



Statement of
Mr. Rob Melton, Vice President of Converting Papers and Strategic Accounts
Domtar Corporation
Before the
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
Committee on Oversight and Government Reform
U.S. House of Representatives
Hearing: Where Have All the Letters Gone? - The Mailing Industry and Its Future

May 12, 2011

Good morning Mr. Chairman and Members of the Subcommittee. My name is Rob Melton and I am the Vice President of Converting Papers and Strategic Accounts for Domtar. I am based in Fort Mill, South Carolina. On behalf of my 8,500 colleagues who have made Domtar the largest producer (by volume) of uncoated freesheet paper (office papers, printing papers and fine writing papers) I sincerely appreciate the opportunity to testify from a paper manufacturer's perspective about our role in the supply chain of mail, the importance of mail to our industry, and review our experience in facing the economic and market challenges of paper-based communications we share with the Postal Service.

While I will be speaking from my company's perspective, I am also here on behalf of the American Forest & Paper Association and the broader context of the paper industry, as the industry has collectively faced the same challenges and difficult decisions, as we have, in addressing the prolonged economic downturn.

Domtar Corporation is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world. We employ approximately 8,500 individuals in operations across the United States and Canada. Our Paper Business Segment includes the manufacturing, converting, marketing and distribution of business, commercial printing, publishing, converting and specialty papers primarily to customers in North America. I mentioned our relationship with the American Forest & Paper Association and Domtar also plays an active role in the Envelope Manufacturers' Association. We have first-hand knowledge and experience about the inextricable linkage between paper markets, a healthy Postal Service and the health of paper manufacturing.

Postal Service Concern

The financial condition of the U.S. Postal Service is of great concern to us. The USPS is an essential supply chain partner that we depend on for the timely and cost efficient delivery of communications from our customers to every household in America. Seeing approximately 30% of the printing papers our industry produces delivered through the mail, a viable Postal Service is a critical component to our success. Regulatory or legislative decisions that result in changes to the reliability, level of service, and cost to deliver mail, all influence how our customers choose paper as their communications medium over other technology options, with ultimate impacts on our volume, revenue, and ability to compete in the marketplace. Uncertainty about the viability of the Postal Service will negatively impact mailer and marketer decisions to choose mail, so the urgency to restore confidence that the Postal Service is a dependable partner is great.

Responding to economic challenges

As the Postal Service has experienced a decline in mail volume, our industry has seen a corresponding decline in markets for paper. We are very familiar with the Postal Service's experience with declining volume. Across North America Domtar and others in our industry saw market demand for printing papers slow by approximately 4% per year since 2000. Part of that decline is cyclical, as market demand for our products tends to reflect fluctuations in macroeconomic conditions, which have not been favorable over the last several years. But perhaps more importantly, the decline in communication paper demand has been driven by an underlying and persistent structural change in the way people communicate and conduct business transactions. The transition from paper-based to other forms of media marks an adverse shift in paper volume that is permanent and cannot be overcome by general economic recovery. As a result of both cyclical and structural changes on the demand side of our business, we, like the Postal Service, have been faced with excess capacity and a cost structure that cannot be supported by current and expected demand.

Since 2007 Domtar was forced to reduce our manufacturing capacity to maintain the critical balance between demand and supply. We've closed paper machines in Maine, Ontario, Wisconsin and North Carolina. Later this year we plan to shutter a machine in Arkansas. This trend has not impacted only Domtar. Others in our industry have been forced to reduce capacity. And every time a paper machine closes in North America, typically more than 100 jobs are also lost. Please understand, a job in a paper mill—most times in a rural location—with its salary and benefits package often in excess of \$100,000, is not easily replaced. These are real jobs with real benefits.

Ours is an extremely capital intensive business, which requires a very high rate of capacity utilization in order to create a favorable return on the invested capital. Unfortunately, our industry has earned its cost of capital in only two of the last ten years.

In response to the challenges to our business, we as a company, and the industry as a whole have adapted to the evolving reality by consolidating operations, adjusting production capacity to more accurately match anticipated long-term demand, and increasing operational efficiency:

- We have shut down individual machines within facilities, and permanently closed entire mills.
- We have divested businesses and trailing assets that we consider non-core.
- We have shifted remaining production to the best performing facilities and rationalized those that were less cost effective.

These have been difficult, but necessary decisions for our business to be sustainable.

To put these decisions into context, U.S. production of paper and paperboard has declined 10% between 2007 and 2010, and 52 paper mills have been closed during that time period. Since 2006, the forest products industry workforce has been reduced by 31%- nearly 400,000 jobs lost, many in small rural communities that could least afford to lose them.

But our entire attention has not been focused on cutting cost. In addition to downsizing and realigning for short-term survival, we never stopped thinking about the future of the business, or the needs of our customers. We leveraged expertise to define new opportunities that will bring an increasing stream of revenue from growth areas. Our industry is using innovation to create new products with enhanced attributes to meet emerging needs of publishers, advertisers and marketers. In addition, we are finding ways to combine both paper and digital into bundled solutions that drive positive consumer responses.

Working with the direct mail industry, Domtar has pioneered some innovations to make mailing more affordable. This includes paper that retains prized printing qualities, but is lighter overall, thus allowing mailers to reap some benefits. We also have worked with the envelope industry to help envelope makers develop new products that best utilize the resource. Domtar and the paper industry have also developed solid domestic markets for some of the paper that is recovered across North America for recycling. With more than 63% of all paper manufactured on the continent recovered for recycling (and that number is 63% of ALL paper manufactured, including paper for materials that are archived, for books and includes towel and tissue product that is not suitable for recycling.)

