 4, 2010, CEPIFINE, the European Association of Fine Paper Manufacturers, submitted an anti-dumping petition against coated paper from China to the European Commission.
- February 18, 2010, the European Commission determined that there is enough evidence to pursue a full anti-dumping investigation. It has to be concluded within a maximum of 15 months after its formal initiation.
- March, 2010, four companies jointly submitted petition files through CEPIFINE to the European Commission regarding an anti-subsidy investigation against coated paper imported from China.
- April, 2010, the European Commission accepted the petition. This is the first anti-subsidy investigation against China launched by EU.



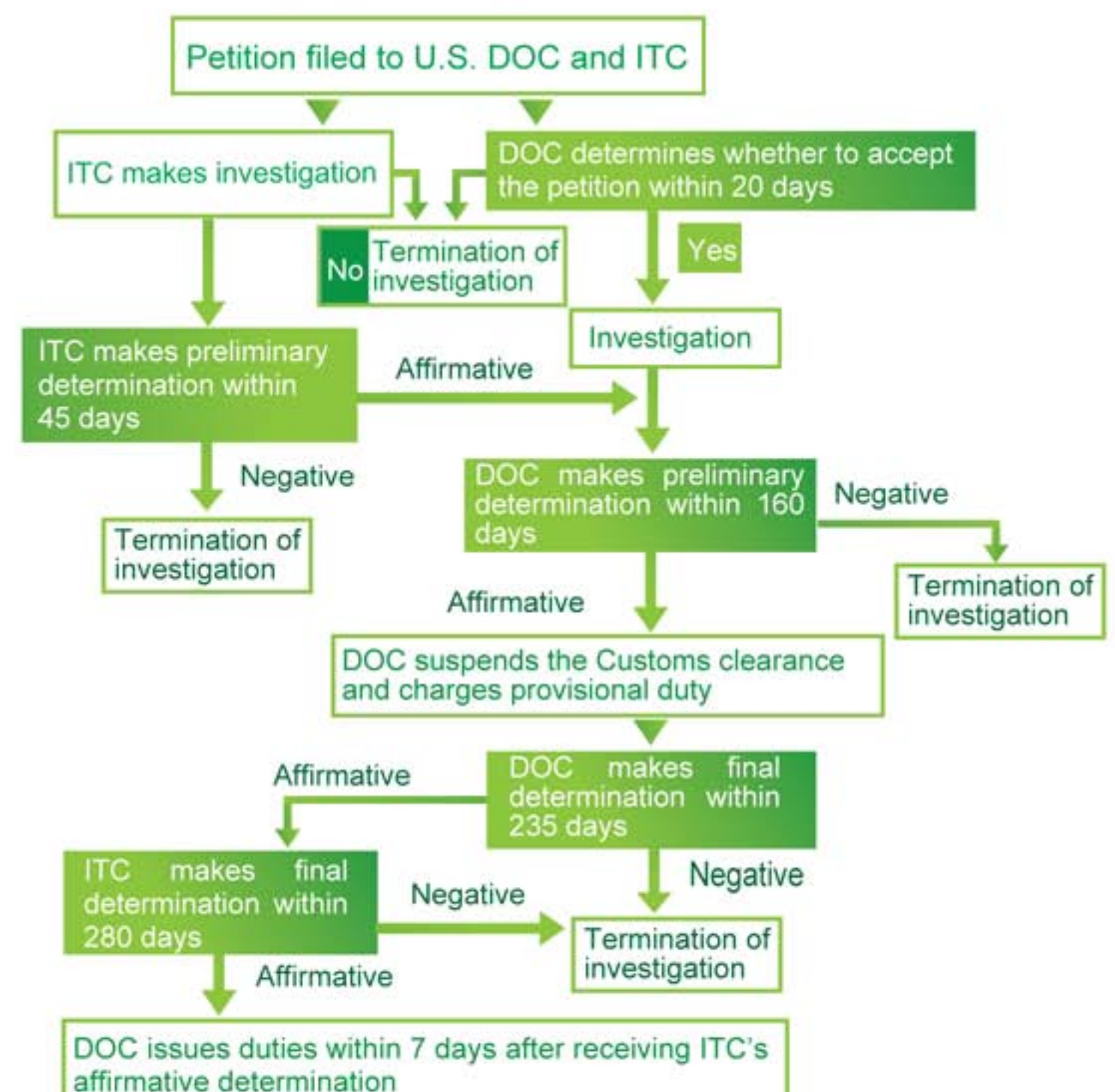
United States

- September 23, 2009, the U.S. International Trade Commission (ITC) accepted a petition jointly filed by three U.S. paper companies and the United Steelworkers Union accusing China of "dumping" and subsidizing certain types of coated paper into the U.S. market.
- March 2, 2010, U.S. Department of Commerce (DOC) announced a preliminary ruling in the case regarding subsidies. For coated paper products from China, the preliminary countervailing duty margins range from 3.92% to 12.83%.
- The final rulings on AD/CVD by U.S. DOC are expected to be announced in September 2010. The last phase of the cases takes place in October or early November 2010, when the ITC will determine if the U.S. paper industry has been harmed.

Introduction to US AD/CVD Investigation Process

The administrative procedures for U.S. antidumping (AD) and countervailing duty (CVD) are complicated and time consuming. Petitions are filed simultaneously with the DOC and the ITC; both play separate but dependent roles during the course of the investigation. The DOC has the sole authority to initiate or not initiate the investigation, and analyses sales and cost from the perspective period of investigation to determine whether dumping occurred. The ITC is responsible for determining whether a domestic industry is materially injured or threatened with material injury as a result of the individual and cumulated impact of the allegedly dumped imports.

Anti-dumping Investigation Process*



*Notes: CVD investigation is also governed by the ITC and the DOC. Its procedure is similar to AD investigation with little difference in the time frame.

APP's View

Zheng Rui, executive director of APP-China, stated that APP has maintained throughout, and will continue to argue, that the trade case against coated paper imported from China is totally unwarranted. Contrary to the petitioners' claims, there has been no significant growth in the market share of producers from China since the ITC rejected an almost identical case in 2007.

"Many publishing companies are struggling because of the financial crisis, leading to a significant reduction in demand." Zheng explained why the paper markets in EU and U.S. are gloomy. "However the investigations initiated by the western paper companies broke the principle of fair competition in international trade and disregarded the benefits of local downstream industries and consumers. This may lead to the global market distortion in the long run."

Terry Hunley, acting president, APP Americas, was disappointed that the ITC accepted the anti-dumping petition for the second time. "This investigation has even less basis than the last one, since the U.S. industry is making more money and has benefited from enormous government subsidies in the form of environmental tax credits, ironically for burning 'black liquor,' a byproduct of the pulp wood making process, to fuel its manufacturing plants. It is hypocritical for U.S. paper makers to accuse us of receiving subsidies when the domestic companies racked up nearly \$9 billion in tax credits last year."

Experts' View

Bob Lindgren, president of the Printing Industry Association, Inc. of Southern California, commented that "Paper, our largest cost component, is about to become less plentiful and more expensive because a group of U.S. paper mills are trying to persuade the government to impose a tariff on certain types of coated paper from Asia. If their request is granted, our work will become more expensive and less competitive. America doesn't need to lose more jobs in our industry. To keep those jobs and grow more, our costs shouldn't be increased by unfair government action."

(Cited from "Stop the Presses! Paper Trade Dispute Could Shut Down U.S. Print Jobs", *Printing Impressions*, February, 2010)

Zhao Wei, secretary general of the China Paper Association, expressed his concerns on the recent anti-subsidy petition on Chinese coated paper initiated by European Commission. Zhao pinpointed that the AD/AS investigations filed by EU are contradictory to each other, in terms of the criteria in recognizing China as a market economy entity. Zhao also called for actions from more Chinese paper companies, to defended themselves against unreasonable allegations about dumping and subsidies, and jointly promote a free and fair world trade environment.

(Cited from "EU follows U.S. to initiate AD/AS investigations", *China Business News*, April 2, 2010)

Media Comments

Zhao Kejin, a freelance journalist for *Xinhua News Agency* and associate director of Tsinghua University Sino-U.S. Relations Research Center, commented on the recent trade disputes from the perspective of international relations. He said, 2010 is a mid-term election year, or in another word, a mid-term review for President Obama's political performance. The key to winning votes is to address the issues of unemployment in the states and ensure U.S. economic recovery. Having been a country with the biggest trade surplus against the United States, no doubt China will be involved in mid-term election politics. He predicted that a new round of the Sino-U.S. trade disputes may happen from June to September 2010, as demands on Chinese exports to the U.S. continue and a series of dumping investigations are ongoing. Zhao pointed out that the appreciation of Renminbi will be the focus. He suggested that companies in China should proactively lobby and build up coalitions with relevant parties to take the initiatives in the trade dispute.

Wu Xue'an from *China Youth Daily* believes that in U.S., trade protectionism and free trade often go hand in hand. However the former always becomes the quick solution when U.S. faces economic difficulties. What U.S. advocates is contradictory to what it practices now.

An editorial published in the *American Printer* commented that "Market-distorting protective actions, such as tariffs, destroy 10 to 20 times as many jobs as they create, most often because the jobs move outside the U.S. Once those jobs are lost, they don't return. In printing, jobs would move to Canada and Mexico and hundreds of printers would have to close their doors."

An article published in the UK's *Sunday Telegraph* newspaper said "there may be risks of an escalation in global trade disputes and we are entering into a period of a spiral of protectionist measures around the globe that will only hurt developed economies further."

The *Financial Times* even explicitly warns that any trade protectionism will have a serious negative impact on global economic recovery.

The *Wall Street Journal Asia* published an article on the EU's recent anti-dumping investigation against China, noting that any probe could lead to a host of new tariffs against exports to Europe from China.

“Paper Contract with China” 2010 First Quarter Updates

Scientific Plantation

- On January 15, the CSR Research Center of the China Enterprise Confederation announced the “2009 Multinational Corporations in China Contribution Award” at the “Grow with China - 2009 Multinational Enterprises Executive Forum”. APP-China is proud to be among the recipients of this award, scoring 89.27 in contribution index.
- During January 26-27, the “First Forum of China Fast-growing and High-yield Plantation Industry Development” was hosted by the State Forestry Administration in Nanning, Guangxi Province. Over 150 people from the forestry industry attended the event and visited APP-China’s Guangxi plantation and Jin Gui Pulp & Paper. After the visit, the experts acknowledged APP-China’s expertise and contribution in the development of China’s fast-growing and high-yield plantations.

Clean Production

- On January 26, APP-China received the “Award of Contribution to Low Carbon Business (International Enterprise)” at the first annual meeting of the Low Carbon China Forum.
- On January 13, a delegation from Ningbo municipal government visited Ningbo Pulp & Paper Co., Ltd. to conduct an on-site assessment of the factory’s clean production and environmental protection practices. The company’s efforts in improving environmental performance were highly appreciated by the delegation.

Corporate Social Responsibility

- In 2010, Hainan Jinhai Pulp & Paper launched this year’s movie program – bring 8,000-session free movies to 18 rural cities and counties in Hainan Province. In the past three years, the company has donated RMB9 million (USD1.3 million) for 16,000 movie sessions with 8 million audience participated.
- On January 21, the Sinar Mas School Building in Guangxi Hongting Primary School was inaugurated. The building was funded by APP-China and Huang Yi Cong Foundation with the donation of RMB 450,000. The school, located in the rural area of Southwest China, has long been short of classrooms to accommodate all the students. The completion of the Sinar Mas Building enables 300 children from the surrounding areas to go to school and continue their education.

- In March, 2010, Forbes Asia magazine named Eka Tjipta Widjaja, founder of Sinar Mas Group, as one of the “Heroes of Philanthropy” in Asia for his excellent contribution to teenage education and environmental protection. This is the second time Forbes has presented the Sinar Mas Group with a charity award.
- On March 27, APP-China participated in Earth Hour for the second year running. Earth Hour is a global climate change initiative launched by WWF and through its participation APP-China has become one of the first companies to include production plants. APP-China’s headquarter and main factories Gold East Paper Co., Gold Huasheng Paper Co., Ningbo Zhonghua Paper Co., Ningbo Asia Pulp & Paper Co., Gold Hong Ye Paper Co., Hainan Jinhai Pulp & Paper Co., turned off all non-essential lights between 8:30pm to 9:30pm, in order to support the world’s largest environmental action.

Latest Plantation Data, Fourth Quarter 2009

Newly planted trees	7 hectares
Forest purchased	None
Timber felled	52,700 tons
Area coppiced after felling	1,800 hectares
Area replanted after felling	253 hectares
Cumulative total of plantation that APP-China manages: 330,000 hectares	

Clean Production Data, First Quarter 2010

Item	Unit	PCwC Target	1st Quarter, 2010	National Standard*
Water consumption / tonne of paper	Tonne water / tonne of paper	≤ 10	8.68	/
Wastewater discharge / tonne of paper	Tonne water / tonne of paper	≤ 9	7.39	20
COD emitted / tonne of paper	Kg / tonne of paper	≤ 0.61	0.48	2
Water consumption / tonne of pulp	Tonne water / tonne of pulp	≤ 28	24.08	/
Water discharge / tonne of pulp	Tonne water / tonne of pulp	≤ 17	16.32	80
COD emitted / tonne of pulp	Kg / tonne of pulp	≤ 2.16	1.56	16

*Source: Discharge Standard of Water Pollutant for Pulp and Paper Industry, Ministry of Environmental Protection, April 29, 2008

