

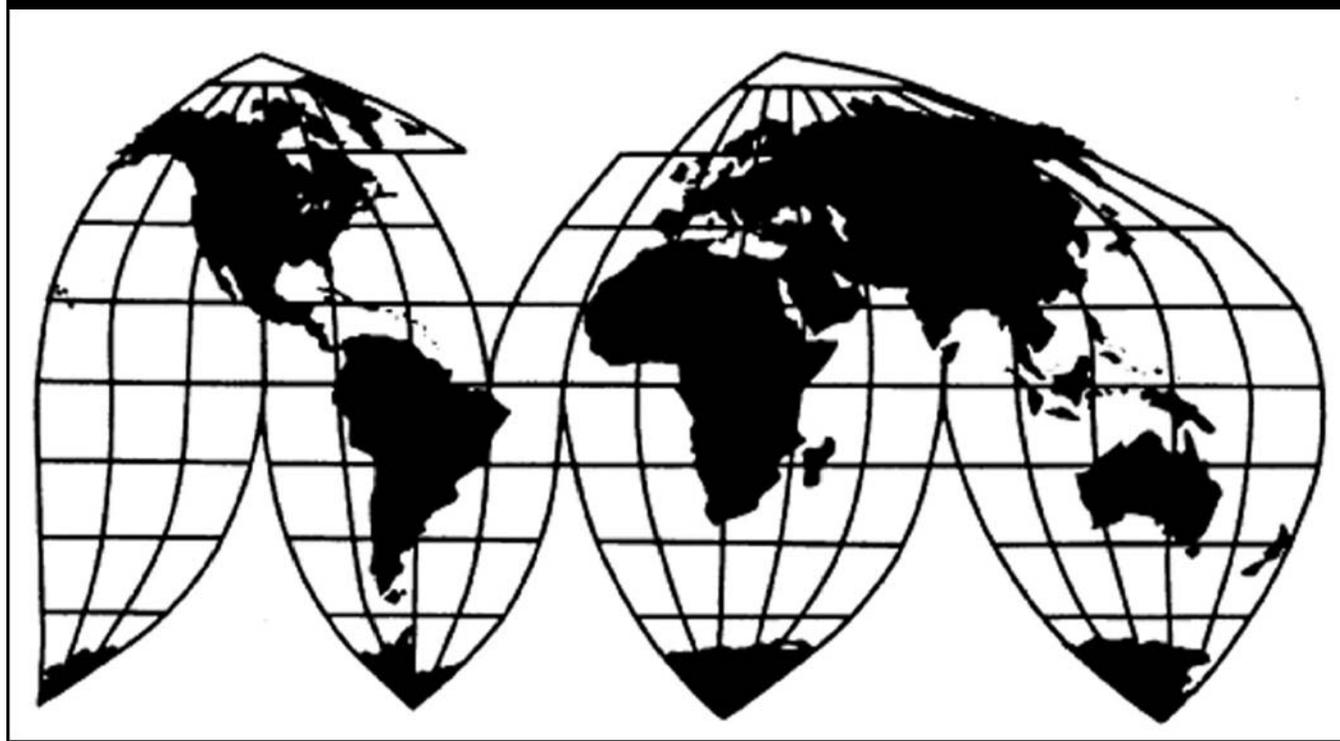
# **Uncovered Innerspring Units from South Africa and Vietnam**

Investigation Nos. 731-TA-1141-1142 (Final)

**Publication 4051**

**December 2008**

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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**Note.— Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.**



# UNITED STATES INTERNATIONAL TRADE COMMISSION

## Investigation Nos. 731-TA-1141-1142 (Final)

### UNCOVERED INNERSPRING UNITS FROM SOUTH AFRICA AND VIETNAM

#### DETERMINATION

On the basis of the record<sup>1</sup> developed in the subject investigations, the United States International Trade Commission (Commission) determines, pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act), that an industry in the United States is materially injured by reason of imports from South Africa and Vietnam of uncovered innerspring units, provided for in subheading 9404.29.90 of the Harmonized Tariff Schedule of the United States, that have been found by the Department of Commerce (Commerce) to be sold in the United States at less than fair value (LTFV).

#### BACKGROUND

The Commission instituted these investigations effective December 31, 2007, following receipt of a petition filed with the Commission and Commerce by Leggett & Platt, Inc., Carthage, MO. The final phase of the investigations was scheduled by the Commission following notification of preliminary determinations by Commerce that imports of uncovered innerspring units from South Africa and Vietnam were being sold at LTFV within the meaning of section 733(b) of the Act (19 U.S.C. § 1673b(b)). Notice of the scheduling of the final phase of the Commission's investigations and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of August 20, 2008 (73 FR 49219). The hearing was held in Washington, DC, on October 22, 2008, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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<sup>1</sup> The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).



## VIEWS OF THE COMMISSION

Based on the record in these investigations, we determine that an industry in the United States is materially injured by reason of imports of uncovered innerspring units from the Republic of South Africa (“South Africa”) and the Socialist Republic of Vietnam (“Vietnam”) that have been found by the U.S. Department of Commerce (“Commerce”) to be sold in the United States at less than fair value.<sup>1</sup>

### I. BACKGROUND

Uncovered innerspring units are composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the core component in the manufacture of mattresses. These innerspring units correspond to the sizes of adult mattresses (twin, full, queen, king, etc.) and those used in smaller constructions, such as crib and youth mattresses. The vast majority of mattresses produced and consumed in the United States are innerspring mattresses.<sup>2</sup> Innerspring units can be pocketed, having individual coils covered by a non-woven synthetic material and glued together, or non-pocketed, having individual coils laced together without a covering.<sup>3</sup> In addition, there are many types of innerspring coils, the most basic being Bonnell. Other types of innerspring coils have patent protection and some innerspring units are private label products manufactured only for one customer, which allows finished mattress manufacturers to differentiate their products in terms of features, quality, and price.<sup>4</sup>

Leggett and Platt, Incorporated (“Leggett”), the petitioner, filed an antidumping petition on December 31, 2007, regarding allegedly unfairly traded imports of uncovered innerspring units from China, South Africa, and Vietnam.<sup>5</sup> Leggett has innerspring production facilities in six U.S. locations<sup>6</sup> and maintains a nationwide distribution system of 17 service branches.<sup>7</sup> Representatives from Leggett appeared at the public hearing accompanied by counsel, and Leggett filed prehearing and posthearing briefs. Hickory Springs Manufacturing Company (“Hickory Springs”) is a U.S. producer of uncovered innerspring units with production facilities in five U.S. locations.<sup>8</sup> Hickory Springs supports the petition, appeared at the hearing accompanied by counsel, and submitted prehearing and posthearing briefs.

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<sup>1</sup> The petitions allege that subject imports from China, South Africa, and Vietnam are materially injuring or threaten to materially injure an industry in the United States. Commerce has not yet made its final determination with respect to subject imports from China and, therefore, the Commission is not making a final determination with respect to subject imports from China at this time.

<sup>2</sup> See Confidential Staff Report, Mem. INV-FF-144 (Nov. 10, 2008) (“CR”) at II-1, n.1; Public Staff Report, (“PR”) at II-1, n.1.

<sup>3</sup> CR/PR at II-1.

<sup>4</sup> CR/PR at II-1.

<sup>5</sup> CR/PR at I-1.

<sup>6</sup> CR/PR at Table III-1 (Carthage, MO; Ennis, TX; High Point, NC; Monroe, GA; Tupelo, MS; and Winchester KY).

<sup>7</sup> Petition at 5.

<sup>8</sup> CR/PR at Table III-1 (Holland, MI; Verona, MS; Sheboygan, WI; and High Point and Micaville, NC).

Representatives and counsel for an ad hoc coalition of importers of the subject merchandise produced in China<sup>9</sup> and an importer of the subject merchandise produced in Vietnam also appeared at the hearing, and the Importer Coalition submitted prehearing and posthearing briefs.

In these investigations, the Commission received producer questionnaire responses from eight U.S. firms that accounted for virtually all U.S. production of uncovered innerspring units during 2007.<sup>10</sup> Importer questionnaire responses were received from 34 firms (a mix of consignees and importers of record) that, as a share of official 2007 statistics (HTS 9404.29.9110),<sup>11</sup> accounted for the vast majority of U.S. imports from China, South Africa, and Vietnam, as well as from nonsubject sources.<sup>12</sup>

The Commission received foreign producer questionnaire responses with usable data from five Chinese producers (including one owned by Leggett); exports by these firms to the United States were equivalent to 6.7 percent of U.S. imports of uncovered innerspring units from China in 2007.<sup>13</sup> Two South African producers of uncovered innerspring units (\*\*\*) submitted foreign producer questionnaire responses; these producers accounted for 100 percent of U.S. imports of uncovered innerspring units from South Africa in 2007.<sup>14</sup> One Vietnamese producer of uncovered innerspring units submitted a foreign producer questionnaire response; it accounted for \*\*\* percent of U.S. imports from Vietnam in 2007.<sup>15</sup>

In 2004, the Commission conducted a safeguards investigation of uncovered innerspring units from China pursuant to section 421 of the Trade Act of 1974 (19 U.S.C. § 2451).<sup>16</sup> The Commission at that time found that Chinese-produced innersprings were not being imported into the United States in sufficient quantities or under such conditions as to cause or threaten to cause market disruption.<sup>17</sup>

## II. DOMESTIC LIKE PRODUCT

### A. In General

In determining whether an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the

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<sup>9</sup> Ad Hoc Innersprings Importers' Coalition ("Importer Coalition") members Ortho Mattress, China Logistic Partner Network Co., Ltd., and Lady Americana appeared at the public hearing, and they and the other coalition members (Omaha Bedding Company, American Bedding Company, Sound Sleep Products, Harvard Manufacturing Enterprises, Therapedic Sleep Products, Emerald Home Furnishings, White Dove Mattress Ltd., Diamond Mattress Co. Inc., Englander/Medi-pedic, H&A Trading, Tower Grow Enterprises Inc., W.J. Trading, Pennsylvania Bedding, Blue Bell Mattress Company, Taylor Bedding, Pacific Springs, and Paramount Industrial) filed briefs.

<sup>10</sup> CR/PR at III-1 and Table III-1.

<sup>11</sup> The record shows that, over the course of these investigations, imports of uncovered innerspring units have been entered under five different HTS statistical reporting numbers. As a consequence, limiting our analysis to subject imports that entered only under the proper classification, HTS 9404.29.9010, would lead to undercounting. Given the coverage reported in the importer questionnaire responses and the fact that they capture subject innersprings that were entered under HTS numbers 7320.20.5010, 7320.90.5010, and 7326.20.0070, as well as HTS 9404.29.9010, we have used the importer questionnaire data in conducting our analysis. CR at IV-3, PR at IV-2.

<sup>12</sup> CR/PR at IV-1.

<sup>13</sup> CR/PR at VII-1.

<sup>14</sup> CR at VII-5, PR at VII-2.

<sup>15</sup> CR at VII-7, PR at VII-3.

<sup>16</sup> See Uncovered Innerspring Units from China, Inv. No. 421-5, USITC Pub. 3676 (March 2004) ("421 Investigation"); CR at I-4.

<sup>17</sup> 421 Investigation at 3; CR at I-4 to I-5, PR at I-4. The petitioning parties in the 421 Investigation were Atlas Spring Manufacturing ("Atlas"), Hickory Springs, Leggett, and Joseph Saval Spring & Wire Co., Inc. ("Saval").

“domestic like product” and the “industry.”<sup>18</sup> Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Act”), defines the relevant domestic industry as the “producers as a {w}hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>19</sup> In turn, the Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation.”<sup>20</sup>

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.<sup>21</sup> No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.<sup>22</sup> The Commission looks for clear dividing lines among possible like products and disregards minor variations.<sup>23</sup> Although the Commission must accept the determination of Commerce as to the scope of the imported merchandise sold at less than fair value,<sup>24</sup> the Commission determines what domestic product is like the imported articles Commerce has identified.<sup>25</sup>

## **B. Product Description**

Commerce has defined the imported merchandise under investigation as follows:  
uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (*e.g.*, twin long, full, full long, queen California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length.

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<sup>18</sup> 19 U.S.C. § 1677(4)(A).

<sup>19</sup> 19 U.S.C. § 1677(4)(A).

<sup>20</sup> 19 U.S.C. § 1677(10).

<sup>21</sup> *See, e.g., Cleo Inc. v. United States*, 501 F.3d 1291, 1295 (Fed. Cir. 2007); *NEC Corp. v. Department of Commerce*, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Torrington Co. v. United States*, 747 F. Supp. 744, 749 n. 3 (Ct. Int’l Trade 1990), *aff’d*, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. *See Nippon*, 19 CIT at 455, n. 4; *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

<sup>22</sup> *See, e.g., S. Rep. No. 96-249 at 90-91* (1979).

<sup>23</sup> *Nippon*, 19 CIT at 455; *Torrington*, 747 F. Supp. at 748-49; *see also S. Rep. No. 96-249 at 90-91* (1979) (Congress has indicated that the like product standard should not be interpreted in “such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not ‘like’ each other, nor should the definition of ‘like product’ be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.”).

<sup>24</sup> *See, e.g., USEC, Inc. v. United States*, 34 Fed. Appx. 725, 730 (Fed. Cir. 2002) (“The ITC may not modify the class or kind of imported merchandise examined by Commerce.”); *Algoma Steel Corp. v. United States*, 688 F. Supp. 639, 644 (Ct. Int’l Trade 1988), *aff’d*, 865 F.3d 240 (Fed. Cir.), *cert. denied*, 492 U.S. 919 (1989).

<sup>25</sup> *Hosiden Corp. v. Advanced Display Mfrs.*, 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); *Torrington*, 747 F. Supp. at 748-52 (affirming Commission determination of six like products in investigations where Commerce found five classes or kinds).

Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

Uncovered innersprings are imported under statistical reporting number 9404.29.9010 and have also been imported under statistical reporting numbers 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTSUS).<sup>26</sup>

### **C. Domestic Like Product**

In the preliminary phase of these investigations, the Commission defined a single domestic like product consisting of uncovered innerspring units, coextensive with the scope of the investigations.<sup>27</sup>

In the final phase of these investigations, no new information has been developed and no argument has been presented by any party to suggest that a different definition would be warranted.<sup>28</sup> Accordingly, we define a single domestic like product consisting of uncovered innerspring units, coextensive with the scope of these investigations.

## **III. DOMESTIC INDUSTRY**

### **A. In General**

The domestic industry is defined as the “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>29</sup> In defining the domestic industry, the Commission’s general practice has been to include in the industry all domestic production of the domestic like product, whether

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<sup>26</sup> See Uncovered Innerspring Units from the Socialist Republic of Vietnam; Notice of Final Determination of Sales at Less Than Fair Value, 73 Fed. Reg. 62479, 63479-80 Fed. Reg. (October 21, 2008) and Notice of Final Determination of Sales at Less Than Fair Value: Uncovered Innerspring Units from South Africa, 73 Fed. Reg. 62481, 63482 (October 21, 2008).

<sup>27</sup> Uncovered Innerspring Units from China, South Africa, and Vietnam, Inv. Nos. 731-TA-1140-1142 (Preliminary), USITC Pub 3983 (February 2008) at 8. Specifically, the Commission found that uncovered innerspring units, whether produced domestically or imported from the subject countries, have common physical characteristic and uses, are interchangeable, are sold directly to end-users, are produced by similar production processes, and are perceived generally to be like products. USITC Pub. 3983 at 6-7.

<sup>28</sup> CR at I-17, PR at I-13.

<sup>29</sup> 19 U.S.C. § 1677(4)(A).

toll-produced, captively consumed, or sold in the domestic merchant market.<sup>30</sup> Based on our finding of a single domestic like product coextensive with the scope of these investigations, we find that the domestic industry includes all domestic producers of uncovered innerspring units.<sup>31</sup>

## **B. Related Parties**

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to 19 U.S.C. § 1677(4)(B). That provision allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers. Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.<sup>32</sup>

There are related party issues in these investigations concerning one domestic producer that is affiliated with foreign producers of the subject merchandise and two domestic producers that imported subject merchandise during the period of investigation.<sup>33</sup> Petitioner Leggett owns innerspring production facilities in China and South Africa, although it \*\*\*.<sup>34</sup> Thus, Leggett is not a "related party" because the \*\*\*. Two other U.S. producers (\*\*\*), however, are related parties because they imported subject merchandise during the period of investigation.<sup>35</sup> Based on the information discussed below, we do not find that appropriate circumstances exist to exclude any member of the domestic industry.

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<sup>30</sup> United States Steel Group v. United States, 873 F. Supp. 673, 681-84 (Ct. Int'l Trade 1994), aff'd, 96 F.3d 1352 (Fed. Cir. 1996).

<sup>31</sup> Leggett, Dixie, Hickory Springs, SpringCo, \*\*\*.

<sup>32</sup> The factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include the following: (1) the percentage of domestic production attributable to the importing producer; (2) the reason the U.S. producer has decided to import the product subject to investigation, i.e., whether the firm benefits from the less than fair value sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market, and (3) the position of the related producer vis-a-vis the rest of the industry, i.e., whether inclusion or exclusion of the related party will skew the data for the rest of the industry. See, e.g., Torrington Co. v. United States, 790 F. Supp. 1161 (Ct. Int'l Trade 1992), aff'd without opinion, 991 F.2d 809 (Fed. Cir. 1993). The Commission has also considered the ratio of import shipments to U.S. production for related producers and whether the primary interest of the related producer lies in domestic production or importation. These latter two considerations were cited as appropriate factors in Allied Mineral Products, Inc. v. United States, 28 CIT 1861, 1865 (2004) ("The most significant factor considered by the Commission in making the 'appropriate circumstances' determination is whether the domestic producer accrued a substantial benefit from its importation of the subject merchandise."); USEC, Inc. v. United States, 132 F. Supp.2d 1, 12 (Ct. Int'l Trade 2001) ("the provision's purpose is to exclude from the industry headcount domestic producers substantially benefitting from their relationships with foreign exporters."), aff'd, 34 Fed. Appx. 725 (Fed. Cir. 2002); S. Rep. No. 249, 96th Cong. 1st Sess. at 83 (1979) ("where a U.S. producer is related to a foreign exporter and the foreign exporter directs his exports to the United States so as not to compete with his related U.S. producer, this should be a case where the ITC would not consider the related U.S. producer to be a part of the domestic industry").

<sup>33</sup> No party has argued that a domestic producer should be excluded from the definition of the domestic industry under the related party provision. In the preliminary determinations, the Commission found \*\*\* to be a related party because \*\*\* reportedly imported subject innersprings beginning in 2007. USITC Pub. 3983 at 9. Information developed since that time, however, indicates that \*\*\* was not the importer of record for these subject entries. See \*\*\* Producer Questionnaire, Question II-8. Consequently, \*\*\* did not import innersprings during the period of investigation or the interim period and, therefore, is not a related party as specified in the statute.

<sup>34</sup> Leggett & Platt has foreign production operations in \*\*\*. CR at III-1 n.2, PR at III-1 n.2.

<sup>35</sup> See CR/PR at Table III-7.

\*\*\* accounted for a \*\*\* percent share of the overall domestic production of the like product in 2007 and \*\*\*.<sup>36</sup> \*\*\*<sup>37</sup> \*\*\* claims it imported subject innersprings only for “competitive reasons.”<sup>38</sup> There is no record evidence that the domestic operations of \*\*\* derived a significant financial benefit from its importation of subject merchandise.<sup>39</sup> <sup>40</sup> Its operating income margins were \*\*\* the industry’s average during the period and declined in 2007.<sup>41</sup> Based on the evidence, \*\*\* interests lie more in domestic production than in importation. Therefore, we find that appropriate circumstances do not exist to exclude \*\*\* from the domestic industry.

\*\*\*<sup>42</sup>\*\*\*<sup>43</sup>\*\*\*<sup>44</sup>\*\*\*.<sup>45</sup> There is no record evidence that the domestic operations of \*\*\* derived a significant financial benefit from its importation of subject merchandise.<sup>46</sup> \*\*\* operating income margins were \*\*\* the industry average during the period.<sup>47</sup> Based on the evidence, \*\*\* interests lie more in domestic production than in importation.<sup>48</sup> Therefore, we find that appropriate circumstances do not exist to exclude \*\*\* from the domestic industry.

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<sup>36</sup> CR/PR at Table III-1.

<sup>37</sup> CR/PR at Table III-7 (the ratio of subject imports to \*\*\* production was \*\*\* percent in 2007).

<sup>38</sup> Hickory Springs Importer Questionnaire, Question II.

<sup>39</sup> Consistent with her practice in past investigations and reviews, Chairman Shara L. Aranoff does not rely on individual-company income margins in assessing whether a related party has benefitted from importation of subject merchandise. Rather, Chairman Aranoff determines whether to exclude a related party based principally on the company’s ratio of subject imports to domestic production and whether its primary interests lie in domestic production or importation.

<sup>40</sup> In these investigations, Commissioner Pinkert does not rely upon financial performance as a factor in determining whether there are appropriate circumstances to exclude a related party from the domestic industry and relies instead on other information relevant to this issue. The present record is not sufficient to infer from either \*\*\* financial performance on U.S. operations whether either company derived a specific benefit from importing. See Allied Mineral Products, Inc. v. United States, 28 CIT 1861, 1865-67 (2004).

<sup>41</sup> CR/PR at Table VI-3.

<sup>42</sup> CR/PR at Table III-7.

<sup>43</sup> CR/PR at Table III-1 (\*\*\* accounted for \*\*\* percent of U.S. production in 2007).

<sup>44</sup> CR/PR at Table III-7 (the ratio of subject imports to \*\*\* production was \*\*\* percent in 2006 and \*\*\* percent in 2007).

<sup>45</sup> CR/PR at Table III-1.

<sup>46</sup> CR/PR at Table III-6.

<sup>47</sup> CR/PR at Table VI-6.

<sup>48</sup> During the period of investigation, \*\*\*. CR at III-3, PR at III-1.

## IV. CUMULATION<sup>49</sup>

### A. In General

For purposes of evaluating the volume and price effects for a determination of material injury by reason of the subject imports, section 771(7)(G)(i) of the Act requires the Commission to cumulate subject imports from all countries as to which petitions were filed and/or investigations were self-initiated by Commerce on the same day, if such imports compete with each other and the domestic like product in the U.S. market.<sup>50</sup> In assessing whether subject imports compete with each other and with the domestic like product, the Commission has generally considered four factors:

- (1) the degree of fungibility between the subject imports from different countries and between imports and the domestic like product, including by reference to specific customer requirements and other quality-related questions;
- (2) the presence of sales or offers to sell subject imports from different countries and the domestic like product in the same geographic markets;
- (3) the existence of common or similar channels of distribution for subject imports from different countries and the domestic like product; and

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<sup>49</sup> Pursuant to Section 771(24) of the Act, imports from a subject country of merchandise corresponding to a domestic like product that account for less than 3 percent of all such merchandise imported into the United States during the most recent 12 months for which data are available preceding the filing of the petition shall be deemed negligible. 19 U.S.C. §§ 1671b(a), 1673b(a), 1677(24)(A)(i)(I). Before reaching the issue of whether subject imports from China, South Africa, and Vietnam are negligible, we must first decide which data to use to measure subject and nonsubject imports into the U.S. market. For purposes of deciding negligibility, the Commission is authorized to make “reasonable estimates on the basis of available statistics” of pertinent import levels. 19 U.S.C. § 1677(24)(c); see also Uruguay Round Agreements Act, Statement of Administrative Action, H.R. Doc. No. 103-316, Vol. 1 at 186 (1994) (“SAA”).

To quantify the volume of imports from each subject and nonsubject country for the purposes of our negligibility determination and to measure apparent U.S. consumption, we relied upon official Commerce statistics (HTS 9404.29.9010) on imports for consumption as the best information available. See CR/PR at Table IV-3. Although we have found questionnaire data to be the most reliable measure of imports over each full year, there are no importer questionnaire data available specifically for the December 2006–November 2007 period. See note 11 infra. Based on the official Commerce statistics for the most recent 12-month period preceding the filing of the petition (December 2006 to November 2007), subject imports from China, South Africa, and Vietnam were well above 3 percent of total imports during that period. Subject imports from China accounted for 73.1 percent, subject imports from South Africa accounted for 17.2 percent, and subject imports from Vietnam accounted for 8.8 percent of total imports of the subject merchandise in that period. CR/PR at Table IV-3. Consequently, we find that subject imports from China, South Africa, and Vietnam are not negligible.

<sup>50</sup> 19 U.S.C. § 1677(7)(G)(i).

- (4) whether the subject imports and domestic like product are simultaneously present in the market.<sup>51 52</sup>

While no single factor is necessarily determinative, and the list of factors is not exclusive, these factors are intended to provide the Commission with a framework for determining whether the subject imports compete with each other and with the domestic like product.<sup>53</sup> Only a “reasonable overlap” of competition is required.<sup>54</sup>

Leggett and Hickory Springs request that the Commission cumulate subject imports from China, South Africa, and Vietnam. The Importer Coalition has made no arguments concerning cumulation for the purposes of determining material injury.

## **B. Analysis**

In these investigations, the threshold criterion for cumulation is satisfied because the antidumping duty petition with respect to all three subject countries was filed on the same day, December 31, 2007. None of the statutory exceptions to cumulation is applicable.<sup>55</sup> In the preliminary determination, the Commission determined that there was a reasonable overlap of competition among subject imports from China, South Africa, and Vietnam, as well as between subject imports and the domestic like product. We examine below the four factors applicable to determining whether there was a reasonable overlap of competition in the final phase of these investigations.

### **1. Fungibility**

The record indicates that all innerspring units are generally interchangeable regardless of source. The U.S. producer and importer questionnaire responses indicate that there was general interchangeability between and among U.S.-produced innerspring units and the subject imports and that customers consider innerspring units to be fungible products.<sup>56</sup> Therefore, we find that the record indicates sufficient fungibility among the subject imports from China, South Africa, and Vietnam, and between the subject imports and the domestic like product.

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<sup>51</sup> See Certain Cast-Iron Pipe Fittings from Brazil, the Republic of Korea, and Taiwan, Invs. Nos. 731-TA-278-280 (Final), USITC Pub. 1845 (May 1986), aff'd, Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898 (Ct. Int'l Trade), aff'd, 859 F.2d 915 (Fed. Cir. 1988).

<sup>52</sup> Commissioner Lane notes with respect to the first factor that her analysis does not require such similarity of products that a perfectly symmetrical fungibility is required and that this factor would be better described as an analysis of whether subject imports for each country and the domestic like product could be substituted for each other. See Separate Views of Commissioner Charlotte R. Lane, Certain Lightweight Thermal Paper from China, Germany, and Korea, Inv. Nos. 701-TA-451 and 731-TA-1126-1128 (Preliminary), USITC Pub. 3954 (Nov. 2007).

<sup>53</sup> See, e.g., Wieland Werke, AG v. United States, 718 F. Supp. 50 (Ct. Int'l Trade 1989).

<sup>54</sup> The SAA states that “the new section will not affect current Commission practice under which the statutory requirement is satisfied if there is a reasonable overlap of competition.” SAA at 848 (citing Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898, 902 (Ct. Int'l Trade 1988)), aff'd 859 F.2d 915 (Fed. Cir. 1988); Goss Graphic Systems, Inc. v. United States, 33 F. Supp. 2d 1082,1087 (Ct. Int'l Trade 1998) (“cumulation does not require two products to be highly fungible”); Wieland, 718 F. Supp. at 52 (“Completely overlapping markets are not required.”).

<sup>55</sup> See 19 U.S.C. § 1677(7)(G)(ii).

<sup>56</sup> CR at I-16, PR at I-13; CR at II-26, PR at II-18 and Table II-6. See also, Leggett Prehearing Brief at 5.

## **2. Same Geographical Markets**

Generally, importers of the subject merchandise reported serving the Southeast, Southwest, and the West Coast, with four importers stating that they serve the national market.<sup>57</sup> Thus, we find that subject imports from China, South Africa, and Vietnam and the domestic like product are sold in the same geographic markets.

## **3. Channels of Distribution**

The innerspring industry in the United States is comprised of (1) bedding suppliers that produce innerspring units to supply mattress manufacturers and (2) mattress manufacturers that produce innerspring units for internal consumption in the production of finished mattresses. During the period examined, the vast majority of shipments of uncovered innerspring units by U.S. producers and importers went to end users for the production of mattresses, with only a limited quantity sold to distributors.<sup>58</sup> Thus, we find that there is an overlap in the channels of distribution for subject imports from China, South Africa, and Vietnam and the domestic like product.

## **4. Simultaneous Presence**

Uncovered innerspring units produced in the subject countries were present in the U.S. market for nearly the entire period examined. Based on official U.S. import statistics (HTS 9404.29.9010), there were U.S. imports of uncovered innerspring units from China in each month during January 2006-June 2008; from South Africa in each month during January 2006-May 2008; and from Vietnam in each month during January 2006-February 2008.<sup>59</sup>

## **5. Conclusion**

For all of the above reasons, we conclude that there is a reasonable overlap of competition among subject imports from China, South Africa, and Vietnam, and between subject imports and the domestic like product. Therefore, we cumulatively assess the volume and effects of subject imports for purposes of determining whether there is material injury to the domestic industry by reason of subject imports.

## **V. MATERIAL INJURY BY REASON OF SUBJECT IMPORTS**

In the final phase of antidumping duty investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.<sup>60</sup> In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product,

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<sup>57</sup> CR at II-3, PR at II-2; and CR/PR at Table II-1.

<sup>58</sup> CR at I-16 and at II-3, PR at I-13 and at II-2. Over 98 percent of all shipments of U.S.-produced innerspring units and over 81 percent of innerspring units imported from China, South Africa, and Vietnam were shipped to end users in each year during the period of investigation. CR at II-3 n.13, PR at II-2 n.13.

<sup>59</sup> CR/PR at Tables IV-8 (Customs districts) and IV-9 (monthly U.S. imports of uncovered innerspring units during January 2006-June 2008).

<sup>60</sup> 19 U.S.C. §§ 1671d(b), 1673d(b).

but only in the context of U.S. production operations.<sup>61</sup> The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”<sup>62</sup> In assessing whether the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.<sup>63</sup> No single factor is dispositive, and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”<sup>64</sup>

The statute requires the Commission to determine whether the domestic industry is “materially injured by reason of” the unfairly traded imports.<sup>65</sup> The statute, however, does not define the phrase “by reason of,” indicating that this aspect of the injury analysis is left to the Commission’s reasonable exercise of its discretion.<sup>66</sup> In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation must ensure that subject imports are more than a minimal or tangential cause of material injury and that there is a sufficient causal nexus between subject imports and material injury.<sup>67</sup> Thus, the Commission interprets the “by reason of” language in a manner that implements the statutory requirement of finding a causal, not merely a temporal, link between the subject imports and the material injury to the domestic industry.

In most investigations, there are other economic factors that also may be causing injury to the domestic industry. The legislative history explains that the Commission must examine factors other than subject imports to ensure that it is not attributing injury from these sources to the subject imports, but does not require the Commission to isolate the injury caused by other factors from injury caused by unfair imports.<sup>68</sup> The statutory scheme clearly contemplates that an industry may be facing difficulties from a

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<sup>61</sup> 19 U.S.C. § 1677(7)(B)(i). The Commission “may consider such other economic factors as are relevant to the determination” but shall “identify each {such} factor ... {and} explain in full its relevance to the determination.” 19 U.S.C. § 1677(7)(B).

<sup>62</sup> 19 U.S.C. § 1677(7)(A).

<sup>63</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>64</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>65</sup> 19 U.S.C. § 1673d(b).

<sup>66</sup> Angus Chemical Co. v. United States, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) (“[T]he statute does not ‘compel the commissioners’ to employ [a particular methodology] . . . [however] regardless of what approach is used, whether it be the two-step or unitary approach or some other approach, the three mandatory factors must be considered in each case”), aff’d, 944 F. Supp. 943, 951 (Ct. Int’l Trade 1996).

<sup>67</sup> The Federal Circuit, in addressing the causation standard of the statute, observed that “[a]s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement.” Nippon Steel Corp. v. USITC, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was further ratified in Nippon Steel Corp. v. United States, 458 F.3d 1345, 1357 (Fed. Cir. 2006), where the court stated that the “causation requirement is met so long as the effects of dumping are not merely incidental, tangential, or trivial.” See also Taiwan Semiconductor Industry Ass’n v. USITC, 266 F.3d 1339, 1345 (Fed. Cir. 2001) (“to ensure that the subject imports are causing the injury, not simply contributing to the injury in a tangential or minimal way.”); Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997) (“the statute requires adequate evidence to show that the harm occurred ‘by reason of’ the LTFV imports, not by reason of a minimal or tangential contribution to material harm caused by LTFV goods.”); Mittal Steel Point Lisas Ltd. v. United States, Slip Op. 2007-1552 at 10 (Fed. Cir., Sept. 18, 2008).

<sup>68</sup> Statement of Administrative Action (“SAA”) on Uruguay Round Agreements Act (URAA), H.R. Rep. 103-316, Vol. I at 851-52 (1994) (“[T]he Commission need not isolate the injury caused by other factors from injury caused by unfair imports. . . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.”); S. Rep. 96-249 at 75 (1979) (the Commission “will consider information which indicates that harm is caused by factors other than less-than-fair-value imports.”); H.R. Rep. 96-

variety of sources, including nonsubject imports and other factors, but the existence of injury caused by other factors does not compel a negative determination if the subject imports themselves are making more than a minimal or tangential contribution to material injury.<sup>69</sup> The legislative history further clarifies that dumped imports need not be the “principal” cause of material injury and that the “by reason of” standard does not contemplate that injury from dumped imports be weighed against other factors, such as nonsubject imports, which may be contributing to overall injury to an industry.<sup>70</sup>

Assessment of whether material injury to the domestic industry is “by reason of” subject imports “does not require the Commission to address the causation issue in any particular way” as long as “the injury to the domestic industry can reasonably be attributed to the subject imports” and the Commission “ensure[s] that it is not attributing injury from other sources to the subject imports.”<sup>71</sup> Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed “rigid adherence to a specific formula.”<sup>72</sup> The Federal Circuit has provided guidance on the questions that it would raise and expect the Commission to have considered in its analysis “where commodity products are at issue and fairly traded, price competitive, nonsubject imports are in the market.”<sup>73 74</sup>

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317 at 47 (1979) (“in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or dumped imports is attributable to such other factors;” those factors include “the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry”); accord Mittal Steel, Slip Op. 2007-1552 at 17.

The Federal Circuit has affirmed that: “[T]he Commission need not isolate the injury caused by other factors from injury caused by unfair imports. . . . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports.” Taiwan Semiconductor Industry Ass’n v. USITC, 266 F.3d 1339, 1345 (Fed. Cir. 2001)(emphasis in original); Asociacion de Productores de Salmon y Trucha de Chile AG v. United States 180 F. Supp. 2d 1360, 1375 (Ct. Int’l Trade 2002) (“[t]he Commission is not required to isolate the effects of subject imports from other factors contributing to injury” or make “bright-line distinctions” between the effects of subject imports and other causes.). See also Softwood Lumber from Canada, Inv. Nos. 701-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that “[i]f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, i.e. it is not an ‘other causal factor,’ then there is nothing to further examine regarding attribution to injury”), citing Gerald Metals, Inc. v. United States, 132 F.3d 716, 722 (Fed. Cir. 1997) (the statute “does not suggest that an importer of LTFV goods can escape countervailing duties by finding some tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.”).

<sup>69</sup> See SAA at 851-52, 885.

<sup>70</sup> S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47; see also Nippon Steel Corp., 345 F.3d at 1381 (“[D]umping need not be the sole or principal cause of injury.”).

<sup>71</sup> Mittal Steel, Slip Op. 2007-1552 at 16-17; see also id at 9 (“While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured ‘by reason of’ subject imports, the Commission is not required to follow a single methodology for making that determination. . . . [and has] broad discretion with respect to its choice of methodology.”) citing United States Steel Group v. United States, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75.

<sup>72</sup> Nucor Corp. v. United States, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005). See also Mittal Steel, Slip Op. 2007-1552 at 20 (“Bratsk did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was ‘by reason’ of subject imports.”).

<sup>73</sup> Mittal Steel, Slip Op. 2007-1552 at 13-21.

<sup>74</sup> Commissioner Pinkert does not join in this sentence. He points out that the Federal Circuit, in Bratsk Aluminum Smelter v. United States, 444 F.3d 1369 (Fed. Cir. 2006) and Mittal Steel, held that the Commission is required, in certain circumstances, to undertake a particular kind of analysis of nonsubject imports. Mittal Steel explains as follows:

Nonetheless, the question of whether one out of several possible causes of injury exceeds the minimal or tangential threshold and is an independent cause of material injury to the domestic industry is left to the expertise of the Commission. The finding as to whether the threshold is satisfied is a factual one, subject to review under the substantial evidence standard. Congress has delegated these factual findings to the Commission because of the agency's institutional expertise in resolving injury issues.<sup>75</sup>

#### **A. Captive Production**

The domestic industry captively consumes part of its production of the domestic like product in the manufacture of the downstream article.<sup>76</sup> Accordingly, we have considered whether the statutory captive production provision requires us to focus our analysis primarily on the merchant market when assessing market share and the factors affecting the financial performance of the domestic industry.<sup>77</sup>

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What Bratsk held is that “where commodity products are at issue and fairly traded, price competitive, nonsubject imports are in the market,” the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether nonsubject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1269. Under those circumstances, Bratsk requires the Commission to consider whether replacement of the LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.

Slip Op. 2007-1552 at 20. Commissioner Pinkert notes that such a counterfactual analysis is not required in this case because nonsubject imports were not an important presence in the U.S. market during the period of investigation and accounted for a declining share of the market.

<sup>75</sup> Mittal Steel, Slip Op. 2007-1552 at 9-10; Nippon Steel Corp., 458 F.3d at 1350, citing United States Steel, 96 F.3d at 1357; S. Rep. 96-249 at 75 (“The determination of the ITC with respect to causation is . . . complex and difficult, and is a matter for the judgment of the ITC.”).

<sup>76</sup> CR/PR at III-1 n.3.

<sup>77</sup> As amended by the Uruguay Round Agreements Act, the statute contains a provision on captive production at section 19 U.S.C. § 1677(7)(C)(iv), which provides as follows:

(iv) CAPTIVE PRODUCTION -- If domestic producers internally transfer significant production of the domestic like product for the production of a downstream article and sell significant production of the domestic like product in the merchant market, and the Commission finds that –

(I) the domestic like product produced that is internally transferred for processing into that downstream article does not enter the merchant market for the domestic like product,

(II) the domestic like product is the predominant material input in the production of that downstream article, and

(III) the production of the domestic like product sold in the merchant market is not generally used in the production of that downstream article,

then the Commission, in determining market share and the factors affecting financial performance set forth in clause (iii), shall focus primarily on the merchant market for the domestic like product.

The SAA states that “[i]f the captive production provision applies, the Commission will focus primarily on the merchant market in analyzing the market share and financial performance of the domestic industry . . . [but that the] provision does not require the Commission to focus exclusively on the merchant market in its analysis of market

Leggett, Hickory Springs, and the Importer Coalition argue that the captive production provision is not applicable in this case. The Importer Coalition contends that, even assuming that innersprings could be said to constitute the “predominant material input in the production of the downstream article” (i.e., innerspring mattresses), there is no dispute that the innersprings sold by the domestic industry into the merchant market are used for the identical downstream product as the innersprings produced for captive production – innerspring mattresses.<sup>78</sup> Leggett, however, argues that, although the captive production provision does not apply here, the significant amount of captive production is a relevant condition of competition.<sup>79</sup> Both Hickory Springs and the Importer Coalition agree with Leggett that the significant amount of captive production in the innerspring industry is a condition of competition in these investigations.<sup>80</sup>

The Commission received producer questionnaires from eight U.S. producers. Four U.S. producers internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses.<sup>81</sup> In 2005, internal consumption accounted for \*\*\* percent of the domestic industry’s total shipments, and the merchant market accounted for \*\*\* percent. In 2006, internal consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent. In 2007, internal consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent.<sup>82</sup> Thus, it appears that the threshold requirement has been met, that is, significant production of the domestic like product is internally transferred to produce a downstream product, and significant production is sold in the merchant market.

The record in these investigations, however, contains conflicting information concerning the second criterion, i.e., whether the domestic like product is the predominant material input in the production of the downstream article. In terms of cost, it is not clear whether the innerspring unit is the predominant material input in the downstream product, the mattress.<sup>83</sup> Producers reported that between 7 and 44 percent of the cost of producing a mattress is accounted for by the innerspring.<sup>84</sup>

What is clear, however, is that the third criterion – that the domestic like product that is sold in the merchant market is not used in the production of the downstream article – has not been met because the uncovered innerspring units sold in the merchant market and consumed internally are used only for

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share and financial performance.” SAA at 852. The Commission has frequently considered significant captive production to be a relevant condition of competition even when one or more of the criteria of the statutory captive production provision have not been satisfied.

<sup>78</sup> Importer Coalition Prehearing Brief at 25-26.

<sup>79</sup> See e.g., Polyethylene Terephthalate Film, Sheet, and Strip from India and Taiwan, Inv. Nos. 701-TA415 and 731-TA-933-934 (Final), USITC Pub. 3518 (June 2002) at 11 (The Commission found that the second captive production criterion was not satisfied, but recognized captive production was an important condition of competition in the market).

<sup>80</sup> Hickory Springs Prehearing Brief at 4-6; Importer Coalition Prehearing Brief at 4-5.

<sup>81</sup> \*\*\*, CR at III-1 and n.3.

<sup>82</sup> CR/PR at Table III-3.

<sup>83</sup> Neither the statute nor the legislative history specifies whether the second criterion should be analyzed in terms of the relative cost, weight or volume of the material inputs used in producing the downstream products. The Commission has, however, traditionally conducted the analysis in terms of costs. See, e.g., Pure Magnesium from China, Israel and Russia, Inv. Nos. 701-TA-403 and 731-TA-895-897 (Final), USITC Pub. 3467 (Nov. 2001), at 16; Beryllium Metal and High-Beryllium Alloys from Kazakstan, Inv. No. 731-TA-476 (Final), USITC Pub. 3019 (Feb. 1997), at 8-9.

<sup>84</sup> CR at II-14, PR at II-9. \*\*\* Postconference Brief at 11. Importers generally reported that between 8 and 41 percent of the total cost of a mattress is accounted for by the innerspring, and purchasers reported that the cost share varies between 7 and 40 percent, but some firms reported that the cost share can be as high as 50 to 75 percent, depending on the type and quality of the mattress. CR at II-14, PR at II-9.

the production of the same product – innerspring mattresses. In light of this fact, and absent considerations that might override it, we find that the statutory captive production provision is not applicable in these investigations. We consider the fact that a significant portion of domestic production is captively consumed, however, to be a relevant condition of competition to be considered in reaching our final determinations.

## **B. Conditions of Competition and the Business Cycle**

The following conditions of competition inform our analysis of whether there is material injury by reason of the subject imports.

### **1. Demand Considerations**

All parties agree that there is one use for uncovered innerspring units – the manufacture of mattresses. There is a direct correlation between sales of innerspring mattresses and demand for the domestic like product, because each innerspring mattress contains a single innerspring unit. As a result, demand is generally related to the amount of housing-related activity in the economy, and demand generally tracks overall economic activity.<sup>85</sup> Total apparent U.S. consumption of uncovered innerspring units declined steadily by 6.4 percent on a quantity basis and 7.7 percent on a value basis during the period of investigation.<sup>86</sup> Housing starts, used in the innersprings industry as an indicator of bedding demand, were relatively stable during 2005, but then generally fell during 2006, 2007, and the first three quarters of 2008. The downturn in the U.S. housing market has negatively affected the innerspring and finished mattress markets, and Leggett reported that it does not expect an improvement until 2010 at the earliest.<sup>87</sup> The tightening of the credit market also may have been a factor in reduced demand for innersprings.<sup>88</sup>

In the first instance, uncovered innerspring units are sold to mattress manufacturers and sometimes pass through additional distributors or retailers before being sold to individual customers. The largest mattress manufacturers are generally referred to as the “S-brands” (Sealy, Simmons, Serta, and Spring Air).<sup>89</sup> In addition, there are several large national mattress chains, such as Lady Americana, International Bedding, and King Koil, that manufacture mattresses and many regional, mid-size manufacturers.<sup>90</sup> There are also factory-direct manufacturers, such as Original Mattress Factory, as well as numerous small mattress manufacturers.

Mattress manufacturers can choose among a variety of uncovered innerspring designs, many of which involve commonly available elements, but some of which are based on patented or proprietary

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<sup>85</sup> CR at II-9 to II-10, PR at II-6 to II-7.

<sup>86</sup> CR/PR at Table C-1 (includes internally consumed (captive) shipments by domestic producers). Open-market apparent U.S. consumption of uncovered innerspring units decreased by \*\*\* percent on a quantity basis and \*\*\* percent on a value basis during the period of investigation. CR/PR at Table C-2 (“open-market” data exclude internally consumed (captive) shipments by domestic producers).

<sup>87</sup> CR at II-9 to II-10, PR at II-7.

<sup>88</sup> CR at II-10, PR at II-7; and Hickory Springs Posthearing Brief at 10-11.

<sup>89</sup> CR at II-2 and n.11, PR at II-2 and n.11. Of the S-brands, Serta and Spring Air do not produce innersprings and buy 100 percent of their requirements on the open market. Sealy and Simmons, even with their own production, purchase some innersprings on the open market. Hearing transcript at 25 (Salyer). In addition, Sealy, in its purchaser questionnaire response, reported that \*\*\*; Serta reported that \*\*\*; Simmons did not return staff phone calls; and Spring Air reported in its purchaser questionnaire response that \*\*\*. Leggett Posthearing Brief at Exhibit 3.

<sup>90</sup> Hearing Transcript at 106-107 (Salyer).

designs. The majority of demand in the U.S. market is for non-proprietary innerspring units, such as Bonnell's.<sup>91</sup> Leggett reported that mattress makers can and do switch between generic Bonnell innerspring units and proprietary innerspring units, and between pocketed and non-pocketed innerspring units, depending on consumer preferences and cost considerations.<sup>92</sup> Some U.S. producers and importers reported that there has been a recent trend toward higher-profile innerspring units, higher spring-count innerspring units, more expensive innerspring units, and non-innerspring mattresses, such as airbeds and memory foam.<sup>93</sup> There is some evidence, however, that consumption of certain higher-end or proprietary innerspring units has decreased because mattress manufacturers are reportedly under pressure to reduce costs and have responded by "de-contenting" the mattresses, that is, substituting lower-end non-proprietary innersprings for proprietary innersprings.<sup>94</sup>

## **2. Supply Considerations**

The sources of supply in the U.S. market include domestically produced innerspring units, imports of subject merchandise from China, South Africa, and Vietnam; and a relatively small volume of imports from nonsubject countries.<sup>95</sup> The domestic industry's capacity exceeded apparent U.S. consumption over the period of investigation.<sup>96</sup> The domestic industry's production capacity and production declined during the period of investigation by 10.0 percent and 9.3 percent, respectively.<sup>97</sup>

The innerspring industry in the United States is comprised of two groups of manufacturers: bedding suppliers that produce innerspring units to supply mattress manufacturers, and maker/users that produce innerspring units for internal consumption in the production of finished mattresses.<sup>98</sup> Maker/users buy innerspring units from U.S. producers at certain times to supplement their own production. During the period of investigation, the maker/users consisted of Sealy, Simmons, Eastern, and Dixie.<sup>99</sup> U.S. producers' shipments for internal consumption accounted for 20 to 30 percent of total U.S. producers' shipments over the period of investigation.<sup>100</sup> The majority of innerspring units sold in the United States, whether domestically produced or imported from subject countries, are sold to end users (mattress manufacturers), with only a limited quantity sold to distributors.<sup>101</sup>

The Commission received questionnaire responses from eight domestic firms accounting for virtually all of the U.S. production of uncovered innerspring units during 2007. Petitioner Leggett is the largest U.S. manufacturer of innerspring units and has manufacturing facilities throughout the South and

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<sup>91</sup> CR/PR at II-1. Bonnell coils are the predominant innerspring in the United States, generally accounting for \*\*\* percent of Leggett and Hickory Springs sales. Leggett Posthearing Brief at 27-28 and Hickory Springs Posthearing Brief, Exhibit 2 at 6.

<sup>92</sup> CR at II-1 to II-2, PR at II-1.

<sup>93</sup> CR at II-4, PR at II-2 to II-3.

<sup>94</sup> CR at II-18, PR at II- 12; Hearing transcript at 111 (Davis).

<sup>95</sup> The nonsubject producers of innersprings are located in a number of countries, including Mexico, Taiwan, and Turkey, and accounted for \*\*\* percent of apparent U.S. consumption in 2007. CR/PR at Table IV-5.

<sup>96</sup> CR/PR at Table C-1.

<sup>97</sup> CR/PR at Table C-1.

<sup>98</sup> CR at II-2, PR at II-1.

<sup>99</sup> CR at II-2 n.8, PR at II-1, n.8.

<sup>100</sup> CR/PR at Table III-3. U.S. producers' internal consumption of innerspring units as a share of total shipments was \*\*\* percent in 2005, \*\*\* percent in 2006, and \*\*\* percent in 2007, and was \*\*\* percent in January-June 2008 compared to \*\*\* percent in January-June 2007.

<sup>101</sup> CR at II-3, PR at II-2.

Midwest with a nationwide distribution system.<sup>102</sup> Leggett is also a global company with affiliates around the world and factories in China and South Africa.<sup>103</sup> As discussed above, there are other U.S. manufacturers, including some that manufacture innerspring units only for internal consumption. Two U.S. innerspring manufacturers, Atlas and Saval, went out of business in recent years.<sup>104</sup>

### **3. Substitutability and Other Conditions**

There is a high degree of substitutability between domestic innerspring units and subject imports.<sup>105</sup> All parties agree that domestic innerspring units and subject imports are of comparable quality, and the questionnaire responses confirm that the domestic like product and subject imports are \*\*\*.<sup>106</sup> Thus, price is an important factor in purchasing decisions, although not the only factor.<sup>107</sup>

#### **C. Volume of Subject Imports**

Section 771(7)(C)(I) of the Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”<sup>108</sup> We find that the volume of cumulated subject imports and the increase in that volume were significant during the period examined, both in absolute terms and relative to consumption and production in the United States.

In absolute terms, the cumulated volume of subject imports increased from \*\*\* units in 2005 to \*\*\* units in 2006, and then decreased slightly to \*\*\* units in 2007.<sup>109</sup> The share of apparent U.S. consumption held by cumulated subject imports, by quantity, increased by \*\*\* percentage points from 2005 to 2007, rising from \*\*\* percent in 2005 to \*\*\* percent in 2006, before decreasing slightly to \*\*\* percent in 2007.<sup>110</sup> Throughout the period of investigation, nonsubject imports were not an important presence in the market and accounted for a declining share of the U.S. market in terms of both quantity and value (less than 1 percent in each individual period).<sup>111</sup>

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<sup>102</sup> Since 2004, Leggett has closed \*\*\* of its \*\*\* U.S. manufacturing facilities and \*\*\* of its \*\*\* U.S. distribution facilities. \*\*\*.

<sup>103</sup> CR at III-1, n. 2, PR at III-1, n. 2; Chinese Respondents Postconference Brief at 6.

<sup>104</sup> Saval shut down in October 2003 (prior to entry into the U.S. market of subject imports from two of the three subject countries), and Atlas ceased operation in December 2006. CR at I-5 n. 7, PR at I-4 n. 7.

<sup>105</sup> CR at II-15, PR at II-10 and CR/PR at Table II-6.

<sup>106</sup> CR at II-26, PR at II-18, and CR/PR at Table II-6.

<sup>107</sup> CR/PR at Table II-3.

<sup>108</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>109</sup> CR/PR at Table C-1. Subject import volume was \*\*\* units in January-June 2008, compared to \*\*\* units in January-June 2007. Id.

<sup>110</sup> CR/PR at Table C-1. The market share held by cumulated subject imports was \*\*\* percent in January-June 2008 compared to \*\*\* percent in January-June 2007. Id. The share of apparent U.S. open-market consumption held by cumulated subject imports, by quantity, increased by \*\*\* percentage points from 2005 to 2007, rising from \*\*\* percent in 2005 to \*\*\* percent in 2006 and \*\*\* percent in 2007. CR/PR at Table C-2. The open-market share held by cumulated subject imports was \*\*\* percent in January-June 2008 compared to \*\*\* percent in January-June 2007. Id.

<sup>111</sup> CR/PR at Table IV-5. Nonsubject imports’ share of the U.S. open market was also less than \*\*\* percent in each individual period. CR/PR at Table IV-6. Nonsubject imports’ share of the U.S. market, by quantity, declined from \*\*\* percent in 2005 to \*\*\* percent in 2006 and \*\*\* percent in 2007, and was \*\*\* percent in January-June 2008 compared to \*\*\* percent for January-June 2007. CR/PR at Table IV-5 (nonsubject imports’ U.S. market share, by value, was less than \*\*\* percent in each individual period). Nonsubject imports’ share of the U.S. open market, by quantity, declined from \*\*\* percent in 2005 to \*\*\* percent in both 2006 and 2007. It was \*\*\* percent in January-

During the period of investigation, the overall market share held by the domestic industry fell. As total apparent U.S. consumption decreased steadily by \*\*\* percent from 2005 to 2007, the share of apparent U.S. consumption represented by the domestic industry's U.S. shipments, by quantity, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2006, before increasing slightly to \*\*\* percent in 2007, an overall decrease of \*\*\* percentage points.<sup>112</sup> As the data reflect, increasing subject import volumes took market share from the domestic industry over the period of investigation.

The above data showing that subject imports increased in both absolute terms and relative to consumption over the period of investigation should be viewed in light of the decline in apparent U.S. consumption of \*\*\* percent over the period.<sup>113</sup> Despite this drop in apparent U.S. consumption reflecting slowing demand in the housing sector and a general economic downturn, the volume of subject imports increased \*\*\* percent during the period of investigation. Notably, despite a \*\*\* percent decline in apparent U.S. consumption from 2005 to 2006, the volume of subject imports increased by \*\*\* percent from 2005 to 2006.<sup>114</sup>

The volume of subject imports declined significantly (by \*\*\*) percent from January-June 2007 to January-June 2008. We find that this decline was due, at least in part, to the filing of the petition in this case on December 31, 2007, and the Commission's affirmative preliminary determinations on February 14, 2008.<sup>115</sup> Accordingly, we have given less weight to the decline in subject imports that occurred in January-June 2008 and do not view this decline as detracting from our finding that the volume and increase in volume of the subject imports are significant.<sup>116</sup>

We have considered but reject the Importer Coalition's argument that the decline in subject imports began during 2007 and was related to factors other than this investigation, such as changes to exchange rates or increased Chinese raw material costs.<sup>117</sup> Although there was some decline in subject

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June 2007 and 2008. CR/PR at Table IV-6.

<sup>112</sup> CR/PR at Table C-1. Open-market apparent U.S. consumption decreased by \*\*\* percent from 2005 to 2007. The open-market share of apparent U.S. consumption held by the domestic industry, by quantity, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2006 and \*\*\* percent in 2007, an overall decrease of \*\*\* percentage points. CR/PR at Table C-2. The domestic industry's open-market share, however, was \*\*\* percent for January-June 2008 compared to \*\*\* percent in January-June 2007. *Id.* The domestic industry's overall market share was also higher at \*\*\* percent in January-June 2008, than the \*\*\* percent level in January-June 2007. *Id.* Subject imports were equivalent to \*\*\* percent of U.S. production in January-June 2008 compared to \*\*\* percent in January-June 2007. *Id.*

<sup>113</sup> CR at Table C-1 and IV-5. Even though open-market apparent U.S. consumption declined \*\*\* percent over the period of investigation, the subject imports' share of the U.S. open market increased in each year of the period. CR/PR at Table C-2 and IV-6.

<sup>114</sup> CR/PR at Table C-1. Open-market apparent U.S. consumption declined \*\*\* percent from 2005 to 2006, while the volume of subject imports increased by \*\*\* percent. CR/PR at Table C-2.

<sup>115</sup> See USITC Pub. 3983.

<sup>116</sup> See 19 U.S.C. § 1677(7)(I). The statutory provision governing the Commission's treatment of post-petition information states as follows:

[T]he Commission shall consider whether any change in the volume, price effects, or impact of imports of the subject merchandise since the filing of the petition in an investigation ... is related to the pendency of the investigation and, if so, the Commission may reduce the weight accorded to the data for the period after the filing of the petition in making its determination of material injury, threat of material injury, or material retardation of the establishment of an industry in the United States.

<sup>117</sup> The Importer Coalition argues that finished mattress imports from China declined during the course of 2007 and that these imports were affected by the same market forces as innerspring units. Importer Coalition Prehearing Brief at 21-22 and Posthearing Brief at 13-14. We decline to draw conclusions based on trends in finished mattress

imports from 2006 to 2007, a significant decline did not occur until interim 2008.<sup>118</sup> Moreover, several purchasers indicated that it was the Commission's preliminary determination that suppressed subject import volumes.<sup>119</sup>

For the foregoing reasons, we find that the volume of cumulated subject imports and the increase in that volume during a period of declining apparent U.S. consumption were significant, both in absolute terms and relative to consumption in the United States.

#### **D. Price Effects of Subject Imports**

Section 771(C)(ii) of the Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether – (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.<sup>120</sup>

In our evaluation of price effects, we consider evidence bearing on whether price is an important factor when purchasers determine from whom to purchase uncovered innerspring units. As discussed above, uncovered innerspring units are a commodity product, and a high degree of fungibility exists between the domestic like product and the subject imports. The vast majority of market participants found subject imports and the domestic like product to be always or frequently interchangeable.<sup>121</sup> Almost all purchasers stated that price was a very important factor in their purchasing decisions, and the majority listed price as one of the top three purchasing factors.<sup>122</sup> Based on the above, we conclude that price plays an important role in sales of uncovered innerspring units.

Taking the importance of price into account, we consider evidence bearing on whether subject imports undersold the domestic like product to a significant degree. In order to compare the prices at which the products were sold, the Commission collected quarterly weighted average pricing data, receiving usable data from five U.S. producers,<sup>123</sup> 17 importers of innersprings from China,<sup>124</sup> and one importer of innersprings from Vietnam,<sup>125</sup> although not all firms reported pricing for all products for all

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imports, as the mattresses include many inputs other than innerspring units and are not as easily transportable as innerspring units.

<sup>118</sup> Although subject imports from South Africa and Vietnam declined from 2006 to 2007, subject imports from China increased from 2006 to 2007. CR/PR at Table IV-2. The Importer Coalition does not point to any data to support its claim that overall imports from China started to decrease in the middle of 2007.

<sup>119</sup> See Responses to Purchaser's Questionnaire, Question II-4.

<sup>120</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>121</sup> CR at II-26 and Table II-6, PR at II-18 and Table II-6. Nonsubject imports, which account for a relatively small share of the U.S. market, also were considered interchangeable. *Id.*

<sup>122</sup> CR/PR at Tables II-4 and II-3. Availability of supply was cited by all 41 responding purchasers as a very important factor in purchasing decisions, with 39 reporting that price is a very important factor. CR/PR at Table II-4.

<sup>123</sup> \*\*\* did not report price data because \*\*\*. CR at V-10 n.17, PR at V-8 n.17.

<sup>124</sup> Pricing data for subject imports from China were reported by \*\*\*. CR at V-10 n.18, PR at V-8 n.18.

<sup>125</sup> \*\*\*. CR at V-10, n.19, PR at V-8 n.19.

quarters. No importer from South Africa provided usable pricing data.<sup>126</sup> Pricing data reported for the nine products accounted for \*\*\* percent of U.S. producers' commercial shipments of innerspring units in 2007, 23.4 percent of U.S. subject imports from China, and \*\*\* percent of subject imports from Vietnam.<sup>127</sup> Given the range of products covered and the share of shipments accounted for by subject imports, these data provide a reliable basis on which to perform our analysis of underselling.

The pricing data show nearly universal underselling by subject imports from China and Vietnam. Subject imports undersold the domestic like product in 166 of 180 quarterly comparisons, with margins ranging from 0.8 percent to 56.1 percent.<sup>128</sup> We find this underselling to be significant in view of the substitutability of domestic and subject innerspring units and the importance of price in purchasing decisions. In addition, it is significant that there were 27 confirmed lost sales, totaling over \$\*\*\*, and four instances of confirmed lost revenues, totaling more than \$\*\*\*.<sup>129</sup> Almost all U.S. purchasers responding to the Commission's questions regarding lost sales and lost revenue allegations reported that price was the reason for the shift to subject imports, and most reported that U.S. innerspring producers reduced their prices to compete with the prices of the subject imports.<sup>130</sup> Based on these data, we find that the subject imports undersold the domestic like product to a significant degree.

In our analysis of whether subject imports have depressed prices for the domestic like product, we first consider movements in innerspring prices over the period of investigation. Prices of U.S.-produced innersprings generally decreased by substantial margins during 2005 and remained at lower levels during 2006 and 2007.<sup>131</sup> Thus, the data generally show a decline in prices from 2005 to the end of 2007.<sup>132</sup>

Given the importance of price in purchasing decisions, consistent underselling by subject imports, and competition for sales in the face of a decline in demand, we find that the subject imports had significant price depressing effects during the period examined. In particular, we note that the domestic industry's price declines in 2005 and 2006 coincided with significant increases in the volume and market share of subject imports. In addition, the Commission has confirmed multiple instances in which domestic producers lost sales or lost revenues due to subject imports over the entire period examined. These instances confirm that the underselling had an effect in the market and that the subject imports played a role in causing the domestic price declines. Accordingly, we find that subject imports depressed prices to a significant degree.

We also find that low-priced subject imports suppressed domestic prices to a significant degree. The domestic industry experienced a cost/price squeeze as it faced higher raw material costs for steel wire and scrap. The domestic industry's cost of goods sold ("COGS") as a share of net sales increased over

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<sup>126</sup> During the preliminary phase of these investigations, \*\*\*, reported pricing data for products 2, 3, and 4, but reported that the imports were \*\*\* and so did not exactly match the price product descriptions. \*\*\* Importer Questionnaire Response at 17. Importers reported that these data should not be used because they are for sales of specifications that are significantly different than the price products. See Importer Coalition Postconference Brief at 35. Importer \*\*\* did not report any price data in the preliminary or final phase of these investigations because the innersprings are shipped \*\*\*. \*\*\* Importer Questionnaire Response at 6.

<sup>127</sup> CR at V-10 to V-11, PR at V-8.

<sup>128</sup> CR at V-26 to V-27, PR at V-14; and CR/PR at Tables V-1 through V-9.

<sup>129</sup> CR at V-28 to V-29, PR at V-15 and CR/PR at Tables V-10 and V-11.

<sup>130</sup> CR/PR at Table V-12.

<sup>131</sup> CR/PR at Tables V-1 to V-9. While prices generally increased in 2008, we attribute that change, at least in part, to the pendency of the investigations, as noted above.

<sup>132</sup> Domestic pricing data for product 6 did not cover 2005 and the first quarter of 2006. CR/PR at Table V-6. Prices of imports from China were generally more variable during the period, but products 1 through 8 saw greatly increased prices in 2008. The reported price data for imports from Vietnam decreased slightly over the period of investigation, but these data were only \*\*\*. There were no data reported for imports of product 9 from China or for imports of products 6 and 9 from Vietnam. CR at V-26, PR at V-14.

the period of investigation from 78.2 percent in 2005 to 83.9 percent in 2006 and 84.7 percent in 2007.<sup>133</sup> Unit COGS also increased from \$22.23 per unit in 2005 to \$23.40 per unit in 2006 and \$23.66 per unit in 2007.<sup>134</sup> These data indicate that the domestic producers were unable to raise their prices sufficiently to cover increasing costs due to competition with significant volumes of highly substitutable and low-priced subject imports in the U.S. market. Although the decline in demand over the period of investigation may have played a role in suppressing U.S. prices, the increasing volumes of low-priced subject imports competing for sales in a market where demand is relatively inelastic also significantly suppressed prices. Therefore, we find that U.S. producers' prices were suppressed to a significant degree by the persistent underselling of the cumulated subject imports.

A large portion of uncovered innerspring sales in the U.S. market is made through short-term contracts or on a spot basis, although the largest U.S. producer, Leggett, reported \*\*\* by long-term contract.<sup>135</sup> The Importer Coalition argues that Leggett's use of long-term contracts prevents subject imports from competing on price for a substantial portion of the U.S. market.<sup>136</sup> We disagree. The record indicates that long-term contracts in the innerspring market may be re-negotiated, do not have fixed quantities or prices, contain meet-or-release provisions and, in the case of \*\*\*, generally have a duration of only one year.<sup>137</sup> Moreover, the majority of sales in the U.S. market are not made by long-term contract, but rather are made either by short-term contract or on a spot basis.<sup>138</sup> Therefore, we find that the use of long-term contracts does not impede price competition in this market.

The Importer Coalition also argues that the domestic industry's use of "proprietary" innerspring designs and patents forecloses competition by subject imports in a significant portion of the U.S. market.<sup>139</sup> We disagree. The record shows that U.S. sales of innersprings covered by proprietary designs or patents were a minority of total U.S. innerspring sales by the domestic producers during the period of investigation.<sup>140</sup> In addition, there is no patent protection on the "proprietary designs" manufactured by the domestic producers and, as a result, subject producers may compete for these sales by copying those same designs, or a purchaser may secure an exclusive agreement for a proprietary design with any innerspring producer.<sup>141</sup> Mattress makers can and do switch from proprietary designs to generic Bonnell innersprings depending on cost considerations and customer preferences. Bonnell innersprings are the predominant innerspring in the U.S. market, generally accounting for \*\*\* of Leggett's and Hickory

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<sup>133</sup> CR/PR at Table C-1. While the domestic industry's COGS as a share of net sales improved slightly to \*\*\* percent in January-June 2008 from \*\*\* percent in January-June 2007, we attribute this improvement to the pendency of the investigations.

<sup>134</sup> CR/PR at Table C-1. We note that unit COGS rose to \$23.96 per unit in January-June 2008 from \$23.21 per unit in January-June 2007, notwithstanding the pendency of the investigations. Leggett claims that its per unit COGS did not rise even further because Leggett cut labor and factory costs in an attempt to arrest declining profitability. Leggett Prehearing Brief at 22-23.

<sup>135</sup> CR/PR at Table II-2 (\*\*\*) and \*\*\*.

<sup>136</sup> Importer Coalition Posthearing brief at 10-11. The evidence does not support the Importer Coalition's allegations that \*\*\*. See Importer Coalition Posthearing Brief at 1-6, 20-21; and Leggett Posthearing Brief at 29-30 and Exhibit 26.

<sup>137</sup> CR at V-8, PR at V-6 to V-7.

<sup>138</sup> CR at V-7 to V-9, PR at V-6 to V-7.

<sup>139</sup> See e.g., Importer Coalition Prehearing Brief at 17-18 and Posthearing Brief at 11-12.

<sup>140</sup> CR/PR at Table III-4. Patented products reportedly account for \*\*\* percent and proprietary products reportedly account for \*\*\* percent of sales. CR/PR at II-1 n.4; Hickory Springs Posthearing Brief, Exhibit 1 at 5-6; and Leggett Posthearing Brief at 16 and Exhibit 6.

<sup>141</sup> CR at III-8, PR at III-5; Hearing Transcript at 61-63 (Bush and Ryan). Proprietary designs may allow finished mattress manufacturers to differentiate their products in terms of price and quality. CR/PR at II-1.

Springs' sales, and virtually all subject imports.<sup>142</sup> The cost of producing Bonnell innersprings is substantially less than proprietary designs.<sup>143</sup> Consequently, we find that the use of proprietary designs and patents is not a significant impediment to competition in this market.

The Importer Coalition alleges that an aggressive price-cutting strategy by Sealy for finished innerspring mattresses in 2006 and 2007, and not subject imports, adversely affected the prices of the innersprings. They contend that Sealy \*\*\* and that when "Sealy was cutting the prices of its mattresses, it had to contain the cost of the innersprings it was \*\*\*."<sup>144</sup> We disagree that Sealy's mattress pricing significantly affected innerspring prices. As noted above, finished mattresses include many inputs other than innerspring units. Moreover, innersprings account for a modest share of the cost of producing a finished mattress;<sup>145</sup> thus mattress prices are unlikely to drive innerspring prices. The evidence also indicates that Sealy is an integrated producer of innersprings and finished mattresses, and purchased \*\*\* in the U.S. merchant market.<sup>146</sup>

The record indicates significant underselling by subject imports during the period of investigation and that subject imports have depressed and suppressed domestic prices to a significant degree. Accordingly, we find that subject imports have had a significant adverse effect on prices in the U.S. market.

#### **E. Impact of the Cumulated Subject Imports**<sup>147</sup>

Section 771(7)(C)(iii) of the Act provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry."<sup>148</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor

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<sup>142</sup> CR/PR at II-1, n.3.

<sup>143</sup> See e.g., Hickory Springs Posthearing Brief, Exhibit 2 at 10.

<sup>144</sup> See Importer Coalition Posthearing Brief at 6-7.

<sup>145</sup> CR at II-14, PR at II-9 (based on questionnaire responses, the cost share for an innerspring unit is as low as \*\*\* of the total cost of a finished mattress).

<sup>146</sup> \*\*\*. We also note that \*\*\*. Leggett Posthearing Brief at Exhibit 4.

<sup>147</sup> The statute instructs the Commission to consider the "magnitude of the dumping margin" in an antidumping proceeding as part of its consideration of the impact of subject imports on the domestic industry. 19 U.S.C. § 1677(7)(C)(iii)(V). In its final antidumping duty determinations concerning uncovered innerspring units from South Africa and Vietnam, Commerce found dumping margins for subject imports from South Africa to be 121.39 percent and the dumping margin for subject imports from Vietnam to be 116.31 percent. Uncovered Innerspring Units from the Socialist Republic of Vietnam; Notice of Final Determination of Sales at Less Than Fair Value, 73 Fed. Reg. 62479, 63480 Fed. Reg. (October 21, 2008) and Uncovered Innerspring Units from the Socialist Republic of Vietnam; Notice of Final Determination of Sales at Less Than Fair Value, 73 Fed. Reg. 62479, 63480 Fed. Reg. (October 21, 2008), respectively. In its preliminary antidumping duty determination concerning uncovered innerspring units from China, Commerce found that dumping margins for subject imports ranged from 118.17 to 234.51 percent. Notice of Preliminary Determination of Sales at Less Than Fair Value: Uncovered Innerspring Units from China, South Africa and Vietnam, 73 Fed. Reg. 45728, 45737 (August 8, 2008).

<sup>148</sup> 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.")

is dispositive and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”<sup>149</sup>

We have examined performance indicia for the domestic industry producing uncovered innerspring units. These data indicate declining overall trends from 2005 to 2007.<sup>150</sup> The domestic industry’s production capacity declined by 10.0 percent from 2005 through 2007.<sup>151</sup> The domestic industry’s production of uncovered innerspring units was 9.3 percent lower in 2007 than in 2005.<sup>152</sup> Capacity utilization increased by 0.6 percentage points from 2005 through 2007.<sup>153</sup> The domestic industry’s total U.S. shipments of uncovered innerspring units declined by \*\*\* percent from 2005 to 2007.<sup>154</sup> U.S. end-of-period inventories decreased by \*\*\* percent from 2005 through 2007.<sup>155</sup> The average number of production and related workers increased slightly over the period of investigation; hourly wages increased, but worker productivity declined.<sup>156</sup>

The domestic industry’s financial indicators declined substantially during the period of investigation. Operating income fell from \$91.1 million in 2005 to \$51.0 million in 2006 and \$38.1 million in 2007. The domestic industry’s ratio of operating 8.3 percentage points, from 15.4 percent in

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<sup>149</sup> 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25 n.148.

<sup>150</sup> Generally, the domestic industry performance declines tend to coincide with increases in the cumulated volume of the subject imports for the same periods. These trends, however, are not evident in January-June 2008, when the domestic industry data show improvements in performance concurrent with a sharp decrease in the cumulated volume of subject imports. See CR at Tables C-1 and C-2. As we did above with respect to the volume and price effects, we give less weight to the improvement in the domestic industry’s performance that occurred in January-June 2008 because we find that this improvement was due to the effects of the filing of the petitions and the pendency of the investigations. For \*\*\*, however, we note that the \*\*\*. CR at VI-9 n.10 and VI-3 n.10.

<sup>151</sup> The domestic industry’s production capacity declined from 26.8 million units in 2005 to 24.2 million units in 2006 and 24.1 million units in 2007. CR/PR at Table C-1. It increased from 12.3 million units in January-June 2007 to 13.3 million units in January-June 2008. Id.

<sup>152</sup> Production declined from 21.0 million units in 2005 to 19.8 million units in 2006 and 19.0 million units in 2007. CR/PR at Table C-1. Production was down slightly in January-June 2008 compared to January-June 2007. Id.

<sup>153</sup> CR/PR at Table C-1. U.S. producers’ capacity utilization was 78.2 percent in 2005, increasing to 81.4 percent in 2006, and then decreasing to 78.9 percent in 2007. Id.

<sup>154</sup> U.S. shipments of uncovered innerspring units declined from \*\*\* million units in 2005 to \*\*\* million units in 2006 and \*\*\* million units in 2007. CR/PR at Table C-1. U.S. shipments were \*\*\* million units in January-June 2008 compared to \*\*\* million units in January-June 2007. Id. The domestic industry’s U.S. open-market shipments of uncovered innerspring units declined by \*\*\* percent from 2005 through 2007, but were \*\*\* percent higher in January-June 2008 than in January-June 2007. CR/PR at Table C-2. Exports, which were a \*\*\* share of the domestic industry’s total shipments, increased by \*\*\* percent over this same period, although they were \*\*\* percent lower in January-June 2008 compared to January-June 2007. U.S. export shipments of uncovered innerspring units declined from \*\*\* units in 2005 to \*\*\* units in 2006, but increased to \*\*\* units in 2007. CR/PR at Table C-1. U.S. export shipments were \*\*\* units in January-June 2008 compared to \*\*\* units in January-June 2007. Id.

<sup>155</sup> U.S. end-of-period inventories declined from \*\*\* million units in 2005 to \*\*\* million units in 2006 and \*\*\* million units in 2007. CR/PR at Table C-1. U.S. end-of-period inventories were \*\*\* million units in January-June 2008 compared to \*\*\* million units in January-June 2007. Id.

<sup>156</sup> The average number of production and related workers increased slightly over the period of investigation from 2,820 in 2005 to 2,826 in 2006 and 2,970 in 2007. It decreased from 3,086 in January-June 2007 to 2,878 in January-June 2008. CR/PR at Table C-1. Productivity decreased from 3.6 units per hour in 2005 to 3.5 units per hour in 2006 and 3.2 units per hour in 2007. It increased from 3.2 units per hour in January-June 2007 to 3.5 units per hour in January-June 2008. Id. Hourly wages increased from \$13.94 in 2005 to \$14.12 in 2006 and \$14.51 in 2007 and were \$14.46 in January-June 2007 compared to \$14.78 in January-June 2008. Id.

2005 to 9.3 percent in 2006 and 7.1 percent in 2007.<sup>157</sup> Capital expenditures \*\*\* from \$\*\*\* in 2005 to \$\*\*\* in 2006, but then \*\*\* to \$\*\*\* in 2007.<sup>158</sup>

Net sales declined by 8.1 percentage points from 2005 to 2007 when measured by quantity, and by 9.7 percentage points over the same period when measured by value.<sup>159</sup> As discussed previously, COGS as a share of net sales increased from 78.2 percent in 2005 to 83.9 percent in 2006 and 84.7 percent in 2007.<sup>160</sup> Unit COGS also increased from \$22.23 in 2005 to \$23.40 in 2006 and \$23.66 in 2007.

The foregoing data indicate that the domestic uncovered innerspring industry has experienced rising costs of production. The industry's prices generally decreased over the period of investigation.<sup>161</sup> The industry experienced progressively poorer financial results over the period as its COGS to sales ratio increased, its operating income declined significantly, and its U.S. shipments, production levels, and productivity declined.

The Importer Coalition argues that the domestic industry's declining indicators reflect the overall economic recession, particularly in the housing market, and cannot be attributed to subject imports.<sup>162</sup> We acknowledge that the decline in domestic consumption from 2005 to 2007 had a negative effect on the domestic industry, in terms of reduced production, shipments, sales, and profits. We also understand that, in absolute terms, the decline in consumption exceeded the increase in subject imports from 2005 to 2007.

Nevertheless, we find that the subject imports played a material role in the harm experienced by the domestic industry. As subject imports grew, they captured an increasing share of a shrinking pie and thereby exacerbated the negative impact of reduced consumption. The lower volume of domestic industry sales, at prices that were depressed and suppressed in part by subject imports, produced a decline of over 50 percent in the operating income margins of U.S. producers from 2005 to 2007.<sup>163</sup> Notably, even though consumption fell further from January-June 2007 to January-June 2008, the domestic industry's performance improved dramatically as subject imports declined by \*\*\* percent (following the filing of the petition).<sup>164</sup> If the Importer Coalition was correct that consumption levels drive industry performance rather than the effects of subject imports, one would have expected a continued downward slide by the domestic industry.

Based on our findings of a significant volume and a significant increase in volume of cumulated subject imports notwithstanding declines in apparent U.S. consumption during the period examined, significant underselling by subject imports, significant price depression and suppression, and declines in the domestic industry's performance during the period examined, we find that subject imports are having a significant adverse impact on the domestic innerspring industry.

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<sup>157</sup> CR/PR at Table C-1. The operating income margin was 8.5 percent in January-June 2008 compared to 7.7 percent in January-June 2007. Id. The Importer Coalition argues that the domestic industry cannot be injured because "the industry continues to enjoy healthy profits." Importer Coalition Prehearing Brief at 45-46. Although we have taken the domestic industry's profitability levels into consideration in our injury analysis, we decline to follow any suggestion that we examine only absolute operating income levels and, instead, have examined all aspects and trends with respect to the domestic industry's profitability.

<sup>158</sup> CR/PR at Table C-1. Capital expenditures were \$\*\*\* in January-June 2008 compared to \$\*\*\* in January-June 2007. Id.

<sup>159</sup> CR/PR at Table C-1.

<sup>160</sup> CR/PR at Table C-1.

<sup>161</sup> As noted above, the domestic industry experienced higher prices in January-June 2008. We attribute the gains, in part, to the pendency of the investigations and, therefore, we give these data lesser weight in our analysis.

<sup>162</sup> Importer Coalition Prehearing Brief at 21 and Posthearing Brief at 5-7, 12-14.

<sup>163</sup> CR/PR at Table C-1.

<sup>164</sup> CR/PR at Tables C-1.

## CONCLUSION

For the reasons stated above, we find that a domestic industry producing uncovered innerspring units is materially injured by reason of subject imports from South Africa and Vietnam that are sold in the United States at less than fair value.

## PART I: INTRODUCTION

### BACKGROUND

These investigations result from a petition filed by Leggett & Platt, Inc. (Leggett & Platt), Carthage, MO, on December 31, 2007, alleging that an industry in the United States is materially injured and threatened with material injury by reason of less-than-fair-value (LTFV) imports of uncovered innerspring units<sup>1</sup> from China, South Africa, and Vietnam. Information relating to the background of the investigations is provided below.<sup>2</sup>

Effective date	Action
December 31, 2007	Petition filed with Commerce and the Commission; institution of the Commission's investigations
January 28, 2008	Commerce's notice of initiation
February 14, 2008	Commission's preliminary determination
August 6, 2008	Commerce's preliminary determinations (73 FR 45729 (China), 73 FR 45738 (Vietnam), 73 FR 45741 (South Africa)); scheduling of final phase of Commission's investigations (73 FR 49219, August 20, 2008)
August 29, 2008	Commerce's postponement of final determination for China (73 FR 50932)
October 21, 2008	Commerce's final determinations (73 FR 62481 (South Africa), 73 FR 62479 (Vietnam))
October 22, 2008	Commission's hearing <sup>1</sup>
November 21, 2008	Commission's vote (South Africa and Vietnam)
December 4, 2008	Commission's determinations transmitted to Commerce (South Africa and Vietnam)
December 19, 2008	Scheduled date for Commerce's final determination (China)
February 2, 2009	Commission's determination due to Commerce (China)

<sup>1</sup> A list of witnesses appearing at the Commission's hearing is presented in App. B.

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<sup>1</sup> A complete description of the imported product subject to these investigations is presented in *The Subject Merchandise* section located in Part I of this report.

<sup>2</sup> *Federal Register* notices since August 20, 2008 cited in the tabulation are presented in app. A.

## STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

### Statutory Criteria

Section 771(7)(B) of the Tariff Act of 1930 (the “Act”) (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission--

*shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and . . . may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.*

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

*In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.*

. . .

*In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether . . . (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.*

. . .

*In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to*

. . .

*(I) actual and potential declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.*

## Organization of the Report

*Part I* of this report presents information on the subject merchandise, dumping margins, and domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV and V* present the volume and pricing of imports of the subject merchandise, respectively. *Part VI* presents information on the financial experience of U.S. producers. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury and the judicial requirements and information obtained for use in the Commission's consideration of *Bratsk* issues.

## U.S. MARKET SUMMARY

Innerspring units are used as the core component in the manufacture of mattresses. The leading U.S. producers of uncovered innerspring units are Leggett & Platt, Hickory Springs Manufacturing Co. (Hickory Springs), Simmons Bedding Co. (Simmons), and Sealy, Inc. (Sealy), while leading producers of uncovered innerspring units outside the United States include Leggett & Platt,<sup>3</sup> Beijing Building Materials, Zhaoyuan Soft Furniture, and Zouping Shunhe Furniture of China, Bedding Components Manufacturers (BCM) of South Africa, and Viet Thanh of Vietnam. The leading U.S. importers of uncovered innerspring units from China are Tower Grow, W.J. Trading, and Harvard Manufacturing; the leading importer from South Africa is BCM; and the leading importer from Vietnam is Crystal Bedding. U.S. purchasers of uncovered innerspring units are mattress manufacturers; leading purchasers include \*\*\*.

Consumption of uncovered innerspring units totaled approximately \$557.6 million (20.9 million units) in the U.S. market in 2007. During the period of investigation, eight firms were known to produce uncovered innerspring units in the United States.<sup>4</sup> U.S. producers' U.S. shipments of uncovered innerspring units totaled \$\*\*\* (\*\*\* units) in 2007, and accounted for \*\*\* percent of apparent U.S. consumption by value and \*\*\* percent by quantity. U.S. shipments of imports from subject sources totaled \*\*\* (\*\*\* units) in 2007 and accounted for \*\*\* percent of apparent U.S. consumption by value and \*\*\* percent by quantity. U.S. imports from nonsubject sources totaled \*\*\* (\*\*\* units) in 2007 and accounted for \*\*\* percent of apparent U.S. consumption by value and \*\*\* percent by quantity.

## SUMMARY DATA

A summary of data collected in these investigations is presented in appendix C, tables C-1 and C-2. Except as noted, U.S. industry data are based on questionnaire responses of eight firms that accounted for virtually all of U.S. production of uncovered innerspring units during 2007. U.S. imports are based on importer questionnaire responses.

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<sup>3</sup> \*\*\*.

<sup>4</sup> One of those firms, \*\*\*, closed its uncovered innerspring operations in March 2008 and sold its production equipment to \*\*\*. \*\*\* remains in business as a mattress manufacturer.

## PREVIOUS COMMISSION INVESTIGATIONS

In 2004, the Commission conducted a China-specific safeguard investigation of uncovered innerspring units from China.<sup>5</sup> In that investigation, the Commission determined that uncovered innerspring units from China were not being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products.<sup>6</sup> The petitioning firms in that investigation were Atlas Spring Manufacturing (Atlas), Gardena, CA; Hickory Springs, Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc. (Saval), Taylor, MI.<sup>7</sup>

### NATURE AND EXTENT OF SALES AT LTFV

On October 21, 2008, Commerce published notices in the *Federal Register* of its final determinations of sales at LTFV with respect to imports from South Africa and Vietnam. Table I-1 presents Commerce's amended dumping margins with respect to imports of uncovered innerspring units from South Africa and Vietnam.

**Table I-1**  
**Uncovered innerspring units: Commerce's final weighted-average LTFV margins with respect to imports from South Africa and Vietnam**

Exporter & Producer	Final dumping margin ( <i>percent</i> )
<b>South Africa:</b>	
Bedding Component Manufacturers (Pty) Ltd.	121.39
All Others	121.39
<b>Vietnam:</b>	
Vietnam-Wide Rate	116.31
Source: 73 FR 624781 (South Africa) and 73 FR 62479 (Vietnam), October 21, 2008.	

On August 6, 2008, Commerce published a notice in the *Federal Register* of its preliminary determination with respect to China. The final determination with respect to China is scheduled for December 19, 2008. Table I-2 presents Commerce's dumping margins with respect to imports of uncovered innerspring units from China.

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<sup>5</sup> *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, USITC Publication 3676, March 2004.

<sup>6</sup> *Ibid.*, p. 1.

<sup>7</sup> Atlas ceased its innerspring operations in December 2006 and Saval shut down its innerspring operations in October 2003. Petition, exhibits I-21 and I-23, respectively. Additionally, \*\*\*.

**Table I-2**  
**Uncovered innerspring units: Commerce’s preliminary weighted-average LTFV margins with respect to imports from China**

Exporter & Producer	Preliminary dumping margin (percent)
<b>China:</b>	
Foshan Jingxin Steel Wire & Spring Co., Ltd.	118.17
Anshan Yuhua Industrial Trade Co., Ltd.	118.17
East Grace Corporation (Exporter); Wuxi Xihuisheng Commercial Co., Ltd. (Producer)	118.17
Hebei Yililan Furniture Co., Ltd.	118.17
Nanjing Meihua Import & Export Trade Co., Ltd.	118.17
Xilinmen Group Co., Ltd.	118.17
Zhejiang Sanmen Herod Mattress Co., Ltd.	118.17
Zibo Senbao Furniture Co., Ltd.	118.17
PRC-wide (including Jiangsu Soho International Group Holding Co., Ltd.)	234.51
Source: 73 FR 45729 (China), August 6, 2008.	

## **THE SUBJECT MERCHANDISE**

### **Commerce’s Scope**

Commerce has defined the scope of these investigations as follows:

The merchandise covered by each of these investigations is uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (e.g., twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

Uncovered innersprings are imported under statistical reporting number 9404.29.9010 and have also been imported under statistical reporting numbers 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTS). The HTS provisions are provided for convenience and customs purposes only; the written description of the scope of these investigations is dispositive.

### **Tariff Treatment**

Imports of uncovered innerspring units are properly classified in HTS subheading 9404.29.90 (and thus imported under HTS statistical reporting number 9404.29.9010), according to Customs and Border Protection (HQ 957493 of April 3, 1995). The column 1 general duty rate for the imported subject product from China and Vietnam is 6.0 percent ad valorem. Subject imports from South Africa under this category are eligible for entry free of duty under the Generalized System of Preferences (GSP), with those not meeting the criteria in HTS general note 4 given the general duty rate.<sup>8</sup> From the outset of the preliminary phase of these investigations, petitioner has contended that uncovered innerspring units have also improperly been imported under statistical reporting numbers 7320.20.5010, 7320.90.5010, 7326.20.0070, or 9404.10.0000.<sup>9</sup> Importer questionnaire respondents reported imports of uncovered innerspring units under each of the aforementioned HTS statistical reporting numbers. Table I-3 presents current tariff rates for uncovered innerspring units for HTS 9404.29.9010, and includes tariff rates for statistical reporting numbers 7320.20.5010, 7320.90.5010, 7326.20.0070, and 9404.10.0000. The Customs ruling cited previously sets forth the applicable principles of the HTS general rules of classification that dictate the legal outcome; however at the tariff rate line level, the line between an unfinished mattress and goods described in the other cited tariff provisions can be hard to draw in specific terms.

### **Physical Characteristics and Uses**

Uncovered innerspring units are used to manufacture innerspring mattresses. There are non-pocketed innerspring units and pocketed innerspring units. Non-pocketed innerspring units have three major components—the coil, the helical, and the border. The innerspring coils, “generally made from high-carbon steel rod that is drawn to wire of various gauges (i.e., diameter of wire) that typically range from 12.5 gauge (2.05mm) to 15.5 gauge (1.45mm),” are typically joined together with the helical and the border.<sup>10</sup> The helical is “generally made of high-carbon steel wire ranging in thickness of 16.5 gauge

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<sup>8</sup> HTS, General Notes, GSP, GN p. 15 and HTS p. 94-5.

<sup>9</sup> Conference transcript, pp. 27-30 (Watson). Materials properly classified under HTS 7320.20.5010, 7320.90.5010, 7326.20.0070, and 9404.10.0000 include products such as individual springs for the production of innerspring units and box springs. In a postconference brief, respondents, while agreeing that there had been misclassification of imports, disagreed with the levels of such activity alleged by the Petitioner. Ad Hoc Innersprings Importers’ Coalition’s postconference brief, p. 28. Additionally, counsel for Chinese respondents, while noting that certain of the importer questionnaire respondents acknowledged some misclassified imports, disagreed as to the levels of misclassification suggested by the Petitioner. Chinese Respondents’ postconference brief, pp. 4-5. More detailed information on this issue can be found in Part IV of this report, *U.S. Imports, Apparent Consumption, and Market Shares*.

<sup>10</sup> *Uncovered Innerspring Units from China, Inv. No. TA-421-5*, Publication 3676, March 2004, p. I-4; Petition, p. 9; Petitioner’s postconference brief, exhibit 1, p. 4; and Verlo Factory Mattress Stores, Glossary, Innerspring Unit, found at <http://www.verlo.com/learningcenter/glossary.jsp>, retrieved January 27, 2008.

**Table I-3  
Uncovered innerspring units: Tariff rates, 2008**

		General <sup>1</sup>	Special <sup>2</sup>	Column 2 <sup>3</sup>
HTS provision	Article description	Rates ( <i>percent ad valorem</i> )		
7320	Springs and leaves for springs, of iron or steel:			
7320.20.50	Other.....	3.9%	A	45.0%
	Helical springs, of wire having a cross-sectional dimension of less than 5.1 mm:			
7320.20.5010	Suitable for use in mattress supports and mattresses of heading 9404.....			
7320.90.50	Other.....	2.9%	A	45.0%
	Of wire:			
7320.90.5010	Suitable for use in mattress supports and mattresses of heading 9404.....			
7326	Other articles of iron or steel:			
7326.20.00	Articles of iron or steel wire			
7326.20.0070	Other.....	3.9%	A	45.0%
9404	Mattress supports; articles of bedding and similar furnishing (for example, mattresses, quilts, eiderdowns, cushions, pouffes and pillows) fitted with springs or stuffed or internally fitted with any material or of cellular rubber or plastics, whether or not covered:			
9404.10.0000	Mattress supports.....	Free		45.0%
9404.29.90	Other.....	6.0%	A	40.0%
9404.29.9010	Uncovered innerspring units			

<sup>1</sup> Normal trade relations, formerly known as the most-favored-nation duty rate, applicable to imports from China, South Africa, and Vietnam.

<sup>2</sup> General note 3(c)(i) lists the special tariff treatment programs indicated by these symbols. Goods must meet eligibility rules set forth in other general notes, and importers must properly claim such treatment. Programs not available to respondent countries are not noted above. The "A" symbol refers to the Generalized System of Preferences (GSP), for which treatment imports from South Africa may be eligible.

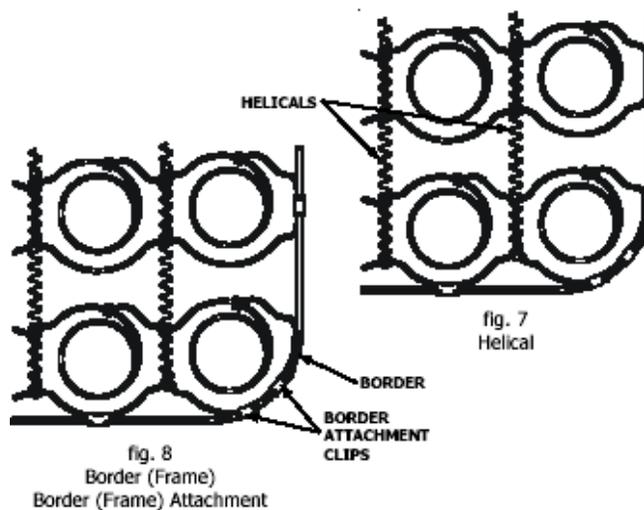
<sup>3</sup> Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.

Source: HTS (2008).

(1.29mm) to 18 gauge (1.02mm),” and is bent into a tight spiral and used to lace the individual or continuous coils together (figure I-1).<sup>11</sup> The border, also a wire, typically made of high-carbon steel “ranging in thickness of 6 gauge (4.11mm) to 9 gauge (2.91mm),” is either “attached to the perimeter of the unit using a metal clip or ring, or it can be sewn into the unit using a large diameter helical.”<sup>12</sup> All non-pocketed innerspring units have a helical wire, but not all non-pocketed innerspring units have the wire borders.<sup>13</sup> Innerspring units manufactured from pocketed coils (pocketed innerspring units) are units that include “individual coils of steel wire that are covered by non-woven synthetic material and then held together by gluing together a specific number of coils.”<sup>14</sup>

**Figure I-1**

**Innersprings: Formation of innerspring units using helicals and border**



Source: *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, Publication 3676, March 2004, p. I-5.

There are a variety of types of innerspring coils, non-pocketed types such as Bonnell, offset, LFK, continuous, and the pocketed coil.<sup>15</sup> Bonnell coils are the most commonly used type in the market,<sup>16</sup> and have an hour-glass shape which tapers inward from top to center and then outward from

<sup>11</sup> Sleep Outfitters, Glossary, found at <http://www.sleepoutfitters.com/learn/mattress-basics-gloss.aspx>, retrieved January 27, 2008 and Petitioner’s postconference brief, exhibit 1, pp. 4-5.

<sup>12</sup> *Inv. No. TA-421-5*, USITC Publication 3676, March 2004, p. I-4 and Petitioner’s postconference brief, exhibit 1, p. 5.

<sup>13</sup> Petitioner’s postconference brief, exhibit 1, pp. 4-5.

<sup>14</sup> Petition, p. 11.

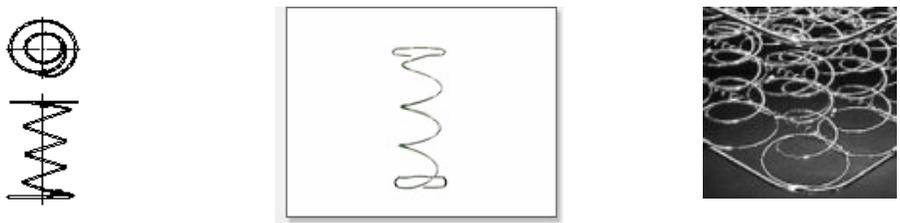
<sup>15</sup> Petitioner’s postconference brief, exhibit 1, p. 4.

<sup>16</sup> Conference transcript, p. 80 (Davis).

center to bottom (figure I-2).<sup>17</sup> Bonnell coils are generally the lowest priced innerspring units<sup>18</sup> and are the type of coil used in virtually all imported innerspring units.<sup>19</sup> Offset coils have an hour-glass shape like Bonnells, but have flat tops and bottoms.<sup>20</sup> LFK coils have a cylindrical or columnar shape.<sup>21</sup> Continuous coils have entire rows of continuous coils formed from a single piece of wire. This feature is different from the Bonnell, offset, and LFK coils where individual coils are formed then assembled into a row of coils.<sup>22</sup>

**Figure I-2**  
**Types of non-pocketed coils**

**Bonnell Coil**



Source: *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-4; Mattressinside.com, “Coil (innerspring) mattress,” found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008; Sleep Gallery, “Sealy Features and Benefits,” found at <http://www.thesleepgallery.com/products/mattresses/conventional/sealy/posture/fb.htm>, retrieved January 27, 2008.

**Offset Coils**



Source: *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-4; Mattressinside.com, “Coil (innerspring) mattress,” found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008; Petitioner’s postconference brief, exhibit 8, hinge flex offset.

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<sup>17</sup> *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-3; Sleep Outfitters, “Bedding Glossary of Terms–Bonnell Coil” found at <http://www.sleepoutfitters.com/learn/mattress-basics-gloss.aspx>, retrieved January 27, 2008 and Petitioner’s postconference brief, exhibit 1, p. 4.

<sup>18</sup> Conference transcript, p. 61 (Bush) and Petitioner’s postconference brief, exhibit 1, p. 6.

<sup>19</sup> Ad Hoc Innersprings Importers’ Coalition pre-hearing brief, p. 54.

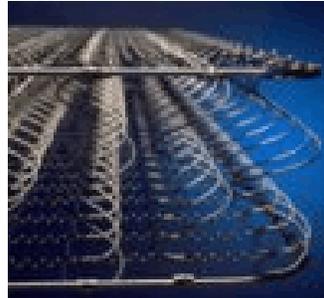
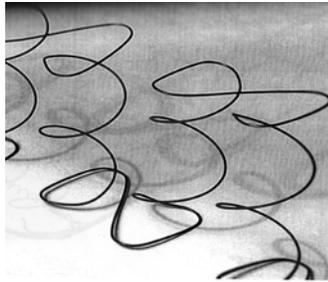
<sup>20</sup> Petitioner’s postconference brief, exhibit 1, p. 4.

<sup>21</sup> Ibid.

<sup>22</sup> Petitioner’s postconference brief, exhibit 1, p. 4.

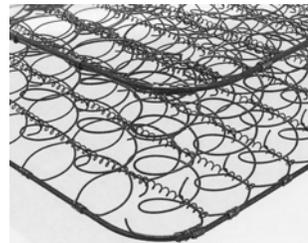
**Figure I-2**  
**Types of non-pocketed coils–Continued**

**Continuous Coils**



Source: Petitioner's postconference brief, exhibit 8, miracoil-continuous; Mattressinside.com, "Coil (innerspring) mattress," found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008.

**LFK Coils**



Source: *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-4; BedMaster, "What Spring is That?" found at <http://www.bedmaster.com.au/news2.html>, retrieved January 27, 2008; and Petitioner's postconference brief, exhibit 8, Iuraflex LFK.

Pocketed innerspring units manufactured from pocketed coils include "individual coils of steel wire that are covered by non-woven synthetic material and then held together by gluing together a specific number of coils," which are then assembled to the size of the innerspring unit (figure I-3).<sup>23</sup> Pocketed coils are also known as Marshall coils and are individual coils that generally have a cylindrical shape and are knotted and inserted into a fabric "pocket."<sup>24</sup>

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<sup>23</sup> Petition, p. 11.

<sup>24</sup> Petitioner's postconference brief, exhibit 1, p. 4.

**Figure I-3**  
**Pocketed coils**



Source: ChooseaMattress.com, "Innerspring," found at <http://chooseamattress.com/innerspring.html>, retrieved January 27, 2008; and Home and Garden Television, "Mattresses," found at [http://www.hgtv.com/hgtv/dc\\_furniture\\_beds/article/0,1793,HGTV\\_3439\\_2614524,00.html](http://www.hgtv.com/hgtv/dc_furniture_beds/article/0,1793,HGTV_3439_2614524,00.html), retrieved January 30, 2008.

### **Manufacturing Facilities and Production Employees<sup>25</sup>**

Both non-pocketed and pocketed innerspring units are manufactured using a similar production process. In the first stage, high carbon steel rod is manufactured into wire. In this process, the rod is pulled through a series of dies until the desired diameter and tensile strength are achieved. The wire is shipped on large carriers called standards. This wire is sometimes purchased from suppliers and sometimes produced by the innerspring manufacturers themselves.<sup>26</sup>

In the next stage, wire is fed into a machine by means of steel feed wheels, which push the wire against a pin that is controlled by a mechanical cam that bends the wire into a spiraled coil. This spiraled coil is then moved mechanically to a forming or knotting station for processing. Once completed, the finished coil is either automatically fed into an assembly machine or manually placed into a container or another machine.<sup>27</sup>

The coils are fed into an assembler where they are held in a fixture that allows the helical to lace or sew a specific number of coils together. The assembler will then index the completed row of coils in preparation for the next row to be fed and attached to the previous. Once the finished size of an innerspring unit is reached, the assembled coils are ejected from the machine.<sup>28</sup>

To form the border, heavy gauge wire is mechanically straightened, cut to length, and then bent, either manually or mechanically, into a rectangular shape. The ends of the wire are either welded or held together using a metal ring. The border is attached to the assembled coils using a metal clip, metal ring, or large diameter helical. Finally, the innerspring is often tempered according to manufacturer or customer requirements in large tempering ovens, although some manufacturers electrically temper

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<sup>25</sup> For the purposes of these investigations, Commission staff has taken information provided by petitioners in Commission Inv. No. TA-421-5, information from the petition in these investigations, testimony given at the Commission's conference, and postconference submissions regarding details concerning the manufacturing process of innerspring units. In response to a Commission staff question, the Petitioner indicated that the manufacturing process has not changed since the Commission's 421 investigation on uncovered innerspring units in 2004. Staff interview with Yohai Baisburd, counsel for Petitioner, January 28, 2008.

<sup>26</sup> *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, USITC Publication 3676, March 2004, pp. I-5 and I-6.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

innersprings during the forming process.<sup>29</sup> Tempering allows the formed wire to retain its shape and “removes the stresses set during the manufacturing process.”<sup>30</sup>

For pocketed innerspring units, the individual coils are inserted into non-woven fabric “pockets.” The individual coils (whether pocketed or non-pocketed) are then assembled into the size that corresponds to the final mattresses. After assembly, non-pocketed coils are laced together using helical wires, while pocketed coils are glued together.<sup>31</sup> The same manufacturing employees have the capability to produce both pocketed and non-pocketed innerspring units.<sup>32</sup>

The production process of an innerspring unit can be automatic, semi-automatic, and/or manual.<sup>33</sup> Production in the United States is completely automated, or on fully automated innerspring production equipment (coiling, knotting, heat treating of coils, and assembly of the final innerspring unit).<sup>34</sup> In a semi-automatic production process, a machine will form the coil, knot, and heat treat the coils. Manual labor is then required to feed coils into an assembly machine that is separate from the coiling machinery that completes the assembly of the unit to the designated size.<sup>35</sup> In the manual innerspring manufacturing process, machines are used to form the coil and knot the coil, but heat treatment is performed in an oven after the innerspring unit is formed. Helical wires are then manually laced through the coils.<sup>36</sup>

In conference testimony, representatives of both Leggett & Platt and Hickory Springs indicated that their machinery is dedicated to specific product lines.<sup>37</sup> These representatives also indicated with the proper training, the same set of employees can produce different product lines, both pocketed and non-pocketed innerspring units.<sup>38</sup>

According to respondents, differing production methods are employed in the subject countries. Reportedly, the predominant method of producing innersprings in China is by the manual and semi-automatic methods,<sup>39</sup> while South African producers reportedly use fully automated innerspring production equipment.<sup>40</sup> Respondents testifying at the Commission’s conference indicated that production in Vietnam was “rudimentary” and similar to that of the Chinese producers (by hand or semi-automatic production).<sup>41</sup>

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<sup>29</sup> Ibid.

<sup>30</sup> Furniture and Things, “About Beds and Mattresses,” found at: [http://www.furnitureandthings.com/about.php?show=about\\_beds](http://www.furnitureandthings.com/about.php?show=about_beds), retrieved January 27, 2008.

<sup>31</sup> Petition, p. 12 and Petitioner’s postconference brief, p. 5.

<sup>32</sup> Petitioner’s postconference brief, p. 5.

<sup>33</sup> Conference transcript, pp. 133-134 (Enoch) and Petitioner’s postconference brief, exhibit 1, p. 8.

<sup>34</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 3.

<sup>35</sup> Conference transcript, p. 134 (Enoch) and Petitioner’s postconference brief, exhibit 1, p. 8.

<sup>36</sup> Petitioner’s postconference brief, exhibit 1, p. 9

<sup>37</sup> Conference transcript, p. 62 (Davis and Bush).

<sup>38</sup> Conference transcript, pp. 62-63 (Davis and Bush).

<sup>39</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 3 and Conference transcript, p. 134 (Enoch). In their postconference brief, Petitioners indicated that they agree manual production occurs in China. Petitioner’s postconference brief, exhibit 1, p. 9.

<sup>40</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 3 and Conference transcript, p. 135 (Wolfson).

<sup>41</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 3 and Conference transcript, p. 135 (Tramel).

## **Interchangeability and Customer and Producer Perceptions**

U.S. producer and importer questionnaire respondents reported that there was general interchangeability between U.S.-produced, Chinese, South African, and Vietnamese uncovered innerspring units. Customers and producers consider non-pocketed and pocketed innerspring units to be interchangeable or fungible products, and mattress manufacturers will produce mattresses with different innersprings based on consumer preferences.<sup>42</sup> More detailed information on interchangeability and customer and producer perceptions can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

## **Channels of Distribution**

For the most part, during the period examined in these investigations, virtually all shipments of uncovered innerspring units by U.S. producers and importers went to end users for the production of mattresses. More detailed information on channels of distribution can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

## **Price**

Information with regard to prices of uncovered innerspring units is presented in Part V of this report, *Pricing and Related Information*.

## **DOMESTIC LIKE PRODUCT AND THE DOMESTIC INDUSTRY**

No issues with respect to like product and the domestic industry have been raised in these investigations. Petitioners have proposed “one like product that covers all innersprings.”<sup>43</sup> and a domestic industry that consists of all U.S. producers of the like product – innersprings.<sup>44</sup> In its posthearing submission, Hickory Springs endorsed the positions taken by petitioner.<sup>45</sup> Respondents offered no comment with respect to like product at the hearing or in their posthearing submissions. With respect to the domestic industry, respondents stated that the domestic industry should consist of both merchant market and captive producers.<sup>46</sup> Hickory Springs reported that “the Commission should assess the effects of imports relative to performance of the two remaining merchant market sellers - Leggett & Platt and Hickory Springs.”<sup>47</sup>

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<sup>42</sup> Petitioner’s postconference brief, p. 4.

<sup>43</sup> Hearing transcript, p. 29 (Baisburd).

<sup>44</sup> Ibid.

<sup>45</sup> Hickory Springs’ posthearing brief, p. 3.

<sup>46</sup> Ad Hoc Innersprings Importers’ Coalition’s posthearing brief, app. A, p. 50 and hearing transcript, p. 13 (Mendoza).

<sup>47</sup> Hickory Springs’ posthearing brief, p. 5.



## PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

### U.S. MARKET SEGMENTS

Innersprings are composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the core component in the manufacture of mattresses. These innerspring units correspond to the sizes of adult mattresses (twin, full, queen, king, etc.) and those used in smaller constructions, such as crib and youth mattresses. The vast majority of mattresses produced and consumed in the United States are innerspring mattresses.<sup>1</sup>

Innerspring units can be pocketed, individual coils covered by a non-woven synthetic material and glued together, or non-pocketed, individual coils laced together without a covering.<sup>2</sup> In addition, there are many types of innerspring coils, with the most basic being Bonnell,<sup>3</sup> some with patent protection,<sup>4</sup> and some that are private label and manufactured for only one customer, which allows finished mattress manufacturers to differentiate their products in terms of quality and price.<sup>5</sup> Leggett & Platt reported that mattress makers can and do switch from generic Bonnell innersprings to proprietary innersprings depending on consumer preferences and cost considerations.<sup>6</sup> However, respondents reported that once a mattress manufacturer has developed a mattress line using a proprietary innerspring design, that manufacturer cannot substitute a different innerspring for that mattress.<sup>7</sup>

The innerspring industry in the United States is comprised of two groups of manufacturers: bedding suppliers that produce innersprings to supply mattress manufacturers and maker/users<sup>8</sup> that produce innersprings for internal consumption in the production of finished mattresses.<sup>9</sup> Maker/users buy innersprings from other U.S. producers at certain times to supplement their own production.

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<sup>1</sup> In 2007, \*\*\* percent of all mattresses shipped in the United States were innerspring mattresses. International Sleep Products Association, 2007 Mattress Industry, Industry Report of Sales and Trends, fig. 6.

<sup>2</sup> Petitioner reported that both types of innerspring units have the same end use and are interchangeable as the main component in the manufacture of innerspring mattresses. Petition, pp. 10-11. Leggett & Platt also reported that pocketed innersprings represent approximately 10-12 percent of the total innerspring market in the United States. Conference transcript, p. 64 (Salyer).

<sup>3</sup> The Bonnell coils are the predominant innerspring in the United States, generally accounting for \*\*\* percent of Leggett & Platt's and Hickory Springs' sales. Petitioner's posthearing brief, pp. 27-28 and Hickory Springs' posthearing brief, exhibit 2, p. 6.

<sup>4</sup> Leggett & Platt reported that approximately 3 percent of its sales are patented products, which include Verticoil, Superlastic, and some pocketed coils. Hearing transcript, p. 59 (Davis) and p. 63 (Salyer). Hickory Springs reported that patents on products such as Multilastic and Miracoil have expired. Hearing transcript, p. 42 (Bush). In addition, Leggett & Platt reported that its shipments of "exclusive" innersprings have decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007. Petitioner's posthearing brief, p. 16.

<sup>5</sup> Hearing transcript, p. 59 (Davis) and pp. 60-62 (Bush).

<sup>6</sup> Hearing transcript, p. 18 (Davis).

<sup>7</sup> Respondents' prehearing brief, pp. 13-14. In addition, petitioner reported that mattress manufacturers change designs every three to six months, but respondents reported that a mattress line will typically run for 12-18 months. Hearing transcript p. 66 (Bush) and pp. 228-230 (Tramel and Karmin).

<sup>8</sup> During the period of investigation, the maker/users consisted of Sealy, Simmons, Eastern Sleep Products, and Dixie Bedding.

<sup>9</sup> Petitioner reported that the maker/users account for approximately 45 percent of the U.S. innerspring market when measured by number of units. Hearing transcript, p. 25 (Salyer).

The end user market for innersprings consists of mattress manufacturers, and Leggett and Platt estimated that it has sold innersprings to over 750 customers.<sup>10</sup> Generally, the largest mattress manufacturers are referred to as the “S-brands,” or Sealy, Simmons, Serta, and Spring Air.<sup>11</sup> There are several other large national chains, such as Lady Americana, International Bedding, and King Koil, and then many regional, mid-size manufacturers.<sup>12</sup> There are also factory-direct manufacturers, such as Original Mattress Factory, as well as numerous small mattress manufacturers.

## CHANNELS OF DISTRIBUTION

The majority of innersprings sold in the United States, whether domestically produced or imported from subject countries, are sold directly to end users (mattress manufacturers), with only a limited quantity sold to distributors.<sup>13</sup>

## GEOGRAPHIC MARKETS

U.S. producers reported serving national markets, although one producer reported that its sales were concentrated in a particular region. Generally, importers reported serving the Southeast, Southwest, and the West Coast, with four importers reporting that they serve the national market (*see* table II-1).<sup>14</sup>

## SUPPLY AND DEMAND CONSIDERATIONS

### U.S. Supply

Petitioner, Leggett & Platt, is the largest U.S. manufacturer of innersprings and has manufacturing facilities throughout the South and Midwest with a nationwide distribution system.<sup>15</sup> There are other smaller U.S. manufacturers, including some that manufacture innersprings for internal consumption (*see* part III of this report for additional information), and two U.S. manufacturers, Atlas and Saval, went out of business in recent years.<sup>16</sup>

When asked if there had been any changes in the product range or marketing of innersprings, half of the responding producers and most responding importers reported that there have not been any significant changes. Of the four producers and eight importers reporting that there have been changes, some reported that there have been new preferences for higher profile innersprings, higher spring count

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<sup>10</sup> Hearing transcript, p. 144 (Salyer).

<sup>11</sup> Of the S-brands, Serta and Spring Air do not produce innersprings and buy 100 percent of their requirements on the open market, and Sealy and Simmons, even with their own production, purchase some innersprings on the open market. Hearing transcript, p. 25 (Salyer). In addition, Sealy, in its purchaser questionnaire response, reported that \*\*\*; Serta, in a telephone conversation with staff, reported that \*\*\*; Simmons did not return staff phone calls; and Spring Air, in its purchaser questionnaire response, reported that \*\*\*. In addition, Leggett & Platt \*\*\*. Petitioner’s posthearing brief, exhibit 3.

<sup>12</sup> Hearing transcript, pp. 106-107 (Salyer).

<sup>13</sup> Over 98 percent of all shipments of U.S.-produced innersprings and over 81 percent of innersprings imported from China, South Africa, and Vietnam were shipped to end users in each year during the period of investigation.

<sup>14</sup> Of the 36 responding importers/consignees, 18 reported that they use all of their imported innersprings internally and so did not answer questions relating to sales of imported innersprings.

<sup>15</sup> Since 2004, Leggett & Platt has closed \*\*\* manufacturing facilities and \*\*\* distribution facilities. Petition, p. 3.

<sup>16</sup> Saval shut down in October 2003, and Atlas ceased operation in December 2006. Petition, p. 2.

**Table II-1****Uncovered innerspring units: Geographic market areas in the United States served by domestic producers and importers of subject product**

Region	Producers	Importers
National	***	4
Northeast	***	2
Mid-Atlantic	***	1
Midwest	***	2
Southeast	***	6
Southwest	***	4
Rocky Mountains	***	1
West Coast	***	6
Northwest	***	3
Note.—Five producers and 18 importers responded to this question. Firms were not limited to the number of market areas that they could report.		
Source: Compiled from data submitted in response to Commission questionnaires.		

innersprings, more expensive innersprings, and non-innerspring mattresses (citing such products as airbeds and memory foam). \*\*\* reported that economic conditions in 2008 have led to greater demand for lower-end, lower-coil count units.

Twenty-five of 40 responding purchasers reported that there have been changes in factors affecting supply since 2005. Fourteen purchasers reported that increases in the price of raw materials and transportation costs have affected supply. Nine purchasers reported that, since the preliminary determination, there have been fewer imports of innersprings and that there have been shortages in the U.S. market because U.S. supply has not been able to handle the increased demand.<sup>17</sup> Two purchasers reported that Hurricane Katrina affected supply in 2005.

Among producers, \*\*\* reported being unable to supply innersprings since 2005. It reported that \*\*\*.<sup>18</sup> Four importers reported having been unable to supply innersprings since 2005, with two importers reporting that \*\*\* have caused them to have trouble filling orders.<sup>19</sup> \*\*\* reported that imports from China have a 6-8 week lead time, and \*\*\* reported that in June 2008, its inability to import caused it to run out of some sizes and styles.

Fifteen purchasers reported that they have experienced short supplies or the unavailability of certain products since 2005, with six purchasers reporting that there have been supply problems in 2008 since the preliminary determinations. Other purchasers did not specify a time period but reported that

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<sup>17</sup> \*\*\* reported that \*\*\* has not been able to supply it with \*\*\* innersprings for its 2008 lineup due to production capacity limitations.

<sup>18</sup> \*\*\*.

<sup>19</sup> Respondents reported that Leggett & Platt did not have enough capacity in 2008 and placed customers on allocation from April to August 2008. Hearing transcript, pp. 185-186 and 253 (Tramel).

U.S. supply, \*\*\*, cannot supply needed quantities of innersprings to the U.S. market. Two purchasers reported that small mattress manufacturers have faced shortages of innersprings but that \*\*\*.

### **Domestic Production**

Based on available information, U.S. producers have the ability to respond to changes in demand with moderate changes in the quantity of shipments of U.S.-produced innersprings to the U.S. market. The main contributing factors to the moderate degree of responsiveness of supply are the availability of unused capacity, moderate levels of inventories, low levels of export shipments, and no production alternatives.

#### ***Industry capacity***

U.S. producers' reported capacity utilization increased from 78.2 percent in 2005 to 81.4 percent in 2006 before decreasing to 78.9 percent in 2007 (*see* table III-2). Capacity utilization was lower in January-June 2008 (75.4 percent) than it was in the same period in 2007 (81.7 percent).

#### ***Alternative markets***

U.S. producers' export shipments, as a percent of total shipments, increased slightly from 4.1 percent in 2005 to 4.6 percent in 2007 (*see* table III-3), and this relatively low level of exports during the period indicates that domestic producers are constrained in their ability to shift shipments between the United States and other markets in response to price changes.

#### ***Inventory levels***

U.S. producers' inventories, as a share of total shipments, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007 (*see* table III-5). Inventories were lower in January-June 2008 (\*\*\*) than they were during the same period in 2007 (\*\*\*) percent).

#### ***Production alternatives***

No producer reported that it produces other products using the same equipment and machinery or production and related workers that it uses to produce innersprings.

## **Foreign Supply**

### **Subject Imports**

Imports of innersprings from China have been in the U.S. market for several years, but imports from South Africa and Vietnam did not appear in official import statistics until 2005.<sup>20</sup>

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<sup>20</sup> Petition, p. 16. Petitioner reported that it believes some subject imports of innersprings are misclassified under other HTS numbers. Petition, p. 20. In addition, evidence on the record indicates that imports of innersprings from South Africa may have entered the U.S. market in 2004 and prior to 2004. Petitioner's postconference brief, p. 8.

## *China*

Based on available information, Chinese producers have the ability to respond to changes in demand with moderate changes in the quantity of shipments of innersprings to the U.S. market. The main contributing factors to the moderate degree of responsiveness of supply are some available unused capacity, large export shipments to third-country markets, and low levels of inventories.<sup>21</sup>

Chinese producers' reported capacity utilization increased from \*\*\* percent in 2005 to \*\*\* percent in 2007 (*see* table VII-1). Capacity utilization was \*\*\* percent in January-June 2008, as compared to \*\*\* percent during the same period in 2007.

Chinese producers' inventories, as a share of total shipments, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007.

Chinese producers' export shipments, as a share of total shipments, increased from \*\*\* percent in 2005 to \*\*\* percent in 2007. Exports, as a share of total shipments, were \*\*\* percent in January-June 2008, as compared to \*\*\* percent in the same period in 2007. Chinese producers reported that more of their exports went to other countries than to the U.S. market during the period.

Chinese producers reported that they do not produce other products on the same equipment and machinery used in the production of innersprings.<sup>22</sup>

## *South Africa*

Based on available information, South African producers have the ability to respond to changes in demand with moderate changes in the quantity of shipments of innersprings to the U.S. market.<sup>23</sup> The main contributing factors to the moderate degree of responsiveness of supply are the availability of unused capacity, some export shipments to third-country markets, and low levels of inventories.

South African producers' reported capacity utilization decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007 (*see* table VII-3). Capacity utilization was higher in January-June 2008 (\*\*\* percent) than it was in January-June 2007 (\*\*\* percent).

South African producers' inventories decreased from \*\*\* percent of total shipments in 2005 to \*\*\* percent in 2007.

South African producers' export shipments, as a share of total shipments, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007. Export shipments were \*\*\* percent in January-June 2008, as compared to \*\*\* percent during the same period in 2007. South African producers reported that more of their exports went to the U.S. market than to other markets during the period.

Innerspring producers in South Africa reported that they do not produce other products on the same equipment and machinery used in the production of innersprings.

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<sup>21</sup> Questionnaire responses were received from fewer Chinese producers of innersprings in the final phase of these investigations than in the preliminary phase. Petitioner reported that the Commission should use the data reported during the preliminary phase. Petitioner's posthearing brief, pp. 20-21.

<sup>22</sup> Innerspring production in China reportedly involves a great deal of manual labor for the assembly of innerspring units. Hearing transcript, p. 189 (Enoch).

<sup>23</sup> Importers reported that imports of innersprings from South Africa serve a limited and distinct segment of the U.S. market for high-quality Bonnell springs and that South African innersprings are produced from 90 percent virgin steel with thicker gauge wire and greater coil height. Ad-Hoc Innersprings Importers' Coalition's postconference brief, pp. 47-48.

## ***Vietnam***

During both the preliminary and final phases of the investigations, only one producer of innersprings in Vietnam submitted a foreign producer questionnaire response. From that information, reported capacity utilization increased from \*\*\* percent in 2005 to \*\*\* percent in 2007. The producer's inventories, as a share of total shipments, were \*\*\* and consistently \*\*\* of total shipments, with the exception of January-June 2008 when inventories were \*\*\* percent of total shipments. The Vietnamese producer reported that \*\*\* of its total shipments were to the United States during the period of investigation, with the exception of the January-June 2008 period, when \*\*\* percent of its total shipments were to the home market.

## **Nonsubject Imports**

Although there are other producers of innersprings in various countries, including Mexico, Taiwan, and Turkey, imports from those countries have been at relatively low levels since 2005.<sup>24</sup> Imports of innersprings from nonsubject countries decreased from \*\*\* units in 2005 to \*\*\* units in 2007 (*see* table IV-2).

## **U.S. Demand**

The sole end use for innersprings, whether pocketed or non-pocketed, is to make innerspring mattresses, corresponding in size to standard measures: king, queen, full, twin, and variations such as full long and California king.

## **Demand Characteristics**

From 2005 to 2007, apparent U.S. consumption of innersprings decreased by 6.4 percent, and consumption was lower in January-June 2008 than it was in the same period in 2007. The overall demand for innersprings depends upon the demand for end-use applications, namely mattresses.<sup>25</sup> As a result, demand is generally related to the amount of housing-related activity in the economy, and demand generally tracks overall economic activity.<sup>26</sup> Housing starts, used in the innersprings industry as an indicator of bedding demand,<sup>27</sup> were relatively stable during 2005 but then generally fell during 2006,

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<sup>24</sup> According to the International Sleep Products Association (ISPA), \*\*\* of uncovered innerspring units were imported from \*\*\* in 2005 but then imports declined in 2006 and 2007. ISPA 2007 Mattress Industry, Industry Report of Sales and Trends, figure 19, p. 20. Leggett & Platt operates plants in Mexico and has imported innersprings from Mexico. Hearing transcript, p. 118 (Davis).

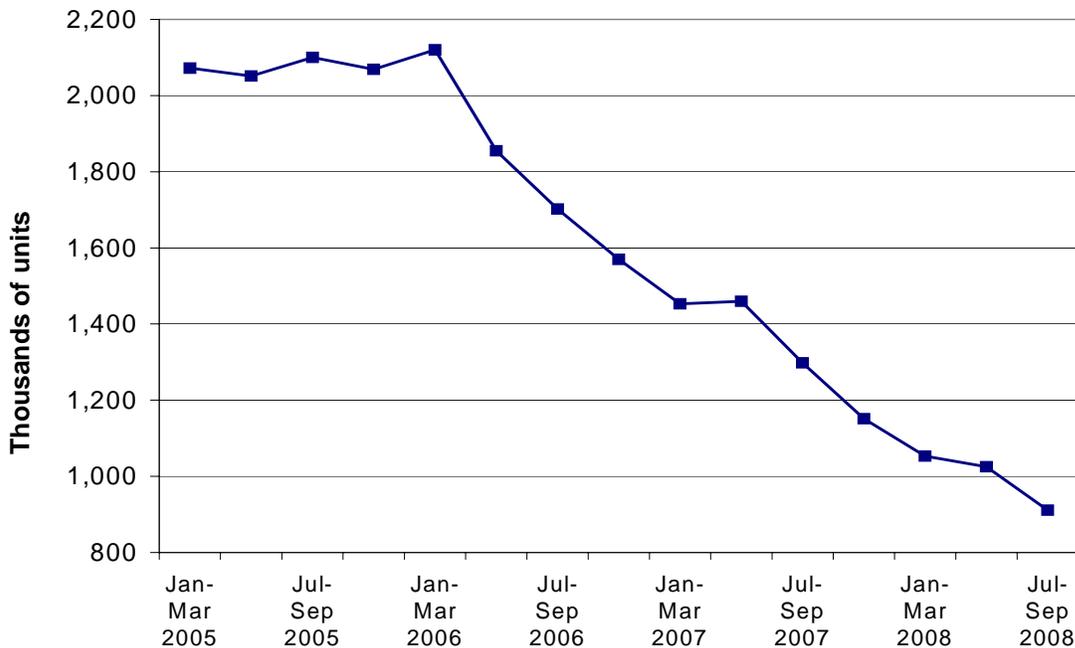
<sup>25</sup> Respondents reported that decreasing demand for mattresses was reflected in a decrease in U.S. shipment volume, which then led to declines in both price and volume, as dictated by a supply-demand model, using data from the investigations and elasticity estimates, as reported later in this section of the staff report. Ad-Hoc Innersprings Importers' Coalition's posthearing brief, pp. 32-37 and exhibits 6 and 8.

<sup>26</sup> Importers reported that the decision to purchase a mattress is generally deferrable and subject to such factors as consumer sentiment and prices of other items such as gasoline. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 15.

<sup>27</sup> Other economic indicators, such as the producer price index for bedding and data on existing single-family home sales, were included in exhibit I-5 of the petition.

2007, and the first three quarters of 2008 (figure II-1).<sup>28</sup> The downturn in the U.S. housing market has negatively affected the innerspring and finished mattress markets, and Leggett & Platt reported that it does not expect an improvement until 2010 at the earliest.<sup>29</sup> Hickory Springs also reported that the downturn in the housing market and the tightening of the credit market have been factors in reduced demand for innersprings.<sup>30</sup>

**Figure II-1**  
**Uncovered innerspring units: Quarterly averages of seasonally adjusted annual rates of housing starts, January 2005-September 2008**



Source: U.S. Census Bureau data at [www.census.gov/const/starts\\_cust.xls](http://www.census.gov/const/starts_cust.xls).

Industry sources have estimated that the replacement rate for a mattress is generally from 8 to 10 years.<sup>31</sup> The trends in recent years toward larger homes with more bedrooms and with consumers buying second homes have reportedly contributed to the demand for innerspring units.

Respondents reported that there has been an increase in sales of non-innerspring mattresses recently, mattresses made from air and various types of foam, which has contributed to the erosion of

<sup>28</sup> The National Association of Home Builders forecasts that housing starts will continue to drop in 2008 and 2009 before rebounding somewhat in 2010. For additional information, see [http://www.nahb.org/fileUpload\\_details.aspx?contentID=75231](http://www.nahb.org/fileUpload_details.aspx?contentID=75231), retrieved September 23, 2008.

<sup>29</sup> Hearing transcript, p. 21 (Davis) and Petitioner’s posthearing brief, p. 14.

<sup>30</sup> Hickory Springs’ posthearing brief, pp. 10-11.

<sup>31</sup> Hearing transcript, p. 162 (Davis).

demand for innerspring mattresses.<sup>32</sup> In addition, respondents reported that there have been increased imports of finished innerspring mattresses, which may cause the demand for innersprings units in the U.S. market to decrease.<sup>33</sup>

Producers, importers, and purchasers were asked specifically how the demand for innersprings in the U.S. market has changed since 2005. Five producers, 17 importers, and 24 purchasers reported that the demand for innersprings has decreased since 2005, citing factors such as a weakening economy, poor conditions in the U.S. housing market, and the popularity of foam, air, and other substitute products for mattresses. Two producers, four importers, and six purchasers reported that the demand for innersprings has increased since 2005, citing factors such as economic growth and a growing population. One importer and three purchasers reported that, during the period, demand for innersprings first increased and then decreased.<sup>34</sup> One producer, four importers, and six purchasers reported that the demand for innersprings is essentially unchanged, and five importers and two purchasers reported that they did not know how demand has changed since 2005.

The majority of producers, importers, and purchasers reported that the demand for innersprings has decreased since 2005, and data from the ISPA<sup>35</sup> show that U.S. shipments of innerspring mattresses \*\*\*.<sup>36</sup> As each innerspring mattress contains one innerspring unit, there is a direct correlation between sales of innerspring mattresses and the demand for innersprings.

Producers, importers, and purchasers also were asked if the innersprings market is subject to business cycles or conditions of competition distinctive to innersprings, and 7 producers, 21 importers, and 20 purchasers responded affirmatively. Many reported that the second and third quarters of the year are generally busier than the first and fourth quarters. Others reported that the innersprings market follows overall economic conditions, and more specifically, the housing market. Some importers and purchasers reported that the dominance of Leggett & Platt as a supplier is a significant condition of competition.

Six producers, 19 importers, and 14 purchasers reported that there have been changes in the business cycle or conditions of competition for innersprings since 2005, with many reporting that overall economic conditions, along with the U.S. housing market, have deteriorated recently and that raw material and transportation prices have increased during the period. \*\*\* reported that the mattress business had been generally immune to economic downturns in the past but that the most recent housing-driven downturn has affected it greatly. \*\*\* reported that changes have centered around consolidation in the U.S. industry and the increased popularity of non-innerspring products such as air and foam. \*\*\* reported that some of its customers have recently begun buying imports directly rather than using it as a broker. Seven importers and seven purchasers reported that since the ITC preliminary determination, imports of innersprings have decreased and U.S. supply has not been able to keep up with demand.

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<sup>32</sup> Hearing transcript, pp. 197-198 and 203 (Karmin).

<sup>33</sup> Conference transcript, p. 145 (Tramel) and pp. 145-146 (Cameron).

<sup>34</sup> \*\*\* reported that demand for mattresses is related to new home starts, purchases of existing homes, relocations, and seasonal factors and that mattresses are an easily postponed replacement purchase and these purchases reflect changes in disposable income.

<sup>35</sup> Leggett & Platt reported that ISPA is the authoritative source for data on the mattress industry. Conference transcript, p. 71 (Davis).

<sup>36</sup> ISPA 2007 Mattress Industry, Industry Report of Sales and Trends, fig. 6. It is important to note that ISPA \*\*\*.

## Substitute Products

Most producers, importers, and purchasers reported that water, air, fiber, and foam are products that may be substituted for innersprings when producing a mattress and that all of these products can be used as mattress cores.<sup>37</sup> \*\*\* reported that most foam mattresses are made from high-quality foams such as latex or visco-elastic, which cost more than innersprings and limit the sale of foam mattresses to the ultra-premium market.<sup>38</sup> One producer, three importers, and four purchasers reported that there are no substitutes for innersprings.

One producer, five importers, and seven purchasers reported that changes in the prices of substitute products have affected the price for innersprings, with two purchasers reporting that increased prices for substitutes have allowed the price of innersprings to increase as well. \*\*\* reported that the cost of foam has gone up and thus, there is a demand for higher profile innersprings in order to reduce the use of foam. \*\*\* reported that there is no direct price correlation; the price of innersprings is based on raw material costs. Five producers, 9 importers, and 18 purchasers reported that the demand for substitute products has affected the demand for innersprings, with many reporting that the demand for innersprings has decreased as a result of increased demand for these substitute products. Three producers and two importers reported that the demand for substitute products has had a marginal affect on the demand for innersprings, and \*\*\* reported that the effects are concentrated at the high end of the innerspring market.

## Cost Share

Producers, importers, and purchasers were asked to provide information on the cost share of innersprings relative to the end product in which they are used. All producers, importers, and purchasers reported that mattresses are the sole end use for innersprings. Producers reported that between 7 and 44 percent of the total cost of a mattress is accounted for by the innerspring.<sup>39</sup> Importers generally reported that between 8 and 41 percent of the total cost of a mattress is accounted for by the innerspring, and purchasers reported that the cost share varies between 7 and 40 percent, but some firms reported that the cost share can be as high as 50 to 75 percent, depending on the type and quality of the mattress.

## Global Demand

Producers, importers, and purchasers were asked how the demand for innersprings outside the United States has changed since 2005.<sup>40</sup> Two producers, seven importers, and seven purchasers reported that demand has increased in the rest of the world, with most citing increased wealth and a switch from other types of mattresses to innerspring mattresses.<sup>41</sup> Four importers and one purchaser reported that the

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<sup>37</sup> Non-innerspring unit shipments were \*\*\* percent of all mattresses shipped during 2007. Both the value and quantity of non-innerspring mattress shipments were \*\*\* in 2007 than in 2006. ISPA 2007 Mattress Industry, Industry Report of Sales and Trends, fig. 1.

<sup>38</sup> \*\*\* also reported that air bladders strong enough to hold up over years of daily use are very expensive and that water beds were a fad that has run its course.

<sup>39</sup> Hickory Springs reported that the cost of an innerspring unit, while not the majority of the cost of producing a mattress, is the largest component of the cost, accounting for approximately 40 percent of the cost, depending on the type of mattress. Hickory Springs' postconference brief, p. 11.

<sup>40</sup> Chinese producers reported that the Chinese housing market has been booming and thus created a higher demand for bedding components such as innersprings. Chinese respondents' postconference brief, pp. 5-6.

<sup>41</sup> \*\*\* reported that markets outside the United States typically have a smaller percentage of sleep products that are innerspring mattresses but that most are still in excess of 50 percent. It also reported that the United States is the (continued...)

demand for innersprings outside of the United States has decreased since 2005, and two producers, two importers, and four purchasers reported that demand is unchanged. The other producers, importers, and purchasers reported that they did not know how the demand for innersprings has changed outside of the United States.

### **SUBSTITUTABILITY ISSUES**

The degree of substitution between domestic and imported products depends upon such factors as relative prices, quality, and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there may be some differences in the specifications between domestic and imported innersprings, especially given the variety of patented and proprietary designs in the marketplace, but that overall, there is likely to be a high degree of substitution between innersprings produced in the United States and those produced in China, South Africa, and Vietnam.

This section is based primarily on the responses of 42 purchasers that responded to Commission questionnaires (representing 19.1 percent of apparent consumption in 2007). Of the 42 purchasers, 39 described themselves as end users and 3 as distributors. The 39 end users were asked about how the demand for their final end-use products has changed since January 2005, and 19 reported that demand has decreased, 11 reported that demand has increased, 6 reported that demand is unchanged, and 3 reported that demand first increased and then decreased. The firms who distribute or resell innersprings reported selling primarily to mattress manufacturers. Purchasers tended to purchase innersprings from both U.S. producers and imports from subject sources (table II-2).<sup>42</sup> Some of the largest purchasers, \*\*\*, tend to buy innersprings from more than one country, whereas others, \*\*\* tend to buy from only one country. No responding purchaser reported data for purchases from nonsubject sources.

Sixteen of the 42 responding purchasers reported that they have made significant changes in their purchasing patterns since January 2005. Seven purchasers reported fewer purchases of imports, with some specifically mentioning the additional cost of the duties after Commerce's preliminary LTFV determination. One purchaser reported purchasing more often because of a change in merchandising patterns; one reported more frequent purchases due to a new item; and one reported trying to buy more U.S.-produced innersprings.

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<sup>41</sup> (...continued)

largest market for innersprings in the world and that innerspring prices are typically higher in the United States than in the rest of the world.

<sup>42</sup> Both Leggett & Platt and Hickory Springs submitted the names of purchasers that \*\*\*. Petitioner's posthearing brief, exhibit 13 and Hickory Springs' posthearing brief, exhibit 2, page 2. \*\*\*.

**Table II-2**  
**Uncovered innerspring units: Total U.S. purchases, by source and type of purchase, 2005-07,**  
**January-June 2007 and 2008<sup>1</sup>**

Country and type of purchase	2005	2006	2007	Jan-June 2007	Jan-June 2008
	Quantity (units)				
<b>United States</b>					
Long-term contract <sup>2</sup>	889,626	835,420	1,783,397	912,564	1,024,154
Short-term contract or spot	922,087	961,294	922,614	510,741	459,941
<b>China</b>					
Long-term contract	***	***	***	***	***
Short-term contract or spot	1,184,010	1,450,011	1,025,437	468,841	681,116
<b>South Africa</b>					
Long-term contract	0	0	0	0	0
Short-term contract or spot	95,429	119,026	58,808	***	***
<b>Vietnam</b>					
Long-term contract	0	0	0	0	0
Short-term contract or spot	***	***	***	( <sup>3</sup> )	( <sup>3</sup> )
<p><sup>1</sup> Some purchasers listed foreign suppliers in section V (supplier identification) of the purchaser questionnaire, and so the data in this table may include quantities of direct imports along with purchased quantities from importers. Of the 42 purchasers that submitted questionnaires, 34 reported data for their U.S.-produced innersprings, 29 for their Chinese-produced innersprings, 8 for their South African-produced innersprings, and 2 for their Vietnamese-produced innersprings; four purchasers did not report any data for their annual purchases (in the other questionnaire responses, of these four purchasers, two reported only domestic purchases, one reported buying only imports from China, and one reported purchasing both from domestic and foreign suppliers). In addition, five purchasers reported data only for their purchases of imports, but from their other responses and supplier identification, it appears as though three of those five did purchase U.S.-produced innersprings during the period of investigation, and so only two of those purchasers reported buying only imported innersprings.</p> <p><sup>2</sup> *** did not report data for its long-term contract purchases in 2005 or 2006.</p> <p><sup>3</sup> Not reported.</p> <p>Note.--Not all purchasers reported data for each year.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>					

Purchasers were asked specifically whether the relative share of total purchases of innersprings from different sources had changed since January 2005. Ten purchasers reported that they have increased purchases from U.S. producers, citing availability, price, lead times, and the duties applied after the preliminary determination as reasons for the increase.<sup>43</sup> Seven purchasers reported that their purchases of U.S.-produced innersprings have decreased, citing price and quality as reasons for the decrease. Sixteen purchasers reported increasing purchases of imports from China due to price, availability, quality, and an alternative source of supply. Eighteen purchasers reported decreased purchases of imports from China, with most citing the preliminary duties, lead times, availability, and reliability as reasons for the decrease. Seven purchasers reported decreased purchases of imports from South Africa, citing reasons similar to

<sup>43</sup> \*\*\*.

those for decreased purchases from China, and one purchaser reported increased purchases of imports from South Africa. One purchaser reported decreased purchases from Vietnam due to a lack of reliability, and no purchasers reported any changes with respect to purchases from nonsubject countries.

In addition, purchasers were asked to describe any changes in their purchasing decisions since the Commission's preliminary determination. Thirteen purchasers reported fewer purchases of imports and more purchases of U.S.-produced innersprings, and 13 purchasers reported no changes. Some purchasers reported that there have been problems with U.S. supply and increased prices since that time.

Purchasers that buy innersprings from only one country were asked to explain the reasons for doing so, and nine responded, with five reporting that price, quality, and speed of delivery were the reasons. \*\*\* reported that its requirements are for a U.S. supplier; \*\*\* reported that it is \*\*\*; \*\*\* reported that it buys innersprings from one company because of its ability to supply proprietary designs; and \*\*\* reported that it has been purchasing from \*\*\* and that no other supplier can deliver the service and required quantities.

### **Factors Affecting Purchasing Decisions**

Petitioner describes innerspring units as a price-sensitive commodity product,<sup>44</sup> where the quality of imported innersprings has improved over the period of investigation.<sup>45</sup> Leggett & Platt also reported that quality differences do not make a difference to end users if the price of imported innersprings is low enough.<sup>46</sup> In addition, finished mattress manufacturers have reportedly been de-contenting or de-specing in order to produce a lower-cost mattress; with the prices of foam and other mattress raw materials increasing, mattress manufacturers have substituted lower-cost innersprings, such as generic Bonnell coils, in place of higher-cost, proprietary alternatives.<sup>47</sup>

Respondents have described three types of innerspring purchasers: the large, national name-branded mattress manufacturers, very small mattress manufacturers, and small-to-medium sized non-integrated, independent mattress manufacturers.<sup>48</sup> Respondents reported that for the very large and the very small mattress manufacturers, imports do not play a significant role, and that even for the small-to-medium sized manufacturers, many continue to buy U.S.-produced as well as imported innersprings.

In addition, respondents reported that U.S. innerspring producers, specifically Leggett & Platt, have a number of advantages relative to importers of innersprings: they produce other components for mattresses and can offer package deals with discounts,<sup>49</sup> they offer payment terms, and they have lower transportation costs and advantages in logistics.<sup>50</sup>

Respondents also reported that mattress manufacturers have tried to diversify their supply in order to minimize the impact of any supply problems with any one supplier.<sup>51</sup> Mattress production is reportedly a just-in-time business, and therefore, respondents assert that imports can only serve as a supplement to purchases of U.S.-produced innersprings.<sup>52</sup>

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<sup>44</sup> Conference transcript, p. 8 (Corr).

<sup>45</sup> Conference transcript, p. 74 (Davis).

<sup>46</sup> Conference transcript, p. 74 (Ryan).

<sup>47</sup> Hearing transcript, p. 111 (Davis).

<sup>48</sup> Conference transcript, pp. 99-100 (Mendoza).

<sup>49</sup> Respondents reported that \*\*\*. Ad-Hoc Innersprings Importers' Coalition's posthearing brief, appendix A, pp. 20-21.

<sup>50</sup> Conference transcript, pp. 110-111 (Diamonstein).

<sup>51</sup> Hearing transcript, pp. 319-320 (Karmin).

<sup>52</sup> Hearing transcript, pp. 245 and 248-249 (Tramel).

Purchasers were asked to identify the three major factors considered by their firm in selecting suppliers of innersprings (table II-3). Price was the most commonly cited factor overall, and 16 of the 39 responding purchasers reported that price was the most important factor. The next most commonly cited factor was quality, with 12 purchasers reporting that quality was the most important factor. Other factors reported by more than one firm were availability, traditional supplier, delivery and service, and reliability.

Purchasers were asked to identify the characteristics that determine the quality of innersprings. Factors cited included durability, support, squareness, consistency, stability, performance, and overall finish. Several purchasers cited the necessity of meeting the firm's specifications or industry standards and the importance of testing the innersprings. \*\*\* reported that the quality of innersprings is typically more apparent after it has been integrated into the finished product and sold to the consumer.

**Table II-3  
Uncovered innerspring units: Most important factors in selecting a supplier, as reported by purchasers**

Factor	First	Second	Third
Price	16	9	12
Quality	12	14	5
Availability	4	7	10
Traditional supplier/history	4	0	1
Delivery/service	1	5	6
Reliability	1	2	1
Other	1	2	4

Note.--Other category includes product consistency, product range, shipping, credit terms, and lead times. When asked for other factors, one purchaser reported that accurate delivery dates was an important factor, one reported that credit terms was an important factor, one reported that ease of working with a supplier was an important factor, one reported that innovation was an important factor, one reported that quality was an important factor, and one reported that supply meets specifications was an important factor.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchasers were asked if they always, usually, sometimes, or never purchased the lowest-priced innersprings. Nineteen purchasers reported usually purchasing the lowest-priced product and 15 sometimes purchased the lowest-priced innersprings. Three purchasers reported always purchasing the lowest-priced product, and three purchasers reported never purchasing the lowest-priced product. Purchasers also were asked if they purchased innersprings from one source although a comparable product was available from another source at a lower price. Thirty-two purchasers responded, reporting reasons why they purchased from a source that might be more expensive. Reasons provided included quality, lead times, availability, supply agreements/contracts, price, and reliability. \*\*\* reported that it bought innersprings from both China and the United States because it was wary of having a single source with long lead times, even though the Chinese product is better quality and an alternative to domestically produced innersprings. \*\*\* reported that it purchased innersprings from both China and the United States because \*\*\*. \*\*\* reported that China is a valid secondary source but that it could not be a primary source of innersprings because of availability and lead times.

In rating the importance of 19 factors in their purchasing decisions (table II-4), all 41 responding purchasers rated availability as very important; 40 reported that quality meets industry standards is very important; 39 reported that price and product consistency are very important; 37 reported that reliability is very important; and 33 reported that delivery time is very important.

**Table II-4**

**Uncovered innerspring units: Importance of purchase factors, as reported by purchasers**

Factor	Very important	Somewhat important	Not important
	<i>Number of firms responding</i>		
Availability	41	0	0
Cost of carrying inventory	22	14	4
Delivery terms	24	16	1
Delivery time	33	8	0
Discounts offered	21	17	3
Diversity of suppliers	18	14	8
Extension of credit	15	14	11
Less-than-container-load shipments	13	11	16
Minimum quantity requirements	10	9	21
Packaging	21	16	4
Package discounts bundled with other bedding components	7	11	22
Price	39	2	0
Product consistency	39	2	0
Product range	6	28	7
Quality meets industry standards	40	1	0
Quality exceeds industry standards	18	16	6
Reliability of supply	37	4	0
Technical support/service	6	22	13
U.S. transportation costs	22	13	6

Note.--Not all purchasers responded for each factor.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchasers were asked for a country-by-country comparison using the same 19 factors. Thirty-two purchasers completed this comparison for the United States and China (table II-5). Half or more of purchasers reported that the U.S. product was superior for availability, cost of carrying inventory, delivery terms, delivery time, less-than-container-load shipments, minimum quantity requirements, and technical support/service, and half or more reported that the Chinese product was superior for diversity of suppliers and a lower price.

Seven purchasers completed this comparison for the United States and South Africa. The majority of purchasers reported that the U.S. product was superior for availability, cost of carrying inventory, delivery terms, delivery time, less-than-container-load shipments, and the majority reported that the South African product was superior for a lower price. Only one purchaser completed the comparison for the United States and Vietnam.

Purchasers were asked if certain grades, types, or sizes of innersprings were available from only a single source, and 24 purchasers responded in the affirmative, with 21 purchasers citing the existence of patented products as a reason. \*\*\* reported that imported innersprings from China have better design and product differentiation, \*\*\* reported that a certain type of innerspring is only available from Chinese sources, and \*\*\* reported that it uses a type of innerspring that \*\*\* has refused to manufacture.

In addition, 10 of the 42 responding purchasers reported specifically ordering innersprings from one country in particular over other possible sources of supply. Reasons cited for buying from a particular country included quality, an alternative source of supply, availability, consistency, and lower transportation costs.

Purchasers were asked if they required certification or prequalification for suppliers of innersprings. Twenty-two purchasers required it for all of their purchases. Purchasers reported that the certification or prequalification process may involve samples of the product, references from other customers, visual inspection, or product testing, which may involve tests for heat treatment, durability, comfort, and strength.

Thirty-four purchasers reported factors considered in qualifying a new supplier, including quality, height, squareness, durability, reliability, price, delivery time, samples of the product, service, the reputation of the supplier, support, and consistency. The time required to qualify a new supplier was reported by 13 purchasers and ranged from one week to six months.

Purchasers were asked if any suppliers had failed to qualify their product or lost their approved status. Six of the 42 responding firms reported that suppliers had failed to qualify, with five reporting that Chinese firms or importers of innersprings from China had failed to qualify and one reporting that it did not know the manufacturer of the rejected product. The most commonly cited reasons for failure included quality, packaging, and size.

**Table II-5**  
**Uncovered innerspring units: Comparisons of U.S.-produced innersprings and imports from China, South Africa, and Vietnam, as reported by purchasers**

Factor	U.S. vs. China			U.S. vs. South Africa			U.S. vs. Vietnam		
	S	C	I	S	C	I	S	C	I
	<i>Number of firms responding</i>								
Availability	17	13	2	4	3	0	0	1	0
Cost of carrying inventory	22	10	0	4	3	0	0	1	0
Delivery terms	20	11	0	4	3	0	0	1	0
Delivery time	25	7	0	4	2	1	1	0	0
Discounts offered	11	17	3	0	5	1	0	1	0
Diversity of suppliers	2	14	16	1	4	2	0	1	0
Extension of credit	12	17	2	0	6	1	0	1	0
Less-than-container-load shipments	23	8	1	5	2	0	1	0	0
Lower price <sup>1</sup>	0	7	25	0	1	6	0	0	1
Lower U.S. transportation costs <sup>1</sup>	11	19	2	2	4	1	0	0	1
Minimum quantity requirements	20	12	0	3	4	0	1	0	0
Packaging	3	24	5	0	5	2	0	0	1
Package discounts bundled with other bedding components	6	20	2	2	4	0	1	0	0
Product consistency	4	20	8	0	5	2	0	1	0
Product range	15	13	3	2	5	0	0	1	0
Quality meets industry standards	4	24	4	0	4	3	0	1	0
Quality exceeds industry standards	5	17	8	0	4	2	0	1	0
Reliability of supply	9	18	5	3	3	1	0	1	0
Technical support/service	16	12	2	3	3	1	1	0	0

<sup>1</sup> A rating of "superior" on lower price or lower U.S. transportation costs indicates that the first-named country generally has lower prices or U.S. transportation costs than the second-named country.

Note.--Not all purchasers responded for every factor. S=first-listed country's product is superior; C=both countries' products are comparable; I=first-listed country's product is inferior.

Source: Compiled from data submitted in response to Commission questionnaires.

Purchasers were asked how often they are aware of the country of origin of the innersprings they purchase, how often they know the manufacturer, and how often their buyers are interested in the country of origin of the goods they supply. Their responses are summarized in the following tabulation:

Factor	Always	Usually	Sometimes	Never
Aware of product's country of origin?	19	21	2	0
Know manufacturer of the product?	17	13	9	3
Buyers aware of/interested in product's country of origin?	6	12	11	13

Purchasers also were asked how often domestically produced, subject imports, and nonsubject imports of innersprings meet minimum quality specifications. Their responses are summarized in the following tabulation:

Source	Always	Usually	Sometimes	Never
U.S.-produced	18	19	1	1
Subject imports - China	15	15	5	2
Subject imports - South Africa	5	6	1	0
Subject imports - Vietnam	0	2	1	1

Of the two purchasers that reported that U.S.-produced innersprings sometimes or never meet minimum quality specifications, neither explained their response. Two purchasers that reported U.S.-produced innersprings usually meet minimum quality specifications reported that U.S.-produced innersprings have more quality issues than imports from China and that the quality of \*\*\* innersprings got better when it was forced to compete with imports. Of the 10 purchasers that reported that subject imports sometimes or never meet minimum quality specifications, none explained their responses.

Most purchasers reported contacting anywhere from two to three suppliers before making a purchase. Eleven purchasers reported contacting only one supplier, and one purchaser reported contacting as many as eight suppliers. Twenty-seven purchasers reported changing suppliers since January 2005, with 13 purchasers reporting that they dropped foreign suppliers, 5 reporting that they added foreign suppliers, and 5 reporting that they added U.S. suppliers. It was not clear from the other responses whether firms were added or dropped.

Fourteen purchasers reported that they were aware of new suppliers that entered the market since January 2005, and these suppliers included QZ International, H&A Trading, China Logistics, Harvard, Texas Pocket Springs, and other suppliers from China, Turkey, and the Netherlands.

### Lead Times

\*\*\* reported that \*\*\* percent, respectively, of their innersprings were sold out of inventory and were available in \*\*\*. \*\*\* reported that \*\*\* percent of its innersprings were sold produced-to-order and were available in \*\*\*, and \*\*\* reported that \*\*\* percent of its innersprings were sold produced-to-order and were available in \*\*\*. \*\*\* reported that \*\*\* percent of its sales are produced-to-order and \*\*\* percent are from inventory and that all products were available in \*\*\*.

Nine importers reported that at least 90 percent of their innersprings were sold produced-to-order, and lead times ranged from 5 to 8 weeks. Seven importers reported that at least 80 percent of their innersprings were sold from inventory, and lead times ranged from 1 to 10 days.<sup>53</sup>

### **Comparisons of Domestic Products, Subject Imports, and Nonsubject Imports**

Producers, importers, and purchasers were asked to assess how interchangeable innersprings from the United States are with innersprings from both subject and nonsubject countries. Their answers are summarized in table II-6. All producers that reported familiarity with imported innersprings and the vast majority of importers reported that U.S.-produced innersprings are always or frequently interchangeable with innersprings imported from all three subject countries, as well as nonsubject countries. Five importers reported reasons that limit or preclude interchangeable use. \*\*\* reported that innersprings imported from China are generally heavier and of better quality; \*\*\* reported that mattresses produced in China use different products; \*\*\* reported that Leggett & Platt has patents on certain types of innersprings; and \*\*\* reported that imports of innersprings come without the border wire attached, and so it is able to get more value out of its warehouse storage.

Among purchasers that reported reasons that preclude or limit interchangeable use, three purchasers reported that there are some units that are not available from either U.S. or Chinese suppliers. \*\*\* reported that innersprings imported from China are of better quality, with double coils on the perimeter of the unit and added height, \*\*\* reported that mattresses at the high end of the market are not always interchangeable, and \*\*\* reported that U.S. suppliers offer a broader product range than imports from China.

Producers and importers were asked to assess how often differences other than price were significant in sales of innersprings from the United States, subject countries, and nonsubject countries (table II-7). Producers and the vast majority of importers<sup>54</sup> reported that differences other than price are sometimes or never a significant factor in sales of innersprings.

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<sup>53</sup> One importer reported that its lead time for innersprings sold from inventory was up to two months.

<sup>54</sup> It appears as though two producers and nine importers did not fully understand the question, as they reported that differences other than price were \*\*\* significant in sales of innersprings from one or all of the country combinations but then did not explain their answers as requested.

**Table II-6**  
**Uncovered innerspring units: U.S. producers' and importers' perceived degree of interchangeability of products produced in the United States and in other countries<sup>1</sup>**

Country comparison	U.S. producers					U.S. importers					U.S. purchasers				
	A	F	S	N	0	A	F	S	N	0	A	F	S	N	0
U.S. vs. China	4	3	0	0	1	10	14	2	0	5	18	8	6	1	9
U.S. vs. South Africa	3	3	0	0	2	2	3	1	0	25	5	7	0	0	30
U.S. vs. Vietnam	3	2	0	0	3	2	1	0	0	26	3	1	0	0	36
U.S. vs. other countries	3	1	0	0	4	2	0	0	0	29	0	1	0	0	41
China vs. South Africa	4	1	0	0	3	2	2	1	0	26	3	4	1	0	34
China vs. Vietnam	4	1	0	0	3	2	1	0	0	28	2	1	0	0	39
China vs. other countries	3	1	0	0	4	2	0	0	0	29	0	1	0	0	41
South Africa vs. Vietnam	4	1	0	0	3	2	0	1	0	28	1	1	0	0	40
South Africa vs. other countries	3	1	0	0	4	2	0	0	0	29	0	1	0	0	41
Vietnam vs. other countries	3	1	0	0	4	2	0	0	0	29	0	1	0	0	41

<sup>1</sup> Producers, importers, and purchasers were asked if innersprings produced in the United States and in other countries are used interchangeably and to what degree.

Note.--"A" = Always, "F" = Frequently, "S" = Sometimes, "N" = Never, and "0" = No familiarity.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table II-7**

**Uncovered innerspring units: U.S. producers' and importers' perceived importance of factors other than price in sales of product produced in the United States and in other countries<sup>1</sup>**

Country comparison	U.S. producers					U.S. importers				
	A	F	S	N	0	A	F	S	N	0
U.S. vs. China	2	0	4	0	2	5	10	8	0	8
U.S. vs. South Africa	1	0	4	0	3	1	3	2	0	25
U.S. vs. Vietnam	1	0	4	0	3	0	1	2	0	28
U.S. vs. other countries	1	0	3	0	4	0	0	2	0	29
China vs. South Africa	1	0	2	2	3	1	1	1	2	26
China vs. Vietnam	1	0	2	2	3	0	1	0	2	28
China vs. other countries	1	0	1	2	4	0	0	0	2	29
South Africa vs. Vietnam	1	0	2	2	3	1	0	0	2	28
South Africa vs. other countries	1	0	1	2	4	0	0	0	2	29
Vietnam vs. other countries	1	0	1	2	4	0	0	0	2	29

<sup>1</sup> Producers and importers were asked if differences other than price between innersprings produced in the United States and those produced in other countries were a significant factor in sales of the innersprings.

Note.--“A” = Always, “F” = Frequently, “S” = Sometimes, “N” = Never, and “0” = No familiarity.

Source: Compiled from data submitted in response to Commission questionnaires.

In explaining the significance of these non-price factors, 5 of the 14 responding importers reported that the quality of the imported innersprings is better than that for U.S.-produced innersprings. Two importers reported that Leggett & Platt has specific non-price advantages, specifically shorter lead times, favorable terms, volume discounts, and closer proximity to customers, and two importers reported that the existence of proprietary designs is a significant non-price factor.

## ELASTICITY ESTIMATES<sup>55</sup>

### U.S. Supply Elasticity

The domestic supply elasticity for innersprings measures the sensitivity of the quantity supplied by U.S. producers to changes in the U.S. market price of innersprings. The elasticity of domestic supply depends on several factors including the level of excess capacity, the ease with which producers can alter capacity, producers' ability to shift to production to other products, the existence of inventories, and the availability of alternate markets for U.S.-produced innersprings. Earlier analysis of these factors indicates

<sup>55</sup> Parties were invited to submit comments on these elasticity estimates, and no comments were received.

that the U.S. industry has the ability to moderately increase or decrease shipments to the U.S. market; an estimate in the range of 3 to 5 is suggested.

### **U.S. Demand Elasticity**

The U.S. demand elasticity for innersprings measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of innersprings. This estimate depends on factors discussed earlier such as the existence, availability, and commercial viability of substitute products. Based on the available information, the aggregate demand elasticity for innersprings is likely to be in a range of -0.8 to -1.0.

### **Substitution Elasticity**

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported products.<sup>56</sup> Product differentiation, in turn, depends upon such factors as quality and conditions of sale. Based on available information, the elasticity of substitution between domestic and subject innersprings is likely to be in the range of 3 to 5 for products from China, South Africa, and Vietnam.

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<sup>56</sup> The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject products (or vice versa) when prices change.



### **PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT**

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the margins of dumping was presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of eight firms that accounted for virtually all of U.S. production of uncovered innerspring units during 2007.

#### **U.S. PRODUCERS**

The Commission sent questionnaires to the eight firms who provided producer data during the preliminary phase of the investigations. Responses were received from all of the firms.<sup>1 2 3</sup> Producers of uncovered innerspring units, their positions with respect to the petition, and information on their production of uncovered innerspring units are shown in table III-1.

#### **CHANGES IN U.S. PRODUCERS' OPERATIONS**

Producers were asked to describe changes in their operations since January 1, 2005.<sup>4</sup> \*\*\* described changes, while \*\*\* said they had no changes in operations.

\*\*\* described the following changes: \*\*\*

\*\*\* described the following changes: \*\*\*

\*\*\* offered the following relative to the changes in its operations: \*\*\*

\*\*\* described the changes to its operations thusly: \*\*\*

\*\*\* described the following changes to its operations: \*\*\*

Atlas, headquartered in Gardena, CA, closed its manufacturing operations in December 2006 citing inability to compete with increasing import competition. Atlas had manufactured bedding and furniture products since 1932. Innersprings accounted for \*\*\* percent of Atlas' total sales in the facilities where innersprings were produced during 2003; \*\*\*. In 2003, Atlas accounted for \*\*\* percent of U.S. production of uncovered innerspring units. With its closure, \*\*\*.<sup>5</sup>

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<sup>1</sup> The eight firms are: (1) Leggett & Platt, (2) Hickory Springs, (3) Sealy, (4) Simmons, (5) Spring Co., Inc. (Springco), (6) Eastern Sleep Products Co., Inc. (Eastern), (7) Dixie Bedding/ King Koil (Dixie), and (8) Texas Pocket Springs (Texas Pocket). Eastern has also been known as "Symbol."

<sup>2</sup> Leggett & Platt has foreign production operations in \*\*\*.

<sup>3</sup> Of the eight, four (\*\*\*) internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses. In 2007, \*\*\*.

<sup>4</sup> U.S. producers' questionnaire, Question II-2.

<sup>5</sup> \*\*\*

**Table III-1**

**Uncovered innerspring units: U.S. producers, locations, positions on the petition, and production and shares of production in 2007**

Firm	Plant location(s)	Position	Reported production of uncovered innerspring units in 2007	
			Quantity (1,000 units)	Share (percent)
Dixie	Miami, FL	Supports	***	***
***1	***	***	***	***
Hickory Springs	Holland, MI Verona, MS Sheboygan, WI High Point, NC Micaville, NC	Supports	***	***
Leggett & Platt	Monroe, GA Winchester, KY Carthage, MO Tupelo, MS High Point, NC Ennis, TX	Petitioner	***	***
***	***	***	***	***
***	***	***	***	***
Springco	***	Supports	***	***
***	***	***	***	***
1 ***.				
Source: Compiled from data submitted in response to Commission questionnaires.				

**U.S. PRODUCERS' CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION**

Table III-2 presents U.S. producers' capacity, production, and capacity utilization for uncovered innerspring units. Reported U.S. production of innersprings decreased from 21.0 million units in 2005 to 19.0 million units in 2007. Capacity also fell over the period, but was higher in January-June 2008 than in January-June 2007. The average capacity utilization for U.S. producers remained reasonably level from 2005 to 2007, but fell from January-June 2007 to January-June 2008.

**Table III-2****Uncovered innerspring units: U.S. capacity, production, and capacity utilization, 2005-07, January-June 2007, and January-June 2008**

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
Capacity (1,000 units)	26,797	24,230	24,113	12,281	13,271
Production (1,000 units)	20,968	19,719	19,019	10,030	10,012
Capacity utilization (percent)	78.2	81.4	78.9	81.7	75.4

Source: Compiled from data submitted in response to Commission questionnaires.

### U.S. PRODUCERS' SHIPMENTS

Table III-3 presents U.S. producers' shipments of uncovered innerspring units since 2005. U.S. shipments decreased from 2005 to 2007 in quantity and value; however shipments increased slightly in January-June 2008 compared with January-June 2007 in both quantity and value.

Table III-3

Uncovered innerspring units: U.S. producers' shipments, by types, 2005-07, January-June 2007, and January-June 2008

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
Commercial shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments <sup>1</sup>	***	***	***	***	***
Total shipments	20,917	19,740	19,302	9,981	9,979
<b>Value (1,000 dollars)</b>					
Commercial shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	593,015	549,567	539,109	274,549	285,913
<b>Unit value (per unit)</b>					
Commercial shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	\$28.35	\$27.84	\$27.93	\$27.51	\$28.65
<b>Share of quantity (percent)</b>					
Commercial shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	100.0	100.0	100.0	100.0	100.0
<p><sup>1</sup> *** reported exports of uncovered innerspring units. The export markets reported include Australia, Brazil, Canada, France, Italy, Japan, Mexico, Jamaica, Bahamas, Dominican Republic, and Saudi Arabia.</p> <p>Note.—Because of rounding, figures may not add to the totals shown.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>					

## U.S. PRODUCER'S SHIPMENTS OF PATENTED AND PROPRIETARY INNERSPRINGS

During these investigations, respondents have argued that “proprietary offerings are very important to mattress producers and retailers because they provide a means of differentiating their products. This is yet another significant segment of the market where imports do not compete, or at the very least, where import competition is highly attenuated.”<sup>6</sup> Alternatively, according to James Bush of Hickory Springs, “There is no patent protection on the vast, vast majority of these exclusives or proprietary units, so they are free to open competition not just from Hickory Springs and Leggett, but from anybody around the world.”<sup>7</sup> Table III-4 presents U.S. shipments of patented and proprietary models.

**Table III-4**  
**Uncovered innerspring units: U.S. shipments of patented and proprietary models, 2005-07, January-June 2007, and January-June 2008 (\*\*\*)**

\* \* \* \* \*

### CAPTIVE CONSUMPTION

Section 771(7)(C)(iv) of the Act states that—

*If domestic producers internally transfer significant production of the domestic like product for the production of a downstream article and sell significant production of the domestic like product in the merchant market, and the Commission finds that—*

- (I) *the domestic like product produced that is internally transferred for processing into that downstream article does not enter the merchant market for the domestic like product,*
- (II) *the domestic like product is the predominant material input in the production of that downstream article, and*
- (III) *the production of the domestic like product sold in the merchant market is not generally used in the production of that downstream article,*

*then the Commission, in determining market share and the factors affecting financial performance . . . , shall focus primarily on the merchant market for the domestic like product.*<sup>8</sup>

As noted earlier, certain of the U.S. producers consume all, or a portion, of their production captively. In its posthearing submission, counsel for Hickory Springs stated:

“In making its determination, the Commission must consider relevant factors “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”... The Commission should assess the performance of the integrated manufacturers in light of the fact that the innerspring unit

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<sup>6</sup> Ad Hoc Innersprings Importers’ Coalition’s posthearing brief, pp. 11-12.

<sup>7</sup> Hearing transcript, p. 62 (Bush).

<sup>8</sup> 19 U.S.C. § 1677(7)(C)(iv).

accounts for a significant share, but not the majority, of the cost to produce a mattress. Thus, the overall financial performance of the integrated producers primarily reflects their mattress production and not their innerspring production. Because imports directly affect merchant market producers, \*\*\* the Commission should assess the effects of imports relative to performance of the two remaining merchant market sellers - Leggett & Platt and Hickory Springs.

However, because prices of innerspring units in the United States have been driven down by low-priced imports, and the integrated producers' raw materials costs for innerspring production are driven by the same factors as the merchant market producers, integrated producers' innerspring production is affected by low-priced imports. Where imported innerspring units are offered at prices significantly below the costs of domestic producers, integrated producers are not immune to the effect of such pricing on their businesses. If their competitors source the primary cost component of mattress production at prices below the integrated producers' cost of production, the integrated producer will be at a cost disadvantage. \*\*\*. The effect of low-priced imports on integrated producers, and the threat that integrated producers will be forced increasingly to substitute subject imports for their own internal innerspring production, cannot be denied.

Whether the Commission considers that the captive production provision, 19 U.S.C. 3 1677(7)(C)(iv), is satisfied in this case, it remains a relevant condition of competition that imported innerspring units compete directly with merchant market producers, namely Hickory Springs and Leggett & Platt, for sales available in the US. merchant market. The relative volume of imports into the U.S. merchant market is thus key to the Commission's assessment of the U.S. innerspring market.”<sup>9</sup>

In its posthearing submission, counsel for the Ad Hoc Innersprings Importers' Coalition stated, in part:

“We agree that captive consumption is a condition of competition to be considered by the Commission. We disagree with Hickory Springs' argument that the Commission should de facto apply the captive production provision when it does not apply. In its Preliminary Determination, the Commission determined that the captive production provision does not apply because the third criterion of the provision-that the domestic like product that is sold in the merchant market is not used in the production of the downstream article-is not met. The Commission also noted that it considers “the fact that a significant portion of the domestic production is captively consumed, however, to be a relevant condition of competition to be considered in reaching our determination. We agree with the Commission's analysis. No party in this investigation disputes this legal analysis or the conclusion that the captive production provision does not apply.”<sup>10</sup>

In the preliminary phase of these investigations, the Commission opted not to apply the captive consumption provision, stating:

“The Commission received usable producer questionnaires from seven U.S. producers. Four U.S. producers internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses. In 2004, internal consumption accounted for \*\*\* percent of the domestic industry's total shipments, and the merchant market accounted for \*\*\* percent. In 2005, internal

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<sup>9</sup> Hickory Springs' posthearing brief, pp. 4-6.

<sup>10</sup> Ad Hoc Innersprings Importers' Coalition's posthearing brief, app. A, p. 53.

consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent. In 2006, internal consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent.

Thus, the threshold requirement has been met in that significant production of the domestic like product is internally transferred to produce a downstream product, and significant production is sold in the merchant market.

“The record in these preliminary phase investigations, however, does not contain enough information to ascertain whether the second criterion has been met, *i.e.*, whether the domestic like product is the predominant material input in the production of the downstream article. In terms of cost, it is not clear whether the innerspring unit is the predominant material input in the downstream product, the mattress. \*\*\*. \*\*\*.

“What is clear, however, is that the third criterion – that the domestic like product that is sold in the merchant market is not used in the production of the downstream article – has not been met because the uncovered innerspring units sold in the merchant market and consumed internally are used only for the production of the same product – innerspring mattresses. In light of this fact, and absent any arguments that the captive production provision applies, we find that the statutory captive production provision is not applicable in these investigations. We consider the fact that a significant portion of domestic production is captively consumed, however, to be a relevant condition of competition to be considered in reaching our determination.”<sup>11</sup>

In these final phase investigations, U.S. producers’ internal consumption accounted for \*\*\* percent of total U.S. producers’ shipments in 2005, \*\*\* percent in 2006, and \*\*\* percent in 2007.

As noted earlier in this report, producers reported that between 7 and 44 percent of the total cost of a mattress is accounted for by the innerspring.

### U.S. PRODUCERS’ INVENTORIES

Table III-5, which presents end-of-period inventories for uncovered innerspring units, shows that inventories decreased from 2005 to 2007, as well as in January-June 2008 compared with January-June 2007. Over the period of investigation, the ratio of inventories to production fluctuated between \*\*\* percent and \*\*\* percent.

**Table III-5  
Uncovered innerspring units: U.S. producers’ end-of-period inventories, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

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<sup>11</sup> *Uncovered Innerspring Units from China, South Africa, and Vietnam*, Inv. Nos. 731-TA-1140-1142 (Preliminary), USITC Publication 3983, February 2008, pp. 14-15.

## U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Table III-6 presents data on U.S. producers' employment-related indicia. The number of production and related workers (PRWs), hours worked, wages paid, hourly wages, and unit labor costs increased from 2005 to 2007; however, January-June 2008 data in those categories (with the exception of hourly wages) declined compared with January-June 2007. Productivity declined from 2005 to 2007 and increased in January-June 2008 compared with January-June 2007.

**Table III-6**  
**Uncovered innerspring units: U.S. producers' employment-related data, 2005-07, January-June 2007, and January-June 2008**

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
Production and related workers (PRWs)	2,820	2,826	2,970	3,086	2,878
Hours worked by PRWs (1,000 hours)	5,746	5,689	6,000	3,090	2,882
Hours worked per PRW	2,038	2,013	2,020	1,001	1,002
Wages paid to PRWs (1,000 dollars)	80,081	80,320	87,088	44,684	42,611
Hourly wages	\$13.94	\$14.12	\$14.51	\$14.46	\$14.78
Productivity (units produced per hour)	3.6	3.5	3.2	3.2	3.5
Unit labor costs (per unit)	\$3.82	\$4.07	\$4.58	\$4.46	\$4.26

Source: Compiled from data submitted in response to Commission questionnaires.

## U.S. PRODUCERS' IMPORTS

Two U.S. producers, \*\*\*, reported that they imported uncovered innerspring units from countries subject to these investigations. \*\*\* imported from China. One producer, \*\*\* reported imports from nonsubject sources.<sup>12</sup> Importer of record, \*\*\*, reported former producer \*\*\* as a customer in question III-C of its importer questionnaire. Staff attempts to contact \*\*\* to confirm this proved to no avail. The numbers of imports sold to \*\*\* reported by \*\*\* were \*\*\*, \*\*\*. Table III-7 presents U.S. producers' direct imports of uncovered innerspring units from subject sources.

**Table III-7**  
**Uncovered innerspring units: U.S. producers' imports from subject countries, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

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<sup>12</sup> \*\*\*.

## **PART IV: U.S. IMPORTS, APPARENT CONSUMPTION, AND MARKET SHARES**

### **U.S. IMPORTERS**

The Commission sent questionnaires to 43 firms believed to be importers and/or consignees of uncovered innerspring units, based on information provided in the petition, information provided by U.S. Customs and Border Protection, and information learned in the preliminary phase of the investigations. In addition, importer questionnaires were sent to the eight firms that received producer questionnaires. Useable questionnaire responses were received from 34 firms – a mix of importers of record and consignees. With one minor exception, the data received from consignees were covered by the importers of record that responded to the importer questionnaires. Hence, only the data from the importers of record have been used in this section to avoid double counting of imports.

From the outset of these investigations, the petitioner has contended that while uncovered innerspring units are properly classified and imported under HTS statistical reporting number 9404.29.9010, a significant amount of product has been misclassified and imported under HTS statistical reporting numbers 9404.10.0000, 7320.20.5010, 7320.90.5010, and 7326.20.0070. In its importer questionnaire, the Commission asked respondents to note the HTS number(s) used in their importation of uncovered innerspring units. While the majority of subject product was entered under 9404.29.9010, product was also entered under all of the HTS numbers noted previously, except 9404.10.0000. In most cases, the instances of misclassifications involved entries of product from China. As a share of official statistics (HTS 9404.29.9010), questionnaire responses were received from importers of record that in 2007 accounted for more than 100 percent of U.S. imports from China, \*\*\* percent from South Africa, \*\*\* percent from Vietnam, and \*\*\* percent from nonsubject sources. Table IV-1 presents a list of the 23 importers of record responding to the Commission's questionnaire and the countries from which they imported during 2005-June 2008.

**Table IV-1**

**Uncovered innerspring units: U.S. importers of record and sources of their imports, 2005-June 2008**

\* \* \* \* \*

**U.S. IMPORTS**

As noted earlier over the course of these investigations, imports of uncovered innerspring units have been entered under five different HTS statistical reporting numbers. Hence, using the proper classification, 9404.29.9010, would lead to undercounting. Thus, given the coverage reported in importer questionnaires and the fact that it captures subject product that was entered under HTS numbers 7320.20.5010, 7320.90.5010, and 7326.20.0070, as well as HTS 9404.29.9010, importer questionnaire data have been used in this report.

At the staff conference in the preliminary phase of these investigations, parties were asked to advise as to how they would go about developing import numbers given the obvious problems with misclassification.<sup>1</sup> Their responses follow:

**Petitioners:** “First, it appears that the responses to the importers’ questionnaires provide \*\*\* coverage for Chinese imports because the major importers of Chinese innersprings – \*\*\* – have submitted responses. Therefore, the Commission should base Chinese import volumes and values on the questionnaire responses. Second, the Commission should calculate the volume and value of imports from South Africa and Vietnam based on the following HTS subheadings: 9404.29.9010, 9404.10.0000, 7320.20.5010, and 7320.90.5010. Subject imports also appear to have entered under 7326.20.0070. Given the time constraints on Commission staff and the parties at this preliminary phase, it would be difficult to estimate the portion of 7326.20.0070 that cover subject imports because that is a basket provision that applies to “other articles of steel wire.”<sup>2</sup>

**Ad Hoc  
Innersprings  
Importers’  
Coalition:**

“The HTS category most closely aligned with innersprings is 9404.29.9010, “mattresses, uncovered innerspring units.” Quantity data are reported in this category on a units basis in the Census statistics. However, questionnaire responses also show that some importers, other than importers from South Africa, classified their imports of innersprings under three other HTS categories: 7320.20.5010, 7320.90.5010, and 7326.20.0070, which also includes nonsubject

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<sup>1</sup> Counsel for Hickory Springs and counsel for Chinese Respondents offered general comments regarding import data issues, but did not offer specific ideas to develop import numbers. Hickory Springs’ postconference brief, pp. 7-9 and Chinese Respondents’ postconference brief, pp. 4-5.

<sup>2</sup> Petitioner’s postconference brief, pp. 17-18 and exhibit 17.

merchandise. The questionnaires also show that those importers reporting using 9404.29.9010 did not represent full coverage, when compared to Census data. For these reasons, we recommend that the Commission calculate subject and nonsubject imports in the following manner. We recommend that subject imports be calculated using Census data reported in HTS 9404.29.9010, plus questionnaire data for those importers using a different HTS category.”<sup>3</sup>

Imports of uncovered innerspring units based on data reported in response to Commission questionnaires are presented in table IV-2.<sup>4</sup>

**Table IV-2**  
**Uncovered innerspring units: Imports, by sources, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

### NEGLIGENCE

The Tariff Act provides for the termination of an investigation if imports of the subject product from a country are less than 3 percent of total imports, or, if there is more than one such country, their combined share is less than or equal to 7 percent of total imports, during the most recent 12 months for which data are available preceding the filing of the petition – in this case December 2006 to November 2007. Table IV-3 presents the shares according to official statistics (HTS 9404.29.9010).

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<sup>3</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, pp. 27-28 and exhibit 1.

<sup>4</sup> Imports of uncovered innerspring units using official Commerce statistics (HTS 9404.29.9010 alone and HTS 9404.29.9010, 9404.10.0000, 7320.20.5010, 7320.90.5010 combined) are presented in app. D.

**Table IV-3****Uncovered innerspring units: U.S. imports, by sources, based on official Commerce statistics, and shares of total imports (in percent), December 2006-November 2007**

Source	Imports (1,000 units)	Share of total imports (percent)
China	1,022	73.1
South Africa	241	17.2
Vietnam	123	8.8
Nonsubject sources	13	0.9
Total	1,399	100.0

Note.—Because of rounding, figures may not add to the totals shown.  
Source: Compiled from official Commerce statistics (HTS 9404.29.9010).

### APPARENT U.S. CONSUMPTION AND U.S. MARKET SHARES

Table IV-4 shows data on total apparent U.S. consumption and open-market consumption for uncovered innerspring units using data compiled from responses to Commission questionnaires.

Total apparent U.S. consumption<sup>5</sup> of uncovered innerspring units dropped by 6.4 percent on a quantity basis and 7.7 percent on a value basis during 2005-07. As shown in table IV-5, U.S. producers' market share, based on quantity, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007. The market share of the subject countries, based on quantity, increased from \*\*\* percent in 2005 to \*\*\* percent in 2007.

Open-market apparent U.S. consumption<sup>6</sup> of uncovered innerspring units decreased by \*\*\* percent on a quantity basis and \*\*\* percent on a value basis during 2005-07. As shown in table IV-6, U.S. producers' market share, based on quantity, decreased from \*\*\* percent in 2005 to \*\*\* percent in 2007. The market share of the subject countries, based on quantity, increased from \*\*\* percent in 2005 to \*\*\* percent in 2007.

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<sup>5</sup> Includes internally consumed (captive) shipments of domestic producers.

<sup>6</sup> Does not include internally consumed (captive) shipments of domestic producers.

**Table IV-4**

**Uncovered innerspring units: U.S. producers' U.S. shipments, by types, U.S. shipments of imports, by sources, and open-market and total U.S. consumption, 2005-07, January-June 2007, and January-June 2008**

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
U.S. producers' U.S. shipments: Commercial (open-market)	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. producers' total U.S. shipments	***	***	***	***	***
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	***	***	***	***	***
Open-market U.S. consumption	***	***	***	***	***
Total U.S. consumption	22,340	21,593	20,907	10,613	10,302
<b>Value (1,000 dollars)<sup>1</sup></b>					
U.S. producers' U.S. shipments: Commercial (open-market)	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. producers' total U.S. shipments	***	***	***	***	***
U.S. shipments of imports <sup>1</sup> from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	***	***	***	***	***
Open-market U.S. consumption	***	***	***	***	***
Total U.S. consumption	604,246	570,998	557,617	281,284	288,839
<sup>1</sup> Landed, duty-paid. Note.--Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.					

**Table IV-5**  
**Uncovered innerspring units: Total U.S. consumption<sup>1</sup> and market shares, 2005-07, January-June 2007, and January-June 2008**

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
Total U.S. consumption	22,339	21,593	20,907	10,613	10,302
<b>Value (1,000 dollars)</b>					
Total U.S. consumption	604,246	570,998	557,617	281,284	288,839
<b>Share of quantity (percent)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	***	***	***	***	***
<b>Share of value (percent)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	***	***	***	***	***
<sup>1</sup> Includes internally consumed (captive) shipments of domestic producers. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.					

**Table IV-6**  
**Uncovered innerspring units: Open-market U.S. consumption and market shares, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

**RATIO OF IMPORTS TO U.S. PRODUCTION**

Information concerning the ratio of imports to U.S. production of uncovered innerspring units is presented in table IV-7. The ratio of U.S. imports to U.S. production increased from 2005 to 2007; however it decreased in January-June 2008 compared with January-June 2007.

**Table IV-7**  
**Uncovered innerspring units: Ratio of U.S. imports to U.S. production, by sources, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

**CUMULATION CONSIDERATIONS**

In assessing whether subject imports compete with each other and with the domestic like product, the Commission has generally considered four factors: (1) the degree of fungibility, including specific customer requirements and other quality related questions; (2) presence of sales or offers to sell in the same geographical markets; (3) common channels of distribution; and (4) simultaneous presence in the market. Degree of fungibility and channels of distribution are discussed in Parts I and II of this report; geographical markets and presence in the market are discussed below.

**Geographical Markets**

Uncovered innerspring units produced in the United States are shipped nationwide. While imports of uncovered innerspring units from the subject countries may enter specific Customs districts, the product is then generally sold in multiple regions or nationwide. Chinese product entered through 25 districts; South African product entered through 10 districts; and, Vietnamese product entered through 6 districts from 2005 through June 2008. Table IV-8, based on Commerce statistics for the period 2005-07 and January-June 2008, presents U.S. import quantities (HTS 9404.29.9010) of uncovered innerspring units, by each subject country, according to the Customs districts.

Table IV-8

Uncovered innerspring units: U.S. imports, by subject countries and by customs districts, 2005-07 and January-June 2008

Customs district	China				South Africa				Vietnam			
	2005	2006	2007	Jan.-June 2008	2005	2006	2007	Jan.-June 2008	2005	2006	2007	Jan.-June 2008
	Quantity (1,000 units)											
Boston, MA	24	11	20	-	-	-	-	-	-	-	-	-
Buffalo, NY	-	-	1	-	-	-	-	-	-	-	-	-
Charleston, SC	63	31	14	4	15	86	4	-	-	-	-	-
Charlotte, NC	-	1	28	1	-	-	-	-	-	-	-	-
Chicago, IL	76	56	37	35	6	30	-	-	-	-	-	-
Cleveland, OH	13	46	66	25	-	-	-	-	-	-	-	-
Columbia-Snake, OR	9	33	48	42	-	-	-	-	-	2	-	-
Dallas-Fort Worth, TX	6	26	9	1	-	-	-	-	-	-	1	-
Detroit, MI	-	-	1	-	-	-	-	-	-	-	-	-
Great Falls, MT	4	3	-	-	-	-	-	-	-	-	-	-
Houston-Galveston, TX	45	52	16	14	68	99	70	8	-	-	-	-
Los Angeles, CA	1,130	819	603	355	-	-	-	-	35	145	104	5
Miami, FL	12	6	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	1	-	-	( <sup>1</sup> )	-	-
Minneapolis, MN	1	1	2	1	-	-	-	-	-	-	-	-
Mobile, AL	-	8	-	-	-	-	-	-	-	-	-	-
New Orleans, LA	2	27	66	1	( <sup>1</sup> )	24	-	-	-	-	-	-
New York, NY	57	10	16	34	38	85	31	2	-	-	-	-
Norfolk, VA	7	2	2	-	-	-	1	-	-	-	-	-
Philadelphia, PA	4	19	-	-	-	26	30	-	-	-	-	-
San Francisco, CA	32	26	11	3	-	-	-	-	-	7	-	-
San Juan, PR	0	13	57	9	-	-	-	-	-	-	-	-
Savannah, GA	4	21	26	8	27	1	-	-	-	-	-	-
Seattle, WA	47	109	33	23	-	-	-	-	-	16	-	-
St. Louis, MO	-	-	3	-	-	-	-	-	-	-	-	-
Tampa, FL	1	1	1	1	-	90	90	40	-	-	-	-
Total	1,536	1,322	1,059	561	154	442	227	50	35	171	105	5
<sup>1</sup> Less than 500 units. Source: Compiled from official Commerce statistics (HTS 9404.29.9010).												

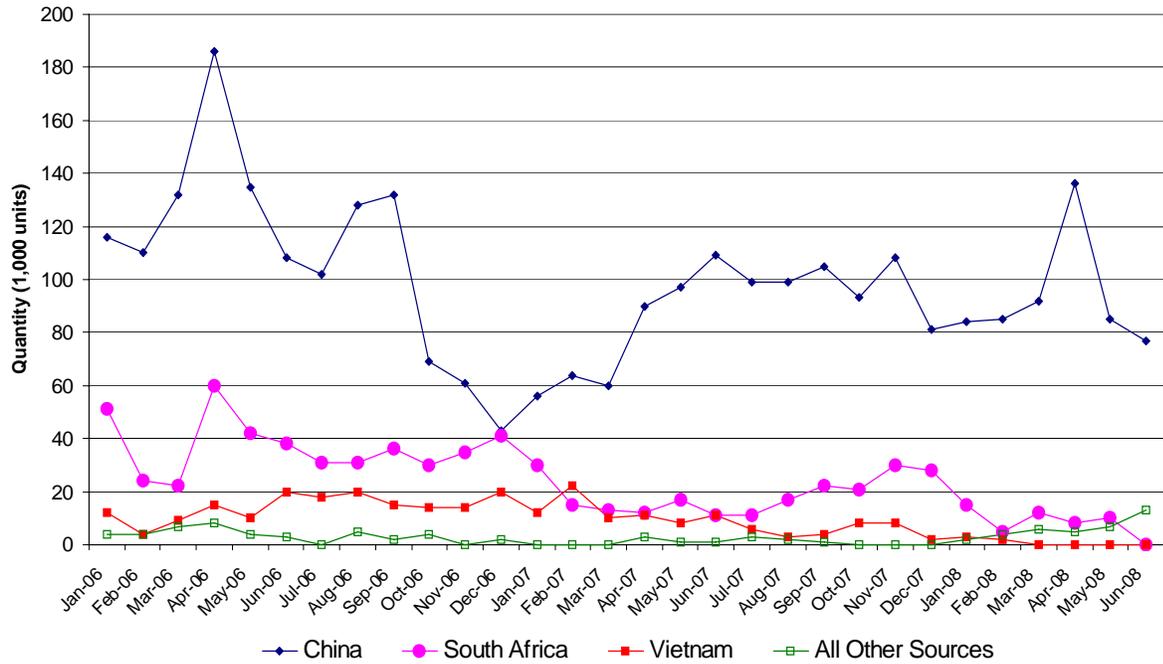
### **Simultaneous Presence in the Market**

Uncovered innerspring units produced in the United States were present in the market throughout the period for which data were collected. Table IV-9 and figure IV-1 present monthly U.S. imports of uncovered innerspring units during January 2006-June 2008. Based on official U.S. import statistics (HTS 9404.29.9010), there were U.S. imports of uncovered innerspring units from China each month during January 2006-June 2008; from South Africa each month from January 2006 to May 2008; and from Vietnam each month from January 2006 to February 2008.

**Table IV-9**  
**Uncovered innerspring units: U.S. imports, by source and month, January 2006-June 2008**

Period	China	South Africa	Vietnam	All other sources	Total
<b>Quantity (1,000 units)</b>					
January 2006	116	51	12	4	183
February 2006	110	24	4	4	141
March 2006	132	22	9	7	170
April 2006	186	60	15	8	269
May 2006	135	42	10	4	191
June 2006	108	38	20	3	169
July 2006	102	31	18	-	151
August 2006	128	31	20	5	184
September 2006	132	36	15	2	185
October 2006	69	30	14	4	116
November 2006	61	35	14	-	110
December 2006	43	41	20	2	107
January 2007	56	30	12	-	99
February 2007	64	15	22	-	101
March 2007	60	13	10	-	84
April 2007	90	12	11	3	116
May 2007	97	17	8	1	123
June 2007	109	11	11	1	131
July 2007	99	11	6	3	118
August 2007	99	17	3	2	120
September 2007	105	22	4	1	131
October 2007	93	21	8	-	122
November 2007	108	30	8	-	146
December 2007	81	28	2	-	111
January 2008	84	15	3	2	104
February 2008	85	5	2	4	96
March 2008	92	12	-	6	110
April 2008	136	8	-	5	149
May 2008	85	10	-	7	102
June 2008	77	-	-	13	90
Source: Compiled from official Commerce statistics (HTS 9404.29.9010).					

**Figure IV-1**  
**Uncovered innerspring units: U.S. imports<sup>1</sup>, by source and month, January 2006-June 2008**



<sup>1</sup>Imports from South Africa and Vietnam all entered under HTS# 9404.29.9010. However, there were instances of misclassification of imports for China, so these are under reported.



## **PART V: PRICING AND RELATED INFORMATION**

### **FACTORS AFFECTING PRICES**

#### **Raw Materials**

The main raw material used in the production of innersprings is carbon steel wire; for both pocketed and non-pocketed innersprings, it is used to produce the innerspring coils, and for non-pocketed innersprings, it is also used to produce the helical wire that is used to lace the individual coils and the wire border that is attached to the top and bottom perimeter of the innerspring unit. The price of carbon steel wire rod was fairly steady throughout 2005 and 2006 and then hit a period high in mid-2007 before decreasing somewhat later in the year (figure V-1). The price then increased dramatically in 2008, with the October 2008 carbon steel wire rod price double what the price was in January 2005.

For pocketed innersprings, the innerspring coils are inserted into fabric pockets, generally made of non-woven polypropylene. Steel clips and industrial glue are also used in the manufacture of innersprings.

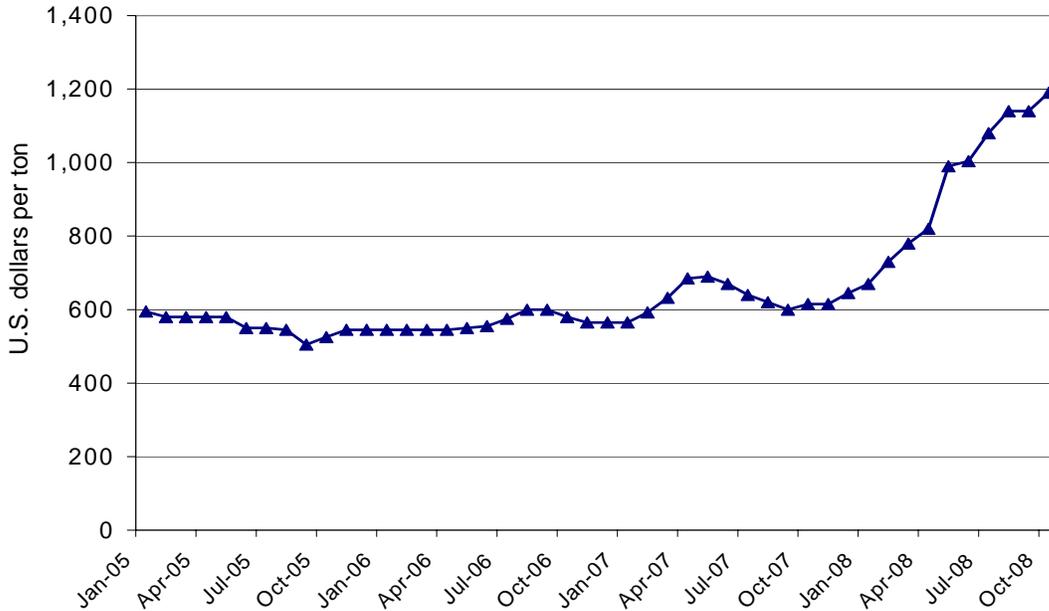
Producers and importers were asked to describe any trends in the prices of raw materials used to produce innersprings and whether they expect these trends to continue. All 8 producers and 24 of the 31 responding importers reported that raw material prices have increased since 2005,<sup>1</sup> with 5 producers and 9 importers reporting that they expect the increases to continue, at least through the end of 2008. Five importers reported that the cost of wire and wire rod has risen dramatically in China, especially in recent months, and attributed the increase to the high demand for steel in China.<sup>2</sup>

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<sup>1</sup> \*\*\* reported that raw material prices were relatively stable in 2005-07, with minor increases in late 2007; however, prices have been extremely volatile in 2008.

<sup>2</sup> Respondents reported that raw material costs have increased recently in China, making imports less competitive. Hearing transcript, p. 183 (Tramel) and p. 190 (Enoch). However, Leggett & Platt reported that, after peaking in June 2008, the price of wire in China leveled off and then declined. Petitioner's posthearing brief, pp. 24-25 and exhibit 19.

**Figure V-1**  
**Carbon steel wire rod: Average monthly U.S. spot price in dollars per ton, January 2005-October 2008**



Source: Compiled from data published in \*\*\*.

### Transportation Costs to the U.S. Market

Transportation costs for innersprings to the United States (excluding U.S. inland transportation costs) from the three subject countries are estimated for 2007 in the tabulation that follows. These estimates are derived from official import data and represent the transportation and other charges on imports valued on a c.i.f. basis, as compared with customs value.<sup>3</sup>

Country	Estimated shipping cost in 2007 (in percent)
China	19.9
South Africa	0.5
Vietnam	28.4

<sup>3</sup> These estimates are based on HTS subheading 9404.29.9010.

### **U.S. Inland Transportation Costs**

U.S. producers reported that, generally, U.S. inland transportation costs ranged from 3 to 10 percent of the total delivered cost of innersprings. Importers generally reported that inland transportation costs ranged from 1 to 10 percent of the total delivered cost of innersprings, with two importers reporting that inland transportation costs were up to 15 percent and one importer reporting that costs were 24 percent.

The five responding U.S. producers reported that \*\*\* arranged delivery, with two reporting that they shipped \*\*\* of their innersprings less than 100 miles and three reporting that they shipped \*\*\* of their innersprings between 101 and 1,000 miles. Sixteen of the 18 responding importers reported that they arranged delivery, and 10 importers reported shipping the majority of their innersprings less than 100 miles. Four importers reported shipping the majority of their innersprings between 101 and 1,000 miles, and two reported shipping the majority of their innersprings over 1,000 miles.

### **Exchange Rates**

Quarterly data reported by the International Monetary Fund indicate that the nominal value of the Chinese yuan appreciated relative to the U.S. dollar beginning in mid-2005 (figure V-2).<sup>4</sup> Both the nominal and real values of the South African rand depreciated relative to the U.S. dollar since January 2005, and the nominal value of the Vietnamese dong fluctuated little relative to the U.S. dollar during the period.<sup>5</sup>

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<sup>4</sup> Real values of the Chinese yuan are not available.

<sup>5</sup> Real values of the Vietnamese dong are not available.

**Figure V-2**  
**Exchange rates: Indices of the nominal exchange rate of the Chinese and Vietnamese currencies and the nominal and real exchange rates of the South African currency relative to the U.S. dollar, by quarters, January 2005-June 2008**

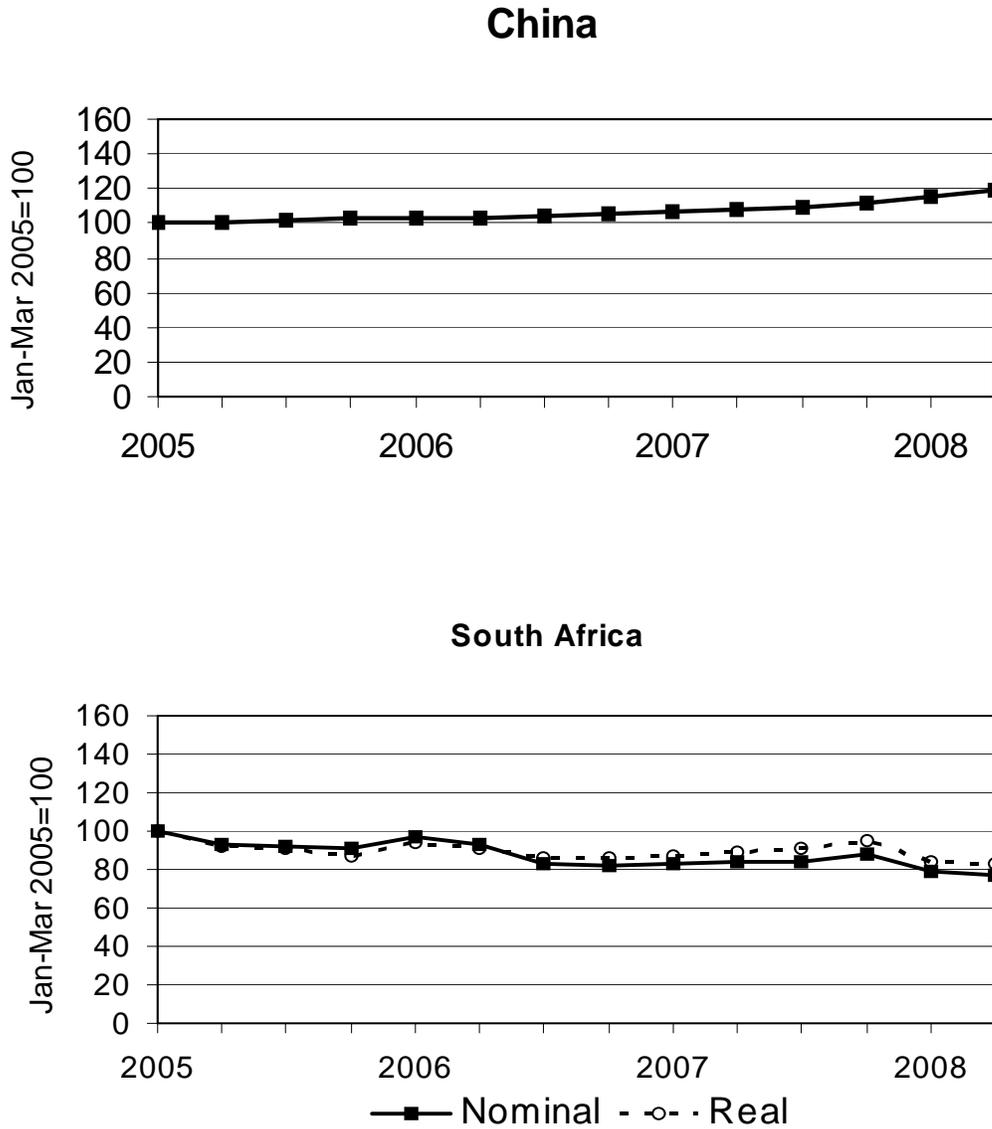
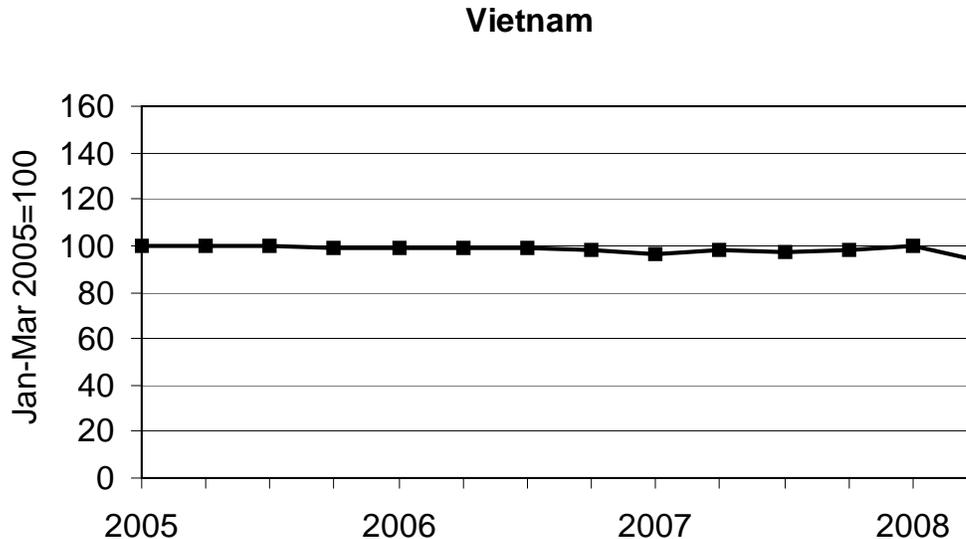


Figure continued on the next page.

**Figure V-2--Continued**

**Exchange rates: Indices of the nominal exchange rate of the Chinese and Vietnamese currencies and the nominal and real exchange rates of the South African currency relative to the U.S. dollar, by quarters, January 2005-June 2008**



Source: International Monetary Fund, *International Financial Statistics*, retrieved from <http://ifs.apdi.net/imf/about.asp> on September 18, 2008.

## PRICING PRACTICES

### Pricing Methods

\*\*\* reported that it does not use set price lists but rather \*\*\* based on volumes, the product mix, and margins and that for a few customers, \*\*\*. \*\*\* reported that prices are \*\*\*.<sup>6</sup> \*\*\* reported that they use \*\*\*. The other four U.S. producers did not respond to this question.

Eight importers reported that prices are determined on a transaction-by-transaction basis, four importers reported that they use price lists, and four reported that they use a cost-plus method.<sup>7</sup> Other importers reported specific formulas that are used for setting prices; \*\*\* reported that it charges 5 percent over costs and expenses, and \*\*\* reported that it generally adds 10 percent to its costs but will add more for different delivery situations. \*\*\* reported that its prices depend on quantities and the payment method and that prices vary depending on where the innersprings are being shipped.

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<sup>6</sup> Hickory Springs reported that its business is focused on relationships with customers rather than order-to-order or by contracts. Negotiation and feedback are used rather than set price lists. Conference transcript, p. 39 (Bush).

<sup>7</sup> Of the 35 responding importers/consignees, 18 reported that they use all of their imported innersprings internally and so did not answer any of the questions in this section and did not report price data.

Innersprings sell for a wide range of prices, with differences between pocketed and non-pocketed units and differences between proprietary and non-proprietary designs.<sup>8</sup> U.S. producers have typically given advance notice of price increases, which are generally tied to increases in the price of raw materials. Until recently, Leggett & Platt would generally make a price announcement several weeks in advance and the rest of the U.S. innerspring producers would follow the increase.<sup>9</sup> Leggett & Platt reported that it increased prices several times in 2004 due to a rapid increase in raw material prices and its additional announced increases were as follows: \*\*\*.<sup>10</sup> Hickory Springs reported that it announced a price increase of \*\*\*.<sup>11</sup> In 2008, Hickory Springs announced price increases of \*\*\*. Both Leggett & Platt and Hickory Springs attributed price increases in the second quarter of 2008 to rising prices for steel and wire.<sup>12</sup>

When asked to list the names of firms considered to be price leaders in the innersprings market, the overwhelming number of responding producers and importers named Leggett & Platt. \*\*\* reported that low-priced imports have played a role in setting prices in the U.S. market during the period of investigation. Three importers also named Hickory Springs as a price leader. \*\*\* reported that Leggett & Platt's price increases are announced 30 days in advance for the whole U.S. market and for all product lines.

Among purchasers, 36 of 42 responding firms reported that Leggett & Platt is a price leader in the U.S. market. \*\*\*. Five purchasers also named Hickory Springs as a price leader, and four purchasers also named importers as price leaders.

### Sales Terms and Discounts

Four producers reported sales terms that offered discounts for early payment, and one producer reported terms of net 30 days. Twelve importers reported sales terms of net 30 days, with five reporting discounts for early payment, and four importers reported requiring payment at delivery.<sup>13</sup> The vast majority of producers and importers reported that prices are generally quoted on a delivered basis. One producer reported quoting delivered and f.o.b. prices, and two importers reported quoting only f.o.b. prices.

Three producers reported that more than half of their sales of innersprings are on a spot basis; only \*\*\* reported a significant percent of sales by long-term contract and \*\*\* reported a significant percent of sales by short-term contract. Eleven importers reported that 90 percent or more of their sales are on a spot basis; one importer reported that half of its sales were on a long-term contract basis; and five importers reported that 80 percent or more of sales were on a short-term contract basis.

Two producers reported provisions of their long-term contracts, with one reporting that contracts are \*\*\* in length and one reporting that contracts are \*\*\* in length. Producers reported that generally, long-term contracts can be renegotiated and that neither price nor quantity are fixed. One producer reported that long-term contracts include meet-or-release provisions and one reported that they are not

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<sup>8</sup> Petition, pp. 12-13.

<sup>9</sup> Conference transcript, p. 44 (Bush). Hickory Springs reported that since imports of innersprings have become a major factor in the U.S. market, the situation has changed.

<sup>10</sup> Conference transcript, p. 65 (Salyer) and petitioner's posthearing brief, pp. 37-38 and exhibit 24.

<sup>11</sup> Hickory Springs' posthearing brief, exhibit 2, p. 3.

<sup>12</sup> "Bedsprings prices rising sharply." *Furniture Today*, May 1, 2008, [http://www.furnituretoday.com/article/45973-Bedsprings\\_prices\\_rising\\_sharply.php?q=higher+steel+costs](http://www.furnituretoday.com/article/45973-Bedsprings_prices_rising_sharply.php?q=higher+steel+costs), retrieved October 7, 2008.

<sup>13</sup> Respondents reported that terms, when buying from foreign producers, are often payment at delivery or before. Hearing transcript, p. 248 (Tramel) and p. 250 (Enoch) and Ad-Hoc Innersprings Importers' Coalition's posthearing brief, p. 14.

included. \*\*\* reported that short-term contracts are \*\*\* in length, with \*\*\*, and \*\*\* reported that short-term contracts are \*\*\* in length, with \*\*\*.

Two importers reported that long-term contracts are generally 12 to 18 months in length, with renegotiations possible, neither price nor quantity fixed, and meet-or-release provisions included. Six importers reported that short-term contracts are generally 1 to 6 months in length, with both price and quantity fixed and no meet-or-release provisions. The six importers were split as to whether renegotiations are possible with short-term contracts.

\*\*\* reported that its discounts are based on quarterly or annual volumes and, as a percent of net sales, range from \*\*\* percent.<sup>14</sup> \*\*\* reported that discounts are part of the negotiation process, \*\*\* reported that it only gives discounts for cash on delivery, \*\*\* gives a discount for early payment, and \*\*\* reported that it recently instituted a volume discount of \*\*\* percent.

Only six importers reporting giving discounts; \*\*\*, \*\*\* reported a 2 percent discount for early payment, \*\*\* reported a 2 percent volume discount, \*\*\* reported a quantity discount, and \*\*\* reported a 1 percent discount for \*\*\*.

### PRICE DATA

The Commission requested U.S. producers and importers of innersprings to provide quarterly data for the total quantity and f.o.b. value of innersprings that were shipped to unrelated customers in the U.S. market.<sup>15</sup> Data were requested for the period January 2005 to June 2008. The products for which pricing data were requested are as follows:<sup>16</sup>

***Product 1.*—Twin size: 206 to 226 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5" to 5.5" height, unit dimensions of 36.5" x 73"**

***Product 2.*—Twin size: 230 to 250 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 6.75" to 7.25" height, unit dimensions of 36.5" x 73"**

***Product 3.*—Full size: 302 to 322 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 51.5" x 73"**

***Product 4.*—Queen size: 380 to 400 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5" to 5.5" height, unit dimensions of 58.5" x 78"**

***Product 5.*—Queen size: 406 to 426 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 58.5" x 78"**

***Product 6.*—Queen size: 406 to 426 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 6.75" to 7.25" height, unit dimensions of 58.5" x 78"**

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<sup>14</sup> Importers reported that Leggett & Platt offers volume rebates and other incentives that are linked to the bundled purchase of innersprings and other bedding components. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 8 and exhibits 10 and 11. In addition, importers reported that Leggett & Platt also offers \*\*\*. Ad-Hoc Innersprings Importers' Coalition's postconference brief, pp. 9-11 and exhibit 9.

<sup>15</sup> Several responding importers reported that they import innersprings for their own use in manufacturing mattresses and do not resell the imported innersprings, and thus they did not report any selling price data.

<sup>16</sup> According to the International Sleep Products Association (ISPA), in 2007, \*\*\* percent of all innerspring mattresses shipped in the United States were queen size, \*\*\* percent were twin size, \*\*\* percent were full size, and \*\*\* percent were king size. Twin XL, full XL, California king, and other sizes represented the remainder of total shipments. ISPA 2007 Mattress Industry, Industry Report of Sales and Trends, figure 9, p. 13.

**Product 7.—Twin size: 206 to 226 coils, 9 gauge border rods, 13.5 gauge coil, 5" to 5.5" height, unit dimensions of 36.5" x 73"**

**Product 8.—Full size: 302 to 322 coils, 9 gauge border rods, 13.5 gauge coil, 5" to 5.5" height, unit dimensions of 51.5" x 73"**

**Product 9.—Full size: 650 to 670 coils, 6 gauge border rods, 14.0-14.5 gauge coil, 5.75" to 6.75" height, unit dimensions of 51.5" x 73"**

Five U.S. producers,<sup>17</sup> 17 importers of innersprings from China,<sup>18</sup> and 1 importer of innersprings from Vietnam<sup>19</sup> provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.<sup>20</sup> No importer from South Africa<sup>21</sup> provided pricing data for sales of the requested products.<sup>22</sup> Pricing data for the nine products reported by these firms, shown in tables V-1 to V-9 and figures V-3 to V-11, accounted for \*\*\* percent of U.S. producers' commercial shipments of innersprings in 2007,<sup>23</sup> 23.4 percent of U.S. imports from China,<sup>24</sup> and \*\*\* percent of U.S. imports from Vietnam.

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<sup>17</sup> Usable data were reported by U.S. producers \*\*\*. \*\*\*. \*\*\* did not report price data because \*\*\*. In addition, Leggett & Platt reported that 44 percent of the pieces reported in the pricing products were sold to the S-brands Hearing transcript, p. 117 (Salyer).

<sup>18</sup> Useable price data for imports from China were reported by \*\*\*. \*\*\* reported price data for products 3 and 4 but reported that the imports were for \*\*\* and so did not exactly match the price product descriptions. \*\*\* reported annual data, which was equally divided into quarterly data. \*\*\* reported the same quantities of imports in the final phase as it reported in the preliminary phase of the investigations, but the values it reported were significantly different and the firm's contact could not explain why the data had changed, and so the values reported in the preliminary phase were used.

<sup>19</sup> \*\*\*.

<sup>20</sup> Both petitioner and respondents have used the reported pricing data in different ways to conduct analyses of trends. Petitioner's posthearing brief, pp. 8-10 and exhibits 9 and 23 and Ad-Hoc Innersprings Importers' Coalition's prehearing brief, pp. 34-42 and exhibit 16.

<sup>21</sup> During the preliminary phase of the investigations, \*\*\*, reported price data for products 2, 3, and 4, but reported that the imports were \*\*\* and so did not exactly match the price product descriptions. Importers reported that these data should not be used because they are for sales of specifications that are significantly different than the price products. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 35. Importer \*\*\* did not report any price data in the preliminary or final investigations because the innersprings are shipped \*\*\*.

<sup>22</sup> During the preliminary phase of the investigations, data reported by \*\*\* showed that the product imported from South Africa undersold the U.S.-produced product in all 21 quarters where comparisons were possible.

<sup>23</sup> According to the staff report from the 421 investigation in 2004, reported price data accounted for 9 percent of U.S. producers' shipments of innersprings in 2003. Staff worked with \*\*\*. Staff telephone interviews with \*\*\*.

<sup>24</sup> \*\*\* reported one quarter of data for its imports from \*\*\* for products 1 and 4, and those data are not shown in these tables.

**Table V-1**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 1, and margins of underselling/(overselling), by quarters, January 2005-June 2008**

Period	U.S. producers		Imports from China			Imports from Vietnam		
	Quantity	Price	Quantity	Price	Margin	Quantity	Price	Margin
	Units	Per unit	Units	Per unit	Percent	Units	Per unit	Percent
2005:								
Jan.-Mar.	***	***	56,991	\$13.87	***	***	***	***
Apr.-June	***	***	64,916	13.68	***	***	***	***
July-Sept.	***	***	56,388	13.93	***	***	***	***
Oct.-Dec.	***	***	55,334	13.80	***	***	***	***
2006:								
Jan.-Mar.	***	***	66,710	13.93	***	***	***	***
Apr.-June	***	***	64,978	14.40	***	***	***	***
July-Sept.	***	***	57,177	14.91	***	***	***	***
Oct.-Dec.	***	***	46,490	15.06	***	***	***	***
2007:								
Jan.-Mar.	***	***	39,548	13.00	***	***	***	***
Apr.-June	***	***	58,976	11.58	***	***	***	***
July-Sept.	***	***	41,177	12.75	***	***	***	***
Oct.-Dec.	***	***	21,382	14.26	***	--	--	--
2008:								
Jan.-Mar.	***	***	***	***	***	--	--	--
Apr.-June	***	***	***	***	***	--	--	--
Product 1.—Twin size: 206 to 226 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5" to 5.5" height, unit dimensions of 36.5" x 73".								
Source: Compiled from information submitted in response to Commission questionnaires.								

**Table V-2**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 2, and margins of underselling/(overselling), by quarters, January 2005-June 2008**

\* \* \* \* \*

**Table V-3**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 3, and margins of underselling, by quarters, January 2005-June 2008**

Period	U.S. producers		Imports from China			Imports from Vietnam		
	Quantity	Price	Quantity	Price	Margin	Quantity	Price	Margin
	Units	Per unit	Units	Per unit	Percent	Units	Per unit	Percent
2005:								
Jan.-Mar.	***	***	30,386	\$15.16	***	***	***	***
Apr.-June	***	***	29,966	15.10	***	***	***	***
July-Sept.	***	***	25,746	14.76	***	***	***	***
Oct.-Dec.	***	***	25,303	14.55	***	***	***	***
2006:								
Jan.-Mar.	***	***	32,137	16.55	***	***	***	***
Apr.-June	***	***	30,420	16.56	***	***	***	***
July-Sept.	***	***	25,615	17.00	***	***	***	***
Oct.-Dec.	***	***	34,413	17.71	***	***	***	***
2007:								
Jan.-Mar.	***	***	16,676	16.34	***	***	***	***
Apr.-June	***	***	17,786	16.57	***	***	***	***
July-Sept.	***	***	22,755	17.63	***	--	--	--
Oct.-Dec.	***	***	7,482	16.45	***	--	--	--
2008:								
Jan.-Mar.	***	***	***	***	***	--	--	--
Apr.-June	***	***	***	***	***	--	--	--
Product 3.—Full size: 302 to 322 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 51.5" x 73".								
Source: Compiled from information submitted in response to Commission questionnaires.								

**Table V-4**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 4, and margins of underselling, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Table V-5**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 5, and margins of underselling, by quarters, January 2005-June 2008**

Period	U.S. producers		Imports from China			Imports from Vietnam		
	Quantity	Price	Quantity	Price	Margin	Quantity	Price	Margin
	Units	Per unit	Units	Per unit	Percent	Units	Per unit	Percent
2005:								
Jan.-Mar.	***	***	20,017	\$24.00	***	***	***	***
Apr.-June	***	***	21,004	23.23	***	***	***	***
July-Sept.	***	***	12,271	23.82	***	***	***	***
Oct.-Dec.	***	***	19,652	21.94	***	***	***	***
2006:								
Jan.-Mar.	***	***	22,626	20.39	***	***	***	***
Apr.-June	***	***	25,088	19.44	***	***	***	***
July-Sept.	***	***	17,661	19.03	***	***	***	***
Oct.-Dec.	***	***	14,959	18.65	***	***	***	***
2007:								
Jan.-Mar.	***	***	19,984	18.33	***	***	***	***
Apr.-June	***	***	17,254	19.89	***	***	***	***
July-Sept.	***	***	27,501	19.73	***	--	--	--
Oct.-Dec.	***	***	28,188	20.26	***	--	--	--
2008:								
Jan.-Mar.	***	***	30,917	20.42	***	--	--	--
Apr.-June	***	***	***	***	***	--	--	--
Product 5.—Queen size: 406 to 426 coils, 6.0-6.5 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 58.5" x 78".								
Source: Compiled from information submitted in response to Commission questionnaires.								

**Table V-6**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 6, and margins of underselling/(overselling), by quarters, January 2005-June 2008**

\* \* \* \* \*

**Table V-7**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 7, and margins of underselling/(overselling), by quarters, January 2005-June 2008**

\* \* \* \* \*

**Table V-8**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 8, and margins of underselling/(overselling), by quarters, January 2005-June 2008**

\* \* \* \* \*

**Table V-9**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers of product 9, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-3**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 1, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-4**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 2, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-5**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 3, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-6**

**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 4, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-7**  
**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 5, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-8**  
**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 6, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-9**  
**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 7, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-10**  
**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 8, by quarters, January 2005-June 2008**

\* \* \* \* \*

**Figure V-11**  
**Uncovered innerspring units: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers of product 9, by quarters, January 2005-June 2008**

\* \* \* \* \*

## Price Trends

As described earlier in this section of the report, U.S. producers reported that they were unable to pass along raw material cost increases to their customers during the period of investigation until after the preliminary determinations. With the exceptions of products 6 and 9, prices of U.S.-produced innersprings generally decreased during 2005, remained relatively steady during 2006 and 2007, and increased in 2008. Prices of imports from China were generally more variable during the period, but products 1 through 8 saw greatly increased prices in 2008. The reported price data for imports from Vietnam were \*\*\*.

## Price Comparisons

Imports of innersprings from China undersold the U.S.-produced product in 91 of 105 quarterly comparisons, and imports of innersprings from Vietnam undersold the U.S.-produced product in all 75 quarterly comparisons. There were no data reported for imports of product 9 from China or for imports of products 6 and 9 from Vietnam.

Product 1 is a twin-size unit with 206 to 226 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. In the 14 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 11 quarters, with margins of underselling ranging from 0.8 to 23.2 percent (table V-1). In the three quarters where the U.S. price was lower than the price for the product imported from China, the margins ranged from 1.5 to 1.8 percent. Imports from Vietnam of product 1 undersold the U.S.-produced product in all 11 quarters, with margins of underselling ranging from 28.0 to 56.1 percent.

Product 2 is a twin-size unit with 230 to 250 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. In the 14 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 10 quarters, with margins of underselling ranging from 3.0 to 30.0 percent (table V-2). In the four quarters where the price for the U.S. product was lower than the price for the product imported from China, the margins ranged from 0.2 to 8.6 percent. Imports from Vietnam of product 2 undersold the U.S.-produced product in all eight quarters, with margins of underselling ranging from 5.0 to 13.8 percent.

Product 3 is a full-size unit with 302 to 322 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. Imports from China undersold the U.S. product in all 14 quarters where comparisons were possible, with margins of underselling ranging from 8.1 to 38.0 percent (table V-3). Imports from Vietnam of product 3 undersold the U.S.-produced product in all 10 quarters, with margins of underselling ranging from 25.9 to 37.7 percent.

Product 4 is a queen-size unit with 380 to 400 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. Imports from China undersold the U.S. product in all 14 quarters where comparisons were possible, with margins of underselling ranging from 9.3 to 42.3 percent (table V-4). Imports from Vietnam of product 4 undersold the U.S.-produced product in all 12 quarters, with margins of underselling ranging from 19.1 to 35.4 percent.

Product 5 is a queen-size unit with 406 to 426 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. In the 14 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in all 14 quarters, with margins of underselling ranging from 24.2 to 31.8 percent (table V-5). Imports from Vietnam of product 5 undersold the U.S.-produced product in all 10 quarters, with margins of underselling ranging from 17.8 to 31.6 percent.

Product 6 is a queen-size unit with 406 to 426 coils, 6.0-6.5 gauge border rod, and 13 gauge coil. In the seven quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in four quarters, with margins of underselling ranging from 2.0 to 11.8 percent (table V-6). In the three quarters where the price for the U.S. product

was lower than the price for the product imported from China, the margins ranged from 1.8 to 11.4 percent.

Product 7 is a twin-size unit with 206 to 226 coils, 9 gauge border rod, and 13.5 gauge coil. In the 14 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 11 quarters, with margins of underselling ranging from 2.1 to 36.5 percent (table V-7). In the three quarters where the price of the U.S. product was lower than the price for the product imported from China, the margins ranged from 0.5 to 15.5 percent. Imports from Vietnam of product 7 undersold the U.S.-produced product in all 12 quarters, with margins of underselling ranging from 6.9 to 21.5 percent.

Product 8 is a full-size unit with 302 to 322 coils, 9 gauge border rod, and 13.5 gauge coil. In the 14 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 13 quarters, with margins of underselling ranging from 9.5 to 45.4 percent (table V-8). Imports from Vietnam of product 8 undersold the U.S.-produced product in all 12 quarters, with margins of underselling ranging from 15.8 to 29.0 percent.

### **LOST SALES AND LOST REVENUES**

The Commission requested that U.S. producers of innersprings report any instances of lost sales and lost revenues experienced due to competition from imports from China, South Africa, and/or Vietnam since January 1, 2004.<sup>25</sup> All of the lost sales and lost revenue allegations are presented in tables V-10 and V-11 and are discussed in more detail below. There were \*\*\* lost sales allegations<sup>26</sup> totaling over \$\*\*\* and \*\*\* lost revenue allegations totaling \$\*\*\*. Staff attempted to contact all of the listed purchasers to confirm or deny the allegations, and there were confirmed lost sales allegations that totaled over \$\*\*\* and confirmed lost revenue allegations that totaled \*\*\*. Additional information, where relevant, is summarized in the individual responses below.<sup>27</sup>

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<sup>25</sup> All of the lost sales and lost revenue allegations submitted during the preliminary phase of the investigations were made by \*\*\* and involved \*\*\*. \*\*\*. \*\*\* submitted additional allegations during the final phase of the investigations, and these have been included in tables V-10 and V-11. During both the preliminary and final phases of the investigations, \*\*\* submitted lost revenue and lost sales allegations but did not supply any contact information for Commission staff to verify the allegations, and so those allegations are not included in tables V-10 and V-11. In addition, during the final phase of the investigations, \*\*\* reported that it had lost revenues but did not provide any information for staff to verify the allegation.

<sup>26</sup> Many of the lost sales allegations involved one quote with several different products included in the quote. For example, during the preliminary phase of the investigations, \*\*\*. In addition, \*\*\*.

<sup>27</sup> In addition, respondents noted that most of the lost sales and lost revenue allegations involve dates in 2007; subject imports had increased from 2005 to 2006 and then declined in 2007. Ad-Hoc Innersprings Importers' Coalition's posthearing brief, pp. 58-59.

**Table V-10**  
**Uncovered innerspring units: U.S. producers' lost sales allegations**

\* \* \* \* \*

**Table V-11**  
**Uncovered innerspring units: U.S. producers' lost revenue allegations**

\* \* \* \* \*

During the preliminary phase of the investigations, purchasers responding to lost sales and lost revenues allegations also were asked whether they had shifted their purchases of innersprings from U.S. producers to suppliers of innersprings from China, South Africa, and/or Vietnam. In addition, they were asked whether U.S. producers reduced their prices in order to compete with suppliers of innersprings from China, South Africa, and/or Vietnam. Purchaser responses to these questions are shown in table V-12. All 16 responding purchasers reported that since January 1, 2004, they shifted purchases of innersprings from U.S. producers to subject imports; 12 of these purchasers reported that price was the reason for the shift, and 3 more purchasers reported that price was a factor in the shift but not the only factor. In addition, 10 of 14 purchasers reported that since January 1, 2004, U.S. producers reduced their prices in order to compete with the prices of subject imports.

**Table V-12**  
**Uncovered innerspring units: Purchaser responses**

<b>Purchaser</b>	<b>Shift from U.S. to imports<sup>1</sup></b>	<b>Imports from country</b>	<b>Was price the reason<sup>2</sup></b>	<b>If not, list reasons<sup>3</sup></b>	<b>Did U.S. producers reduce price to compete with imports<sup>4</sup></b>	<b>Comments</b>
***	Yes	***	Yes	n/a	No	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	( <sup>5</sup> )	Yes	n/a	Yes	***
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	***	No	n/a

Table continued on the next page.

**Table V-12--Continued**  
**Uncovered innerspring units: Purchaser responses**

Purchaser	Shift from U.S. to imports <sup>1</sup>	Imports from country	Was price the reason <sup>2</sup>	If not, list reasons <sup>3</sup>	Did U.S. producers reduce price to compete with imports <sup>4</sup>	Comments
***	Yes	( <sup>5</sup> )	Yes/No	***	Yes	***
***	Yes	***	Yes/No	*** <sup>6</sup>	( <sup>5</sup> )	n/a
***	Yes	***	Yes	***	Yes	***
***	Yes	***	Yes	n/a	( <sup>5</sup> )	***
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	No	n/a
***	Yes <sup>7</sup>	***	Yes/No	***	Yes	***
***	Yes	***	No	***	No	n/a

<sup>1</sup> Since January 1, 2004, did your firm switch purchases of innersprings from U.S. producers to suppliers of innersprings imported from China, South Africa, and/or Vietnam?

<sup>2</sup> If yes, was price the reason for the shift?

<sup>3</sup> If price was not the reason for the shift, please list the reason(s) for the shift.

<sup>4</sup> Since January 1, 2004, did U.S. producers reduce their prices of innersprings in order to compete with prices of innersprings imported from China, South Africa and/or Vietnam?

<sup>5</sup> Did not respond.

<sup>6</sup> Staff telephone interview with \*\*\*.

<sup>7</sup> \*\*\*.

Source: Compiled from data submitted in response to Commission questionnaires.



## PART VI: FINANCIAL EXPERIENCE OF THE U.S. PRODUCERS

### BACKGROUND

The financial results presented in this section of the report reflect three U.S. producers, Hickory Springs, Leggett & Platt, and Texas Pocket, whose operations primarily reflect commercial sales of innerspring units, and three U.S. producers, Eastern, Sealy, and Simmons, who respectively consume all or the majority of their uncovered innersprings production to produce mattresses. With the exception of \*\*\*, the financial results reported by these companies are based on generally accepted accounting principles (“GAAP”).<sup>1</sup> The U.S. producer questionnaire response of Leggett & Platt was verified on October 6 and 7, 2008. Changes pursuant to verification are reflected in this and other affected sections of the staff report.

As noted in a previous section of this report, U.S. innersprings producers are divided into two categories: merchant market producers, who primarily produce innersprings for sale to downstream mattress producers, and maker/users, who produce and internally consume the majority of their innersprings production. While Hickory Springs and Leggett & Platt each reported a small volume of internal consumption, the majority of their overall innersprings revenue represents commercial sales. Accordingly, they, along with Texas Pocket, are characterized as merchant market producers. Similarly, while Sealy and Simmons reported a small level of commercial sales and transfers, respectively, the majority of their activity represents internal consumption.<sup>2 3</sup> Accordingly, Sealy and Simmons, along with Eastern which reported only internal consumption, are characterized as maker/users. Because the merchant market producers and maker/users are substantially different with respect to their innerspring operations/activity, the format of this section of the report separately presents the financial results of merchant market producers followed by the combined financial results of merchant market producers and maker/users.<sup>4</sup>

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<sup>1</sup> \*\*\*.

\*\*\*. Verification report, p. 3.

<sup>2</sup> As a percentage of their total consolidated cost of goods sold (“COGS”), innersprings COGS reported by Sealy and Simmons represented the following:

Item	Calendar year			January-June	
	2005	2006	2007	2007	2008
	<b>Ratio to consolidated cost of goods sold (percent)</b>				
Sealy -- innersprings cost of goods sold	***	***	***	***	***
Simmons -- innersprings cost of goods sold	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires. Sealy 2007 10-K, p. 25; Sealy 2008 2nd quarter 10-Q, p. 2; Simmons 2007 10-K, p. 32; and Simmons 2008 2nd quarter 10-Q, p. 1.

While there are likely additional relevant factors such as changes in finished mattress product mix, the above trends are generally consistent with each company’s \*\*\*. Sealy and Simmons response to II-23, U.S. Producer questionnaire response.

<sup>3</sup> \*\*\*.

<sup>4</sup> \*\*\*.

## OPERATIONS ON INNERSPRINGS: MERCHANT MARKET PRODUCERS

Income-and-loss data for merchant market producers' operations on innersprings are presented in table VI-1 and on an average unit basis in table VI-2. Table VI-3 presents selected company-specific financial information. As noted below, overall innersprings product mix changed during the period. Therefore a variance analysis of the innersprings financial results is not presented.

Overall sales volume of the merchant market producers declined during the period with \*\*\* following a similar trend. In contrast, \*\*\* in 2006 and then subsequently \*\*\*. Narrative information accompanying its SEC filings attributed declines in Leggett & Platt's sales volume during the full-year period in part to a weaker bedding market.<sup>5</sup> As shown in table VI-3, \*\*\*. According to Leggett & Platt, “{t}hroughout 2007 and early 2008, demand weakness in the U.S. home-related, retail, and other markets led to lower volume in certain of our businesses. Several factors, including a weak U.S. economy, higher energy costs, a slump in the housing market, and low consumer confidence have contributed to conservative spending habits by U.S. consumers. During the first half of 2008, our U.S. bedding components business began gaining market share as a result of: i) bedding manufacturers shifting innerspring purchases from international to domestic sources; ii) the deverticalization of a strong regional bedding manufacturer; and, iii) increased demand for innerspring mattresses, rather than premium-priced, non-innerspring products.”<sup>6</sup>

**Table VI-1**  
**Uncovered innerspring units: Results of U.S. merchant market producers' operations, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

**Table VI-2**  
**Uncovered innerspring units: Results of U.S. merchant market producers' operations (per unit), 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

**Table VI-3**  
**Uncovered innerspring units: Results of U.S. merchant market producers' operations by firm, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

As shown in table VI-3, while the overall level and pattern of change in company-specific average sales values were similar, \*\*\*.<sup>7</sup> Notwithstanding announced price increases of varying effect,<sup>8</sup> Leggett & Platt's \*\*\* declined during the full-year period. According to the company's SEC filings, this

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<sup>5</sup> Leggett & Platt 2006 10-K, p. 26. Leggett & Platt 2007 10-K, p. 30.

<sup>6</sup> Leggett & Platt 2008 2<sup>nd</sup> quarter 10-Q, p. 24. \*\*\*. Verification report, p. 3.

<sup>7</sup> \*\*\*.

<sup>8</sup> Conference transcript (Salyer), pp. 23-24. According to Leggett & Platt's SEC filings, major changes (increases and decreases) in the cost of steel during the period were passed through to customers in the form of price adjustments. Leggett & Platt 2007 10-K, p. 27.

pattern was, at least in part, due to a shift in product mix toward lower cost/lower value innersprings which was in turn related directly and indirectly to higher steel costs.<sup>9</sup> In contrast, \*\*\*.<sup>10</sup>

Table VI-3 shows that the above-referenced general shifts in product mix were accompanied by a consistent erosion in gross profitability during the full-year periods.<sup>11</sup> As alternating changes in average COGS negatively offset corresponding changes in average unit sales value, the COGS to sales ratio of \*\*\* generally increased through 2007. In interim 2008, the overall COGS-to-sales ratio and corresponding gross profitability stabilized.

According to \*\*\*, the high proportion of variable costs reflected in innersprings COGS generally explains the industry's decision not to lower prices in order to maintain volume.<sup>12</sup> As shown in table VI-2, primary variable costs such as raw material and direct labor represent the majority of innersprings average COGS.<sup>13</sup>

Given the relatively stable level of selling, general and administrative ("SG&A") expenses throughout the period, declines in overall operating income margins during the full-year period can be attributed primarily to reductions in gross profit. As shown in table VI-1, while the overall ratio of SG&A expenses as a percentage of sales increased marginally during the full-year period, it remained within a relatively narrow range. A stabilized gross profit margin, increased sales revenue, and a moderate decline in the corresponding SG&A expense ratio generally explain the relative improvement in operating income in interim 2008 compared to interim 2007. As noted previously (see footnote 10), \*\*\*.

\*\*\*.<sup>14</sup> In 2006, the increase in other income shown in table VI-1 primarily reflects \*\*\*.

#### **OPERATIONS ON INNERSPRINGS: COMBINED MERCHANT MARKET PRODUCERS AND MAKER/USERS**

Income-and-loss data for combined operations on innersprings are presented in table VI-4 and on an average unit basis in table VI-5. Table VI-6 presents selected company-specific financial information. As noted previously, a variance analysis of the innersprings financial results is not presented because overall innersprings product mix changed during the period.

In contrast with the merchant market producers, Sealy and Simmons \*\*\* during the full-year period followed by a \*\*\* in interim 2008 compared to interim 2007. This pattern appears to be generally consistent with public information. For example, while acknowledging a weaker bedding market at the end of the period, Sealy's SEC filings indicate that its sales volume increased in 2007 compared to 2006

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<sup>9</sup> Leggett & Platt 2007 10-K, p. 16.

<sup>10</sup> Letter from Weil, Gotshal & Manges on behalf of Hickory Springs, October 1, 2008. \*\*\*. Ibid. \*\*\*. October 31, 2008 e-mail from John Ryan, Counsel to Hickory Springs, Weil Gotshal, to auditor.

<sup>11</sup> Leggett & Platt's SEC filing indicate that the previously noted change in product mix also negatively impacted the company's profit margins. Leggett & Platt 2007 10-K, p. 27.

<sup>12</sup> In conjunction with the high proportion of variable costs, a Leggett & Platt company official stated at the staff conference that "... when our customers are offered absurdly low prices for imports, it simply makes no sense for us to try to compete for that business. We simply lose that business, as you can see in the sales information provided in our response. That is why the erosion in our operating margins is not even greater." Conference transcript (Salyer), p. 26.

<sup>13</sup> Both Hickory Springs and Leggett & Platt purchase \*\*\*. Pursuant to the Commission's standard methodology with respect to COGS, U.S. producers were instructed to remove profit reflected in inputs purchased from related parties. Leggett & Platt confirmed that \*\*\* was eliminated from COGS. According to Hickory Springs, \*\*\*. Letter from Weil, Gotshal & Manges LLP on behalf of Hickory Springs, September 17, 2008.

<sup>14</sup> Leggett & Platt response to question III-10 of U.S. producer questionnaire. \*\*\*.

Table VI-4

Uncovered innerspring units: Results of combined U.S. merchant market producers' and maker/users' operations, 2005-07, January-June 2007, and January-June 2008

Item	Calendar/Fiscal year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Total net sales quantity	20,825	19,616	19,147	9,881	9,855
<b>Value (\$1,000)</b>					
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Total net sales value	592,106	547,081	534,965	272,369	283,791
Cost of goods sold:					
Raw materials	276,217	283,173	287,609	146,929	152,025
Direct labor	42,028	40,314	38,558	20,073	19,252
Other factory costs	144,651	135,522	126,799	62,305	64,881
Total cost of goods sold	462,896	459,009	452,966	229,307	236,158
Gross profit	129,210	88,072	81,999	43,062	47,633
SG&A expenses	38,077	37,061	43,932	21,962	23,441
Operating income	91,133	51,011	38,067	21,100	24,192
Interest expense	2,655	3,049	3,424	1,696	1,843
Other expenses	734	991	870	440	739
Other income items	71	1,899	445	117	133
Net income	87,815	48,870	34,218	19,081	21,743
Depreciation/amortization	19,019	17,923	16,701	8,586	9,486
Estimated cash flow	106,834	66,793	50,919	27,667	31,229
<b>Ratio to net sales (percent)</b>					
Raw material	46.7	51.8	53.8	53.9	53.6
Direct labor	7.1	7.4	7.2	7.4	6.8
Other factory costs	24.4	24.8	23.7	22.9	22.9
Cost of goods sold	78.2	83.9	84.7	84.2	83.2
Gross profit	21.8	16.1	15.3	15.8	16.8
SG&A expenses	6.4	6.8	8.2	8.1	8.3
Operating income	15.4	9.3	7.1	7.7	8.5
Net income	14.8	8.9	6.4	7.0	7.7
<b>Number of producers reporting</b>					
Operating losses	1	2	4	3	1
Data	6	6	6	6	5
Source: Compiled from data submitted in response to Commission questionnaires.					

**Table VI-5**

**Uncovered innerspring units: Results of combined U.S. merchant market producers' and maker/users operations (per unit), 2005-07, January-June 2007, and January-June 2008**

Item	Calendar/Fiscal year			January-June	
	2005	2006	2007	2007	2008
<b>Unit value (dollars per unit)</b>					
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Total net sales	28.43	27.89	27.94	27.57	28.80
Cost of goods sold:					
Raw material	13.26	14.44	15.02	14.87	15.43
Direct labor	2.02	2.06	2.01	2.03	1.95
Other factory costs	6.95	6.91	6.62	6.31	6.58
Total cost of goods sold	22.23	23.40	23.66	23.21	23.96
Gross profit	6.20	4.49	4.28	4.36	4.83
SG&A expenses	1.83	1.89	2.29	2.22	2.38
Operating income	4.38	2.60	1.99	2.14	2.45
Source: Compiled from data submitted in response to Commission questionnaires.					

**Table VI-6**

**Uncovered innerspring units: Results of combined U.S. merchant market producers' and maker/users' operations by firm, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

followed by lower volume in interim 2008 compared to interim 2007.<sup>15</sup> Similarly, Simmons' SEC filings indicate that its domestic sales volume increased in both 2006 and 2007 and then declined in interim 2008

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<sup>15</sup> In its 2007 10-K, Sealy stated that “{i}n response to the challenging market conditions in the U.S. bedding industry and increased competition in the luxury portion of the market, our focus has been on driving unit volume. By driving unit volume, we were able to maintain the number of slots on the floors of our retail customers. We believe that by maintaining these slots, we are in a better position to take advantage of any improvement in industry conditions, and more importantly, insure that we will have sufficient distribution points for new products. This strategy drove a U.S. net sales increase of \$57.3 million which was attributable to an 8.8% increase in unit volume, partially offset by a 3.7% decrease in average unit selling price.” Sealy 2007 10-K, p. 35. According to its 2008 2<sup>nd</sup> quarter 10-Q, “{t}otal U.S. net sales were \$258.7 million for the second quarter of fiscal 2008, a decrease of 14.7 percent from the second quarter 2007. This decrease was primarily related to our U.S. operations within the Americas segment. Total U.S. net sales were \$258.7 million for the second quarter of fiscal 2008, a decrease of 14.7% from the second quarter of fiscal 2007. The U.S. net sales decrease of \$44.5 million was attributable to a 16.1% decrease in wholesale unit volume partially offset by a 0.6% increase in wholesale average unit selling price. The decrease in unit volume is primarily attributable to an overall slowing of consumer spending.” Sealy 2<sup>nd</sup> quarter 2008 10-Q, p. 34.

compared to interim 2007.<sup>16</sup> (Note: The public financial results of Sealy and Simmons cited here generally refer to finished mattresses as opposed to uncovered innersprings.)

As shown in table VI-6, \*\*\* reported \*\*\* average sales values compared to the other producers, while \*\*\* average sales values were \*\*\*. After 2006 Sealy's average value \*\*\*. In its 2007 10-K, Sealy stated that "{t}he decrease in our average unit selling price is primarily due to the higher volume of lower priced mattresses, such as our Sealy brand promotional products and lower sales of higher priced luxury innerspring products."<sup>17</sup>

Unlike Simmons, which reported \*\*\* internal consumption, Sealy \*\*\* reported commercial sales which on an average unit basis, as shown in table VI-6, were either \*\*\*.<sup>18 19</sup> As described in footnote 21, the estimated fair market value of Simmons' internal consumption \*\*\*. With the exception of \*\*\* in 2007 (see table VI-6), Simmons' average COGS was \*\*\*. In conjunction with its valuation methodology, this helps to explain Simmons' generally \*\*\* average sales values during the period.

In terms of changes in profitability during the period, the financial results reported by \*\*\* reflect a relatively \*\*\* compared to the larger full-year period-to-period \*\*\* reported by most of the merchant market producers. As a result and \*\*\*, the industry's overall financial results (including internal

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<sup>16</sup> With respect to end product bedding sales, Simmons stated in its 2006 10-K that "{d}uring fiscal year 2006 (52-weeks), our U.S. wholesale conventional bedding net sales increased \$111.9 million, or 14.2%, compared to fiscal year 2005 (53-weeks). We believe our sales growth exceeded the industry growth rate for the year since ISPA's survey of the 19 leading U.S. mattress producers (representing approximately 61.0% of the industry wholesale dollar sales in 2005) reported sales growth of 5.3% in 2006. We attribute our growth to the success of our sales force reorganization in December 2005 which improved the effectiveness of our sales efforts combined with the product modifications made to our 2005 product line following the unsuccessful initial rollout of the products in the first quarter of 2005." Simmons 2006 10-K, p.21. Similarly, Simmons reported in its 2007 10-K that domestic conventional bedding unit volume increased 10.6 percent compared to 2006. Simmons 2007 10-K, p. 20. In its 2008 10-Q (second quarter), the company stated that ". . . our Domestic segment conventional bedding unit volume decreased 12.2% {in interim 2008} compared to the same period of 2007. We attribute the volume decrease to an overall U.S. mattress industry downturn as a result of slowing consumer spending and floor samples we shipped during the second quarter of 2007 prior to the new open flame resistance standard going into effect." Simmons 2<sup>nd</sup> quarter 2008 10-Q, p. 24.

<sup>17</sup> Sealy 2007 10-K, p. 35.

<sup>18</sup> While \*\*\*, Sealy and Simmons both reported licensing arrangements in their public consolidated financial results. During the full-year period, Sealy's net royalty income ranged from \$13.2 million to \$18.0 million, while Simmons net licensing revenue ranged from \$8.7 million to \$10.1 million. Sealy 2007 10-K, p. 54. Simmons 2007 10-K, p. 48. In their consolidated financial statements, Sealy and Simmons treat net licensing/royalty income as a direct offset to operating expenses.

<sup>19</sup> In response to a question regarding the fair market value of its internal consumption, Sealy stated that \*\*\*. Ibid.

consumption activity) reflect similar albeit less abrupt declines in profitability as compared to the stand-alone merchant market financial results presented in table VI-1.<sup>20 21</sup>

### **CAPITAL EXPENDITURES, RESEARCH AND DEVELOPMENT EXPENSES, ASSETS, AND RETURN ON INVESTMENT**

Data on capital expenditures, research and development (“R&D”) expenses, assets, and return on investment (“ROI”) are presented in table VI-7 with subtotals presented for merchant market producers and maker/users, respectively.

As shown in table VI-7, Leggett & Platt reported \*\*\* in full-year 2007 and interim 2008 capital expenditures, respectively. According to Leggett & Platt, the \*\*\* level of 2007 capital expenditures \*\*\*.<sup>22</sup> With respect to the interim period, \*\*\*.<sup>23</sup>

Hickory, which reported relatively \*\*\* of capital expenditures compared to its corresponding depreciation expense during the period, incurred \*\*\*.<sup>24</sup>

As shown in table VI-7, Leggett & Platt was \*\*\* R&D expenses during the period examined.

**Table VI-7**

**Uncovered innerspring units: Capital expenditures, R&D expenses, assets, and return on investment, by firms, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

### **CAPITAL AND INVESTMENT**

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of innersprings from China, South Africa, and Vietnam on their firms’ growth, investment, ability to raise capital, existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments. The Commission also requested U.S. producers to describe any impact of the filing of the antidumping petition on their operations. As indicated previously and with respect to the companies identified below, only \*\*\* reported generally usable financial results to the Commission.

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<sup>20</sup> \*\*\*. As reported in its public SEC filings, Sealy’s overall profitability ranged from 41.7 percent to 44.3 percent on a gross margin basis and from 9.3 percent to 14.2 percent on an operating margin basis. (Note: Sealy’s consolidated gross profit and operating income ratios were calculated by staff using public financial information. Sealy 2007 10-K, p. 25; Sealy 2008 2<sup>nd</sup> quarter 10-Q, p. 2.) Staff also notes that on a consolidated basis, while Sealy’s profit margins declined somewhat during the period, they were consistently positive. \*\*\*.

\*\*\*. October 21, 2008 e-mail with attachment from Sealy to auditor.

\*\*\*. Ibid.

<sup>21</sup> \*\*\*. Gross margins on Simmons’ consolidated operations ranged from 38.7 percent to 43.4 percent and 15.8 percent to 7.6 percent on an operating margin basis. (Note: Simmons’ consolidated gross profit and operating income ratios were calculated by staff using public financial information. Simmons 2007 10-K, p. 32. Simmons 2008 2<sup>nd</sup> quarter 10-Q, p. 1.) Like Sealy, Simmons’ consolidated profitability margins generally declined during the period. \*\*\*. Simmons U.S. producer questionnaire response, III-11.

<sup>22</sup> Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008.

<sup>23</sup> Letter from White & Case LLP on behalf of Leggett & Platt, September 29, 2008. \*\*\*. Verification report, p. 10.

<sup>24</sup> Auditor preliminary phase general and phone notes.

**Actual Negative Effects**

Dixie Bedding	***.
Eastern	***.
Hickory Springs	***.
Leggett & Platt	***.
Sealy	***.
Simmons	***.
Springco	***.
Texas Pocket	***.

**Anticipated Negative Effects**

Dixie Bedding	***.
Eastern	***.
Hickory Springs	***.
Leggett & Platt	***.
Sealy	***.
Simmons	***.
Springco	***.
Texas Pocket	***.

**Impact on Operations Due to Filing of Petition**

Dixie Bedding	***.
Eastern	***.
Hickory Springs	***.
Leggett & Platt	***.
Sealy	***.
Simmons	***.
Springco	***.
Texas Pocket	***.

## PART VII: THREAT CONSIDERATIONS AND *BRATSK* INFORMATION

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission in relation to *Bratsk* rulings.

### THE INDUSTRY IN CHINA

The petition listed 24 Chinese firms (4 owned by Leggett & Platt) believed to be producing uncovered innerspring units. Foreign producer/exporter questionnaires were sent to the firms via fax and/or e-mail. Five firms,<sup>1</sup> including one Leggett & Platt firm,<sup>2</sup> provided useable responses, and those data are presented in table VII-1. The exports to the United States of these firms were equivalent to 6.7 percent of U.S. imports of uncovered innerspring units from China in 2007 reported in Commission importer questionnaires. China's share of total shipments going to the home market dropped from \*\*\* percent in 2005 to \*\*\* percent in 2007. Over the same period, the share of Chinese shipments going to the United States increased from \*\*\* to \*\*\* percent while the share of shipments going to all other export markets rose from \*\*\* to \*\*\* percent. From 2005 to 2007, in absolute terms, shipments to the United States and other export markets grew by \*\*\* and \*\*\* percent, respectively. Third country markets included Africa, Australia, Canada, Europe, Indonesia, Japan, Korea, Madagascar, Malaysia, New Zealand, and Thailand.

**Table VII-1**  
**Uncovered innerspring units: China's production capacity, production, shipments, and inventories, 2005-07, January-June 2007, January-June 2008, and projected 2008-09**

\* \* \* \* \*

In the preliminary phase of these investigations, eight firms plus four Leggett & Platt firms responded. Participation by Chinese firms declined in the final phase of the investigations. In petitioner's posthearing brief they responded to the decline thusly:

"In terms of coverage, the preliminary phase data was altogether imperfect, but more comprehensive than the final phase data. As a result, the Commission should use the Preliminary data for purposes of evaluating the size of the Chinese industry, whether it is export-oriented, and how much excess capacity is available. This is only reasonable because fewer responses from Chinese producers does not mean that the previously reported capacity vanished,

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<sup>1</sup> The firms are: Zhaoyuan Soft Furniture Co.; Leggett & Platt Bedding Group, China Operation; Beijing Building Materials Import & Export Co., Ltd.; Zhejiang Shaoxing Huaweimei Furniture Co., Ltd.; and, Zouping Shunhe Furniture Co., Ltd.

<sup>2</sup> \*\*\*.

or that the Chinese industry switched its focus away from exports and to its home market overnight.”<sup>3</sup>

With regard to the data provided by Chinese producers/exporters, the respondents commented:

“We believe that most of the producers who did supply information to the Commission were contacted by their U.S. importer clients and provided information in response to their importers’ repeated requests to complete the Commission’s questionnaire. It is noteworthy that even though the producers that supplied information to the Commission were more heavily weighted toward companies that export, those producers still showed significant quantities of innersprings that were internally consumed or sold in the domestic market. This is true of both the preliminary and the final data set collected by the Commission. The preliminary data set shows that 40 percent of the total production in 2006 was either consumed or shipped to the Chinese market. The data collected in the final staff report shows that 60 percent was either consumed or shipped to the Chinese market.

Finally, the import data confirms that there was significant additional production for export in China. Imports rose \*\*\* units in 2006, plateaued in 2007 and declined markedly in the first half of 2008. This is solid record evidence that there will not be significant increased quantities directed toward the U.S. in the foreseeable future.”<sup>4</sup>

Those data (as they appeared in the preliminary report) are presented in table VII-2.

**Table VII-2**  
**Uncovered innerspring units: China’s production capacity, production, shipments, and inventories, 2004-06, January-September 2006, January-September 2007, and projected 2007-08**

\* \* \* \* \*

### THE INDUSTRY IN SOUTH AFRICA

The petition listed four South African firms believed to be producing uncovered innerspring units. Two of the firms (\*\*\*) provided useable responses and these data are presented in table VII-3. The exports to the United States of these firms were equivalent to 100 percent of U.S. imports of uncovered innerspring units from South Africa in 2007 reported in importer questionnaires. In the aggregate, South Africa’s shipments to the home market as a share of its total shipments increased from \*\*\* percent in 2005 to \*\*\* percent in 2007, while its shipment share to the United States dropped from \*\*\* percent in 2005 to \*\*\* percent in 2007. \*\*\*.<sup>5 6</sup>

**Table VII-3**  
**Uncovered innerspring units: South Africa’s production capacity, production, shipments, and inventories, 2005-07, January-June 2007, January-June 2008, and projected 2008-09**

\* \* \* \* \*

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<sup>3</sup> Petitioner’s posthearing brief, p. 20.

<sup>4</sup> Ad Hoc Innersprings Importers’ Coalition’s posthearing brief, App. A, p. 64.

<sup>5</sup> In its preliminary phase questionnaire response, \*\*\*

<sup>6</sup> In its questionnaire response, \*\*\*

## THE INDUSTRY IN VIETNAM

The petition listed eight Vietnamese firms believed to be producing uncovered innerspring units. Foreign producer/exporter questionnaires were sent to the firms via fax and/or e-mail. Only one firm, \*\*\*, provided a useable response and these data are presented in table VII-4.<sup>7</sup> The exports to the United States of that firm were equivalent to \*\*\* percent of U.S. imports of uncovered innerspring units from Vietnam in 2007 reported in importer questionnaires. \*\*\*.

**Table VII-4**

**Uncovered innerspring units: Vietnam’s production capacity, production, shipments, and inventories, 2005-07, January-June 2007, January-June 2008, and projected 2008-09**

\* \* \* \* \*

## U.S. IMPORTERS’ INVENTORIES

Table VII-5 presents inventories of uncovered innerspring units as reported by U.S. importers.

**Table VII-5**

**Uncovered innerspring units: U.S. importers’ end-of-period inventories of imports, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*

## IMPORTS SUBSEQUENT TO JUNE 30, 2008

Importer questionnaire respondents reported there were more than \*\*\* units of Chinese uncovered innerspring units scheduled for delivery after June 30, 2008. There were no reports of scheduled imports from South Africa or Vietnam.

## ANTIDUMPING DUTY ORDERS IN THIRD-COUNTRY MARKETS

None of the parties to these investigations is aware of any dumping findings or antidumping remedies imposed on uncovered innerspring units in third-country markets.

## INFORMATION ON NONSUBJECT SOURCES

### “Bratsk” Considerations

As a result of the Court of Appeals for the Federal Circuit (“CAFC”) decision in *Bratsk Aluminum Smelter v. United States* (“Bratsk”), the Commission is directed to:

*undertake an “additional causation inquiry” whenever certain triggering factors are met: “whenever the antidumping investigation is centered on a commodity product, and price competitive non-subject*

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<sup>7</sup> Quang Nguyen, president of Crystal Bedding, Inc, asked Viet Thanh (the only Vietnamese company to return a foreign producer questionnaire) to visit the Vietnamese companies listed in the petition to see if they did, indeed export to the United States. Eleven companies were visited, and of these companies none export to the United States. Ad Hoc Innersprings Importers’ Coalition’s posthearing brief, exhibit 16.

*imports are a significant factor in the market.” The additional inquiry required by the Court, which we refer to as the Bratsk replacement / benefit test, is “whether non-subject imports would have replaced the subject imports without any beneficial effect on domestic producers.”<sup>8</sup>*

With respect to nonsubject imports, petitioner noted that subject imports account for over 99 percent of imports and, consequently, “imports from nonsubject countries are immaterial.”<sup>9</sup> In its posthearing submission, counsel for U.S. producer, Hickory, stated “because nonsubject imports are not a factor in the U.S. market, the Commission need not apply the *Bratsk* analysis.”<sup>10</sup> This issue has not otherwise been raised by respondents.

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<sup>8</sup> *Silicon Metal from Russia, Inv. No. 731-TA-991 (Second Remand)*, USITC Publication 3910, March 2007, p. 2; citing *Bratsk Aluminum Smelter v. United States*, 444 F.3d at 1375.

<sup>9</sup> Petition, p. 32.

<sup>10</sup> Hickory posthearing brief, p. 19.

**APPENDIX A**  
***FEDERAL REGISTER* NOTICES**



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**INTERNATIONAL TRADE  
COMMISSION**

[Investigation Nos. 731-TA-1140-1142  
(Final)]

**Uncovered Innerspring Units From  
China, South Africa, and Vietnam**

**AGENCY:** United States International  
Trade Commission.

**ACTION:** Scheduling of the final phase of antidumping investigations.

**SUMMARY:** The Commission hereby gives notice of the scheduling of the final phase of antidumping investigation Nos. 731-TA-1140-1142 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) (the Act) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of less-than-fair-value imports from China, South Africa, and Vietnam of uncovered innerspring units, provided for in subheading 9404.10.00 of the Harmonized Tariff Schedule of the United States.<sup>1</sup>

For further information concerning the conduct of this phase of the investigations, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and C (19 CFR part 207).

**DATES:** *Effective Date:* July 30, 2008.

**FOR FURTHER INFORMATION CONTACT:** Jennifer Merrill (202-205-3188), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting

the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000. General information concerning the Commission may also be obtained by accessing its internet server (<http://www.usitc.gov>). The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

**SUPPLEMENTARY INFORMATION:**

**Background.**—The final phase of these investigations is being scheduled as a result of affirmative preliminary determinations by the Department of Commerce that imports of uncovered innerspring units from China, South Africa and Vietnam are being sold in the United States at less than fair value within the meaning of section 733 of the Act (19 U.S.C. 1673b). The investigations were requested in a petition filed on December 31, 2007, by Leggett & Platt, Inc., Carthage, MO.

**Participation in the investigations and public service list.**—Persons, including industrial users of the subject merchandise and, if the merchandise is sold at the retail level, representative consumer organizations, wishing to participate in the final phase of these investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in section 201.11 of the Commission's rules, no later than 21 days prior to the hearing date specified in this notice. A party that filed a notice of appearance during the preliminary phase of the investigations need not file an additional notice of appearance during this final phase. The Secretary will maintain a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigations.

**Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.**—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in the final phase of these investigations available to authorized applicants under the APO issued in the investigations, provided that the application is made no later than 21 days prior to the hearing date specified in this notice. Authorized applicants must represent interested parties, as defined by 19 U.S.C. 1677(9), who are parties to the investigations. A party granted access to BPI in the preliminary phase of the investigations need not reapply for such access. A separate

service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

**Staff report.**—The prehearing staff report in the final phase of these investigations will be placed in the nonpublic record on October 8, 2008, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules.

**Hearing.**—The Commission will hold a hearing in connection with the final phase of these investigations beginning at 9:30 a.m. on October 22, 2008, at the U.S. International Trade Commission Building. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before October 16, 2008. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the hearing. All parties and nonparties desiring to appear at the hearing and make oral presentations should attend a prehearing conference to be held at 9:30 a.m. on October 20, 2008, at the U.S. International Trade Commission Building. Oral testimony and written materials to be submitted at the public hearing are governed by sections 201.6(b)(2), 201.13(f), and 207.24 of the Commission's rules. Parties must submit any request to present a portion of their hearing testimony *in camera* no later than 7 business days prior to the date of the hearing.

**Written submissions.**—Each party who is an interested party shall submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.23 of the Commission's rules; the deadline for filing is October 15, 2008. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.24 of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.25 of the Commission's rules. The deadline for filing posthearing briefs is October 29, 2008; witness testimony must be filed no later than three days before the hearing. In addition, any person who has not entered an appearance as a party to the investigations may submit a written statement of information pertinent to the subject of the investigations, including statements of support or opposition to the petition, on or before October 29, 2008. On November 7, 2008, the Commission will make available to parties all information on which they have not had an opportunity to comment. Parties may submit final comments on this information on or before November 10,

<sup>1</sup> For purposes of these investigations, the Department of Commerce has defined the subject merchandise as “\* \* \* uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (e.g., twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length. Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring. Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion. Uncovered innersprings are classified under subheading 9404.29.9010 and have also been classified under subheadings 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTS). The HTS subheadings are provided for convenience and customs purposes only; the written description of the scope of these investigations is dispositive.”

2008, but such final comments must not contain new factual information and must otherwise comply with section 207.30 of the Commission's rules. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain BPI must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II (C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

Additional written submissions to the Commission, including requests pursuant to section 201.12 of the Commission's rules, shall not be accepted unless good cause is shown for accepting such submissions, or unless the submission is pursuant to a specific request by a Commissioner or Commission staff.

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

**Authority:** These investigations are being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.21 of the Commission's rules.

By order of the Commission.

Issued: August 15, 2008.

**William R. Bishop,**

*Acting Secretary to the Commission.*

[FR Doc. E8-19227 Filed 8-19-08; 8:45 am]

**BILLING CODE 7020-02-P**

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*Uncovered Innerspring Units from South Africa*, 73 FR 45741 (August 6, 2008) (*Preliminary Determination*). We invited parties to comment on the *Preliminary Determination*. We did not receive any case or rebuttal briefs from any interested parties.

#### Period of Investigation

The period of investigation (POI) is October 1, 2006, through September 30, 2007.

#### Scope of Investigation

The merchandise covered by this investigation is uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (*e.g.*, twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a "pocket" or "sock" of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

Uncovered innersprings are classified under subheading 9404.29.9010 and have also been classified under subheadings 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTSUS). The HTSUS subheadings are provided for convenience and customs purposes only; the written description of the scope of this proceeding is dispositive.

#### Scope-Clarification Request

Caye Home Furnishings LLC (Caye Furnishings), a U.S. manufacturer of living room furniture, requested that we

clarify the scope language of the antidumping duty investigations on uncovered innerspring units from the People's Republic of China, South Africa, and the Socialist Republic of Vietnam.<sup>1</sup> Specifically, Caye Furnishings requested that we modify the scope of the investigations to exclude springs and individually wrapped pocket coils for upholstery seating that are not suitable for mattresses or mattress supports.

Caye Furnishings asserted that the reference to mattresses in the scope language makes clear that the petitioner intended to cover innersprings that are used in the manufacture of innerspring mattresses and did not intend to cover innersprings that are not suitable for use in mattresses or mattress supports. Caye Furnishings asserted that innersprings and individually wrapped pocket coils that it imports for use in upholstery seating in the manufacture of living room furniture are not suitable for mattresses or mattress supports. Caye Furnishings also explained that, although the products it imports are normally classified under subheading 7320.20.5020 of the HTSUS, which is not one of the HTSUS subheadings covered by the scope of the investigations, the scope description as written could result in the treatment of its imports as subject merchandise.

In its September 11, 2008, comments on the issue, the petitioner stated that it believes the scope language is clear and that the merchandise described by Caye Furnishings is outside the scope of the investigations. The petitioner stated, however, that it does not object to the clarification of the scope for the reasons Caye Furnishings cited. In its September 17, 2008, comments, in response to the alternative versions of the scope-clarification language that we proposed,<sup>2</sup> the petitioner stated that it does not object to amending the scope description of the investigations by excluding individual springs and individually wrapped pocket coils for upholstery seating (the petitioner stated that it objects to the proposed language which excludes any mention of end-use of the merchandise).

We have considered the various alternatives on the record for modifications of the scope language. In addition to the difficulties associated with administering antidumping duty orders with end-use as a basis for whether certain products may be considered subject merchandise, we

<sup>1</sup> See August 25, 2008, letter from Caye Furnishings.

<sup>2</sup> See Memorandum to the File, dated September 16, 2008.

## DEPARTMENT OF COMMERCE

### International Trade Administration

A-791-821

#### Notice of Final Determination of Sales at Less Than Fair Value: Uncovered Innerspring Units from South Africa

**AGENCY:** Import Administration, International Trade Administration, Department of Commerce.

**EFFECTIVE DATE:** October 21, 2008.

**SUMMARY:** The Department of Commerce determines that imports of uncovered innerspring units from South Africa are being, or are likely to be, sold in the United States at less than fair value, as provided in section 735 of the Tariff Act of 1930, as amended (the Act). The final weighted-average dumping margins are listed below in the section entitled "Final Determination of Investigation."

**FOR FURTHER INFORMATION CONTACT:** Dmitry Vladimirov or Mino Hatten, AD/CVD Operations, Office 5, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230; telephone: (202) 482-0665 or (202) 482-1690, respectively.

#### SUPPLEMENTARY INFORMATION:

##### Background

On August 6, 2008, the Department of Commerce (the Department) published the preliminary determination of sales at less than fair value (LTFV) in the antidumping investigation of uncovered innerspring units from South Africa. See *Notice of Preliminary Determination of Sales at Less Than Fair Value:*

agree with the petitioner that the merchandise Caye Furnishings described in its request is not within the scope of the investigations. Therefore, we have not modified the scope language as suggested by any of the parties.

**Adverse Facts Available**

For the final determination, we continue to find that, by failing to provide information we requested, Bedding Component Manufacturers (Pty) Ltd. (BCM), the mandatory respondent in this investigation, did not act to the best of its ability. Thus, the Department continues to find that the use of adverse facts available is warranted for this company under sections 776(a)(2) and (b) of the Act. See *Preliminary Determination*, 73 FR at 45743.

As we explained in the Preliminary Determination, the rate of 121.39 percent we selected as the adverse facts-available rate for BCM is the single margin alleged in the petition (see *Petitions on Uncovered Innerspring Units from China, South Africa, and Vietnam*, dated December 31, 2007 (*Petition*), and January 11, 2008, supplement to the Petition filed on behalf of Leggett and Platt, Incorporated, (the petitioner)), as recalculated in the January 22, 2008, *Antidumping Investigation Initiation Checklist: Uncovered Innerspring Units from South Africa*, on file in Import Administration's Central Records Unit, Room 1117, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230. See, also, *Uncovered Innerspring Units From the People's Republic of China, South Africa, and the Socialist Republic of Vietnam: Initiation of Antidumping Duty Investigations*, 73 FR 4822 (January 28, 2008). Further, as discussed in the Preliminary Determination, we corroborated the adverse facts-available rate pursuant to section 776(c) of the Act. See Preliminary Determination, 73 FR at 45743, 45744.

**All-Others Rate**

Section 735(c)(5)(B) of the Act provides that, where the estimated weighted-average dumping margins established for all exporters and producers individually investigated are zero or *de minimis* margins or are determined entirely under section 776 of the Act, the Department may use any reasonable method to establish the estimated all-others rate for exporters and producers not individually investigated. This provision contemplates that, if the data do not permit weight-averaging margins other

than the zero, *de minimis*, or total facts-available margins, the Department may use any other reasonable method. See also *Statement of Administrative Action* accompanying the Uruguay Round Agreements Act, H. Doc. No. 103-316, at 873 (1994).

As discussed above, BCM is the sole respondent in this investigation and has been assigned a margin based on total adverse facts available. Because the petition contained only one estimated dumping margin and because there are no other respondents in this investigation, there are no additional estimated margins available for purposes of establishing an all-others rate. See *Notice of Final Determination of Sales at Less Than Fair Value: Ferrovandium from the Republic of South Africa*, 67 FR 71136 (November 29, 2002). Therefore, with this final determination we are establishing 121.39 percent as the all-others rate.

**Final Determination of Investigation**

We determine that the following weighted-average dumping margins exist for the period October 1, 2006, through September 30, 2007:

Manufacturer or Exporter	Margin (percent)
Bedding Component Manufacturers (Pty) Ltd. ....	121.39
All Others .....	121.39

**Continuation of Suspension of Liquidation**

Pursuant to section 735(c)(1)(B) of the Act and 19 CFR 351.211(b)(1), we will instruct CBP to continue to suspend liquidation of all entries of subject merchandise from South Africa entered, or withdrawn from warehouse, for consumption on or after August 6, 2008, the date of publication of the *Preliminary Determination*. We will instruct CBP to require a cash deposit or the posting of a bond equal to the weighted-average margin as follows: (1) the rate for BCM will be 121.39 percent; (2) if the exporter is not a firm identified in this investigation but the producer is, the rate will be the rate established for the producer of the subject merchandise; (3) the rate for all other producers or exporters will be 121.39 percent. These suspension-of-liquidation instructions will remain in effect until further notice.

**International Trade Commission Notification**

In accordance with section 735(d) of the Act, we have notified the International Trade Commission (ITC) of our final determination. As our final determination is affirmative and in

accordance with section 735(b)(2) of the Act, the ITC will determine, within 45 days, whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports or sales (or the likelihood of sales) for importation of the subject merchandise. If the ITC determines that material injury or threat of material injury does not exist, the proceeding will be terminated and all securities posted will be refunded or canceled. If the ITC determines that such injury does exist, the Department will issue an antidumping duty order directing CBP to assess antidumping duties on all imports of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the effective date of the suspension of liquidation.

**Notification Regarding APO**

This notice also serves as a reminder to parties subject to administrative protective order (APO) of their responsibility concerning the disposition of proprietary information disclosed under APO in accordance with 19 CFR 351.305. Timely notification of return/destruction of APO materials or conversion to judicial protective order is hereby requested. Failure to comply with the regulations and the terms of an APO is a sanctionable violation.

This determination is issued and published pursuant to sections 735(d) and 777(i)(1) of the Act.

Dated: October 14, 2008.

**David M. Spooner,**  
*Assistant Secretary for Import Administration.*

[FR Doc. E8-25028 Filed 10-20-08; 8:45 am]

**BILLING CODE 3510-DS-S**

**DEPARTMENT OF COMMERCE****International Trade Administration**

A-552-803

**Uncovered Innerspring Units from the Socialist Republic of Vietnam: Notice of Final Determination of Sales at Less Than Fair Value**

**AGENCY:** Import Administration, International Trade Administration, Department of Commerce.

**EFFECTIVE DATE:** October 21, 2008.

**SUMMARY:** The Department of Commerce (“the Department”) determines that imports of uncovered innerspring units from the Socialist Republic of Vietnam (“Vietnam”) are being, or are likely to be, sold in the United States at less than fair value, as provided in section 735 of the Tariff Act of 1930, as amended (“the Act”). The final weighted-average dumping margins are listed below in the section entitled “Final Determination of Investigation.”

**FOR FURTHER INFORMATION CONTACT:** Eugene Degnan or Robert Bolling, AD/CVD Operations, Office 8, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230; telephone: (202) 482-0414 or (202) 482-3434, respectively.

**SUPPLEMENTARY INFORMATION:****Background**

On August 6, 2008, the Department published the preliminary determination of sales at less than fair value (“LTFV”) in the antidumping investigation of uncovered innerspring units from Vietnam. *See Uncovered Innerspring Units from the Socialist Republic of Vietnam: Notice of Preliminary Determination of Sales at Less Than Fair Value*, 73 FR 45738 (August 6, 2008) (“*Preliminary Determination*”). We invited parties to comment on the *Preliminary Determination*. We did not receive any case or rebuttal briefs from any interested parties.

**Period of Investigation**

The POI is April 1, 2007, through September 30, 2007. This period corresponds to the two most recent fiscal quarters prior to the month of the filing of the petition, which was

December 2007. *See* 19 CFR 351.204(b)(1).

**Scope of Investigation**

The merchandise covered by this investigation is uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (e.g., twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

Uncovered innersprings are classified under subheading 9404.29.9010 and have also been classified under subheadings 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTSUS). The HTSUS subheadings are provided for convenience and customs purposes only; the written description of the scope of this proceeding is dispositive.

**Scope-Clarification Request**

Caye Home Furnishings LLC (Caye Furnishings), a U.S. manufacturer of living room furniture, requested that we clarify the scope language of the antidumping duty investigations on uncovered innerspring units from the People’s Republic of China, South Africa, and the Socialist Republic of Vietnam. *See* August 25, 2008, letter from Caye Furnishings. Specifically, Caye Furnishings requested that we modify the scope of the investigations to exclude springs and individually

wrapped pocket coils for upholstery seating that are not suitable for mattresses or mattress supports.

Caye Furnishings asserted that the reference to mattresses in the scope language makes clear that the petitioner intended to cover innersprings that are used in the manufacture of innerspring mattresses and did not intend to cover innersprings that are not suitable for use in mattresses or mattress supports. Caye Furnishings asserted that innersprings and individually wrapped pocket coils that it imports for use in upholstery seating in the manufacture of living room furniture are not suitable for mattresses or mattress supports. Caye Furnishings also explained that, although the products it imports are normally classified under subheading 7320.20.5020 of the HTSUS, which is not one of the HTSUS subheadings covered by the scope of the investigations, the scope description as written could result in the treatment of its imports as subject merchandise.

In its September 11, 2008, comments on the issue, the petitioner stated that it believes the scope language is clear and that the merchandise described by Caye Furnishings is outside the scope of the investigations. The petitioner stated, however, that it does not object to the clarification of the scope for the reasons Caye Furnishings cited. In its September 17, 2008, comments, in response to the alternative versions of the scope—clarification language that we proposed, *See Memorandum to the File*, dated September 16, 2008, the petitioner stated that it does not object to amending the scope description of the investigations by excluding individual springs and individually wrapped pocket coils for upholstery seating (the petitioner stated that it objects to the proposed language which excludes any mention of end—use of the merchandise).

We have considered the various alternatives on the record for modifications of the scope language. In addition to the difficulties associated with administering antidumping duty orders with end—use as a basis for whether certain products may be considered subject merchandise, we agree with the petitioner that the merchandise Caye Furnishings described in its request is not within the scope of the investigations. Therefore, we have not modified the scope language as suggested by any of the parties.

#### Adverse Facts Available

As we explained in the *Preliminary Determination*, the Department issued a quantity and value (“Q&V”) questionnaire (via DHL) to all exporters identified in the petition. Out of the eleven exporters to whom the Department issued its Q&V questionnaire, only three responded (*i.e.*, Yang Ching Enterprise Co., Ltd. (“Yang Ching”), Uu Viet Co., Ltd. (“Uu Viet”), and Dong Bang Stainless Steel Co. Ltd (“Dong Bang”). Each of the responding exporters stated that they did not export innersprings to the United States during the POI. Also, according to DHL’s tracking system the remaining eight exporters received the Department’s Q&V questionnaire. Record evidence indicates there were imports into the United States of innersprings from Vietnam. Based on the above facts, we have determined that there were exports of the subject merchandise under investigation from Vietnamese producers/exporters that did not respond to the Department’s questionnaire, and we are treating these Vietnamese producers/exporters as part of the countrywide entity. Additionally, because we have determined that the non—responding companies are part of the Vietnam—wide entity, the Vietnam—wide entity is under investigation. Further, pursuant to section 776(a)(2) of the Act, we find that because the Vietnam—wide entity (including the eight companies discussed above) failed to respond to the Department’s Q&V questionnaire, withheld or failed to provide information in a timely manner or in the form or manner requested by the Department, and otherwise impeded the proceeding, it is, therefore, appropriate to apply a dumping margin to the Vietnam—wide entity using the facts otherwise available on the record pursuant to section 776(a)(2) of the Act. *See Preliminary Determination*, 73 FR at 45740. Additionally, because these parties failed to respond to our requests for information and did not act to the best of their ability, we find an adverse inference is appropriate, pursuant to section 776(b) of the Act.

As we explained in the *Preliminary Determination*, the rate of 116.31 percent that we selected as the adverse facts—available rate for the Vietnam—wide entity is the margin alleged in the petition. *See Petitions on Uncovered Innerspring Units from China, South Africa, and Vietnam*, dated (December 31, 2007) (“*Petition*”); Supplement to the *Petition* (January 11, 2008); and *Antidumping Investigation Initiation Checklist: Uncovered Innerspring Units from South Africa*, (January 22, 2008), which is on file in Import Administration’s Central Records Unit, Room 1117, of the main Department of Commerce building. *See also Uncovered*

*Innerspring Units From the People’s Republic of China, South Africa, and the Socialist Republic of Vietnam: Initiation of Antidumping Duty Investigations*, 73 FR 4817 (January 28, 2008). Further, as discussed in the *Preliminary Determination*, we corroborated the adverse facts—available rate pursuant to section 776(c) of the Act. *See Preliminary Determination*, 73 FR at 45741.

#### Final Determination

The weighted—average dumping margin is as follows:

Manufacturer/exporter	Margin (percent)
Vietnam—Wide Rate .....	116.31

#### Continuation of Suspension of Liquidation

Pursuant to section 735(c)(1)(B) of the Act and 19 CFR 351.211(b), we will instruct U.S. Customs and Border Protection (“CBP”) to continue to suspend liquidation of all entries of subject merchandise from Vietnam entered, or withdrawn from warehouse, for consumption on or after August 6, 2008, the date of publication of the *Preliminary Determination*. We will instruct CBP to require a cash deposit or the posting of a bond equal to the weighted—average margin, as follows: the rate for all producers or exporters will be 116.31 percent. These suspension—of—liquidation instructions will remain in effect until further notice.

#### International Trade Commission Notification

In accordance with section 735(d) of the Act, we have notified the International Trade Commission (ITC) of our final determination. As our final determination is affirmative and in accordance with section 735(b)(2)(B) of the Act, the ITC will determine, within 45 days, whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports or sales (or the likelihood of sales) for importation of the subject merchandise. If the ITC determines that material injury or threat of material injury does not exist, the proceeding will be terminated and all securities posted will be refunded or canceled. If the ITC determines that such injury does exist, the Department will issue an antidumping duty order directing CBP to assess antidumping duties on all imports of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the effective date of the suspension of liquidation.

**Notification Regarding APO**

This notice also serves as a reminder to parties subject to administrative protective order ("APO") of their responsibility concerning the disposition of proprietary information disclosed under APO in accordance with 19 CFR 351.305. Timely notification of return/destruction of APO materials or conversion to judicial protective order is hereby requested. Failure to comply with the regulations and the terms of an APO is a sanctionable violation.

This determination is issued and published pursuant to sections 735(d) and 777(i)(1) of the Act.

Dated: October 14, 2008.

**David M. Spooner,**

*Assistant Secretary for Import Administration.*

[FR Doc. E8-25027 Filed 10-20-08; 8:45 am]

**BILLING CODE 3510-DS-S**

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**APPENDIX B**  
**HEARING WITNESSES**



## CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

**Subject:** Uncovered Innerspring Units from China, South Africa, and Vietnam

**Inv. Nos.:** 731-TA-1140-1142 (Final)

**Date and Time:** October 22, 2008 - 9:30 a.m.

Sessions were held in connection with these investigations in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

### **OPENING REMARKS:**

Petitioners (**Christopher F. Corr**, White & Case LLP)  
Respondents (**Julie C. Mendoza**, Troutman Sanders LLP)

### **In Support of the Imposition of Antidumping Duties:**

White & Case LLP  
Washington, D.C.  
on behalf of

Leggett & Platt, Incorporated ("Leggett")

**Perry Davis**, President, Bedding Group,  
Leggett

**Leigh Salyer**, Group Vice President, Demand  
Management, Bedding Group, Leggett

**In Support of the Imposition of  
Antidumping Duties (continued):**

**Wendy Watson**, Associate Special Counsel,  
Leggett

**Deirdre Maloney**, Senior Trade Analyst, White  
& Case LLP

**Christopher F. Corr** )  
**Frank H. Morgan** ) – OF COUNSEL  
**Yohai Baisburd** )

Weil, Gotshal & Manges LLP  
Washington, D.C.  
on behalf of

Hickory Springs Manufacturing Company (“Hickory Springs ”)

**James Bush**, Executive Vice President, Wire  
Products Group, Hickory Springs

**John M. Ryan** ) – OF COUNSEL

**In Opposition to the Imposition of  
Antidumping Duties:**

Troutman Sanders LLP  
Washington, D.C.  
on behalf of

Ad Hoc Innersprings Inporters’ Coalition

**Kenneth Karmin**, Chairman *and* Chief Executive  
Office, Ortho Mattress, Inc.

**Kerry Tramel**, President, Lady America

**Robert Enoch**, Director, China Logistic Partner  
Network Co., Ltd.

**In Opposition to the Imposition of  
Antidumping Duties (continued):**

**Quang Nguyen**, President, Crystal Bedding, Inc.

**Julie C. Mendoza** )  
**Donald B. Cameron** ) – OF COUNSEL  
**R. Will Planert** )

**REBUTTAL/CLOSING REMARKS:**

Petitioners (**Yohai Baisburd**, White & Case LLP; *and*  
**John M. Ryan**, Weil, Gotshal & Manges LLP)  
Respondents (**Donald B. Cameron**, Troutman Sanders LLP )



**APPENDIX C**  
**SUMMARY DATA**



**Table C-1**  
**Innersprings: Summary data concerning the U.S. market, 2005-07, January-June 2007, and January-June 2008**

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	2005	2006	2007	January-June		2005-07	2005-06	2006-07	Jan.-June 2007-08
				2007	2008				
U.S. consumption quantity:									
Amount . . . . .	22,339	21,593	20,907	10,613	10,302	-6.4	-3.3	-3.2	-2.9
Producers' share (1) . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Importers' share (1):									
China . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
South Africa . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Vietnam . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Subtotal . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
All other sources . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Total imports . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
U.S. consumption value:									
Amount . . . . .	604,246	570,998	557,617	281,284	288,839	-7.7	-5.5	-2.3	2.7
Producers' share (1) . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Importers' share (1):									
China . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
South Africa . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Vietnam . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Subtotal . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
All other sources . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Total imports . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
U.S. shipments of imports from:									
China:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
South Africa:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Vietnam:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Subtotal:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
All other sources:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
All sources:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****

Table continued on next page.

Table C-1--Continued

Innersprings: Summary data concerning the U.S. market, 2005-07, January-June 2007, and January-June 2008

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	2005	2006	2007	January-June		2005-07	2005-06	2006-07	Jan.-June 2007-08
				2007	2008				
U.S. producers:									
Average capacity quantity . . . . .	26,797	24,230	24,113	12,281	13,271	-10.0	-9.6	-0.5	8.1
Production quantity . . . . .	20,968	19,719	19,019	10,030	10,012	-9.3	-6.0	-3.6	-0.2
Capacity utilization (1) . . . . .	78.2	81.4	78.9	81.7	75.4	0.6	3.1	-2.5	-6.2
U.S. shipments:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Export shipments:									
Quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit value . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory quantity . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Inventories/total shipments (1) . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Production workers . . . . .	2,820	2,826	2,970	3,086	2,878	5.3	0.2	5.1	-6.7
Hours worked (1,000s) . . . . .	5,746	5,689	6,000	3,090	2,882	4.4	-1.0	5.5	-6.7
Wages paid (\$1,000s) . . . . .	80,081	80,320	87,088	44,684	42,611	8.7	0.3	8.4	-4.6
Hourly wages . . . . .	\$13.94	\$14.12	\$14.51	\$14.46	\$14.78	4.1	1.3	2.8	2.2
Productivity (units per hour) . . . . .	3.6	3.5	3.2	3.2	3.5	-13.1	-5.0	-8.6	7.0
Unit labor costs . . . . .	\$3.82	\$4.07	\$4.58	\$4.46	\$4.26	19.9	6.6	12.4	-4.5
Net sales:									
Quantity . . . . .	20,825	19,616	19,147	9,881	9,855	-8.1	-5.8	-2.4	-0.3
Value . . . . .	592,106	547,081	534,965	272,369	283,791	-9.7	-7.6	-2.2	4.2
Unit value . . . . .	\$28.43	\$27.89	\$27.94	\$27.57	\$28.80	-1.7	-1.9	0.2	4.5
Cost of goods sold (COGS) . . . . .	462,896	459,009	452,966	229,307	236,158	-2.1	-0.8	-1.3	3.0
Gross profit or (loss) . . . . .	129,210	88,072	81,999	43,062	47,633	-36.5	-31.8	-6.9	10.6
SG&A expenses . . . . .	38,077	37,061	43,932	21,962	23,441	15.4	-2.7	18.5	6.7
Operating income or (loss) . . . . .	91,133	51,011	38,067	21,100	24,192	-58.2	-44.0	-25.4	14.7
Capital expenditures . . . . .	*****	*****	*****	*****	*****	*****	*****	*****	*****
Unit COGS . . . . .	\$22.23	\$23.40	\$23.66	\$23.21	\$23.96	6.4	5.3	1.1	3.3
Unit SG&A expenses . . . . .	\$1.83	\$1.89	\$2.29	\$2.22	\$2.38	25.5	3.3	21.4	7.0
Unit operating income or (loss) . . . . .	\$4.38	\$2.60	\$1.99	\$2.14	\$2.45	-54.6	-40.6	-23.5	15.0
COGS/sales (1) . . . . .	78.2	83.9	84.7	84.2	83.2	6.5	5.7	0.8	-1.0
Operating income or (loss)/ sales (1) . . . . .	15.4	9.3	7.1	7.7	8.5	-8.3	-6.1	-2.2	0.8

(1) "Reported data" are in percent and "period changes" are in percentage points.

(2) Not applicable.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table C-2**

**Innersprings: Summary data concerning the U.S. merchant market, 2005-07, January-June 2007, and January-June 2008**

\* \* \* \* \*



**APPENDIX D**

**IMPORT DATA COMPILED FROM OFFICIAL COMMERCE STATISTICS**



**Table D-1**  
**Uncovered innerspring units: Imports (HTS 9404.29.9010), by sources, 2005-07, January-June 2007, and January-June 2008**

Source	Calendar year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
China	1,536	1,322	1,059	477	558
South Africa	154	442	227	99	50
Vietnam	35	171	104	75	5
Subtotal, subject sources	1,725	1,935	1,391	650	613
Nonsubject sources	57	42	11	4	38
Total	1,782	1,977	1,402	655	651
<b>Value (1,000 dollars)<sup>1</sup></b>					
China	23,162	20,980	17,224	8,012	9,846
South Africa	3,443	7,175	3,578	1,596	679
Vietnam	565	2,048	883	669	34
Subtotal, subject sources	27,171	30,203	21,685	10,278	10,560
Nonsubject sources	1,552	812	519	362	1,803
Total	28,723	31,015	22,205	10,640	12,362
<b>Unit value (per unit)<sup>1</sup></b>					
China	\$15.08	\$15.87	\$16.26	\$16.81	\$17.64
South Africa	22.34	16.24	15.74	16.18	13.54
Vietnam	16.06	11.98	8.46	8.96	7.06
Subtotal, subject sources	15.75	15.61	15.59	15.81	17.22
Nonsubject sources	27.33	19.54	46.36	81.47	47.45
Average	16.12	15.69	15.83	16.26	18.99
<sup>1</sup> Landed, duty-paid. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from official Commerce statistics (HTS 9404.29.9010).					

**Table D-2**  
**Uncovered innerspring units: Imports (HTS 9404.29.9010, 9404.10.0000, 7320.20.5010, and 7320.90.5010 combined), by sources, 2005-07, January-June 2007, and January-June 2008**

Source	Calendar year			January-June	
	2005	2006	2007	2007	2008
<b>Quantity (1,000 units)</b>					
China	2,195	2,606	2,568	1,166	917
South Africa	157	442	237	105	50
Vietnam	102	179	105	75	10
Subtotal, subject sources	2,454	3,227	2,910	1,345	977
Nonsubject sources	399	364	287	167	129
Total	2,853	3,592	3,196	1,512	1,106
<b>Value (1,000 dollars)<sup>1</sup></b>					
China	32,922	40,646	42,900	19,548	17,781
South Africa	4,033	7,175	3,726	1,685	679
Vietnam	1,589	2,202	893	669	111
Subtotal, subject sources	38,544	50,023	47,519	21,903	18,571
Nonsubject sources	21,638	20,260	14,925	9,200	7,578
Total	60,182	70,283	62,444	31,103	26,149
<b>Unit value (per unit)<sup>1</sup></b>					
China	\$15.00	\$15.60	\$16.71	\$16.77	\$19.39
South Africa	25.71	16.24	15.70	16.10	13.54
Vietnam	15.54	12.29	8.53	8.96	11.60
Subtotal, subject sources	15.70	15.50	16.33	16.28	19.01
Nonsubject sources	54.29	55.59	52.08	55.22	58.62
Average	21.10	19.57	19.54	20.57	23.64
<sup>1</sup> Landed, duty-paid. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from official Commerce statistics (HTS 9404.29.9010, 9404.10.0000, 7320.20.5010, and 7320.90.5010).					