In the wake of the current digital frenzy, my company has invested heavily in raising consumer awareness about the intrinsic value and sustainable nature of paper through our “Paper Because” campaign. Please visit our website at www.paperbecause.com for a source of great information about the critical role of paper in our everyday lives.

One area where Domtar, largely through our “Paper Because” campaign, is focusing is on the misguided attempts to convert (many times without choice) mail recipients to electronic (paperless) transactions. Our federal government is a good example of this with recent decisions by the Social Security Administration to stop mailing paper checks to benefit recipients, instead sending out debit cards to many of our nation’s elderly. Or the recent decision by the Social Security Administration to end the mailing of annual statements to Social Security contributors, instead forcing contributors to access such information online. There’s another example of a leading financial institution that will waive the \$8.95 monthly account service charge if the customer will switch to paperless billing.

We don’t dispute that many customers prefer electronic commerce, but we object to claims that going paperless is “somehow better for the environment” than receiving paper statements. Evidence shows that with the ability of a modern paper mill to self-produce all of its required energy—from elements of the waste stream—and with sustainable timber growth and harvesting now the norm, that in many instances a paper transaction actually has LESS impact on the environment than does an electronic transaction.

So while cost cutting is a necessary component in addressing financial challenges, the lessons learned in our continuing improvement process include the realization that opportunities also need to be explored and that cost cutting needs to be balanced by understanding and meeting customer needs.

Supply chain impacts of mail volume decline

The size and scope of the mailing industry in the United States remains formidable. A study commissioned earlier this year found that the mailing industry represents over 7 percent of the nation’s GDP and over 6 percent of the nation’s jobs. Using more specific figures, the mailing industry generated over \$1 trillion in sales revenue in 2009 and supported almost 8.5 million jobs.

While the economic footprint of the mailing industry is considerable, the study confirmed a fact that we in the paper business know all too well—a steady decline in paper based communication which is directly tied to declines in mail volume. The USPS was able to counter some of this decline through delivering goods sold through e-commerce and e-commerce related advertising.

What concerns us most though is what the long term holds for both the USPS and the mailing industry in the face of chronic mail volume declines. We are concerned that the short term actions intended to address cost underestimate the impact on mail volume and may accelerate the volume decline even further. Each mail piece lost represents not just reduced postage revenue for the USPS, but the economic loss is multiplied many times throughout the entire postal value chain. We at Domtar believe that paper based communication—which marketing studies have shown time and again to be the most effective form of communicating with customers—is vital to the well-being and functionality of this supply chain and the good paying jobs it supports.

Conclusion

For its entire history, the United States Postal Service has been thread that has held the fabric of our nation together. We depend on the Postal Service to keep commerce running and we depend on the Postal Service to make sure the six-year old gets birthday greetings from Grandma and Grandpa. It is vital that we understand what is wrong and work to fix it. It isn't ONLY the mail clerks and letter carriers at risk from an unstable USPS. Indeed, other industries depend on the Postal Service in ways we strive to make sure the Subcommittee understands. The paper industry, the printing industry, the direct mail industry, the envelope industry and much more need a functioning Postal Service.

The paper industry was forced to make very difficult decisions, rationalizing assets and repurposing facilities. It's never been easy, but to survive we've developed a laser-like focus on the demands of our customers, always ensuring we meet their needs. We've invested in new technologies and worked to come up with solutions to problems our customers hadn't yet encountered. The Postal Service must take the same approach if it is to meet the challenges it currently faces.

Thank you again for the opportunity to appear before you this morning and I am happy to answer any questions.

Mr. Robert Melton
Vice President, Converting Papers & Strategic Accounts
Domtar

Rob Melton is Vice President of Converting Papers for Domtar. He is responsible for sales and marketing of the company's converting papers. Domtar's converting papers are sold to converters and printers who produce envelopes, forms, and other converted products. In addition, Mr. Melton is responsible for managing the relationship to corporate customers who use a variety of Domtar papers in their advertising and transactional communications.

Prior to his most recent role, Rob has held leadership roles in a variety of sales and marketing related positions in the Printing, Publishing, and Specialty papers market segments at Domtar. Prior to Domtar, Rob started his career with Weyerhaeuser Company after graduating with a Bachelor of Arts degree from Western Washington University. He has spent his entire 18 year professional career in the paper business.

Rob also serves as member of the Envelope Manufacturers Association Public Policy Committee where he provides input and insight on postal and mail issues affecting our industry.

Rob is father to 3 boys under the age of 10 and resides with his wife in Waxhaw North Carolina.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name: Robert Melton

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None

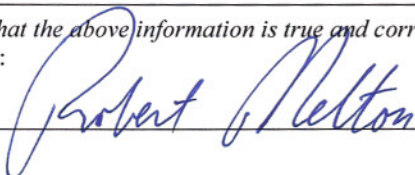
2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

1. Domtar Corporation. Vice President, Converting Papers and Strategic Accounts
2. American Forest & Paper Association. Domtar is a member company.
3. Envelope Manufacturers' Association. Domtar is a member company.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.
Signature:



Date:

