

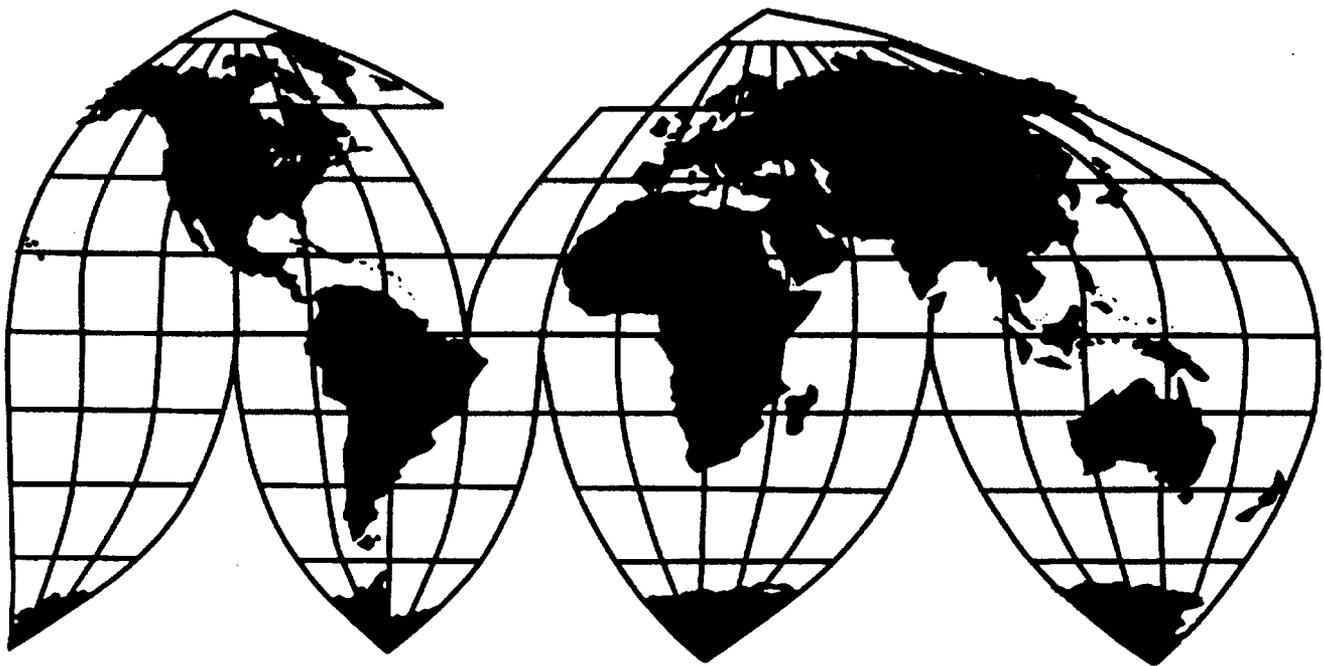
Uncovered Innerspring Units From China

Investigation No. TA-421-5

Publication 3676

March 2004

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Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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.

GLOSSARY OF FIRMS

***	***
Atlas	Atlas Spring Manufacturing
***	***
Bao Ding	Bao Ding Yongan Furniture Material Co., Ltd.
***	***
Foshan Yuantian	Foshan Yuantian Mattress Machinery Co., Ltd.
***	***
Hickory	Hickory Springs Mfg. Co.
Leggett & Platt	Leggett & Platt, Inc.
Nanjing Lechao	Nanjing Lechao Bed Clothes Co., Ltd.
Nanjing Kylin	Nanjing Kylin Mattress & Furniture Factory
Saval	Joseph Saval Spring & Wire Co., Inc.
***	***
Zhejiang Shaoxing	Zhejiang Shaoxing Huaweimei Furniture Co., Ltd.

GLOSSARY OF TERMS

AUV	Average unit value
AIM	American Innerspring Manufacturers
BR	Border rod
COGS	Cost of goods sold
Commission	U.S. International Trade Commission
F.o.b.	Free on board
<i>FR</i>	<i>Federal Register</i>
HTS	Harmonized Tariff Schedule of the United States
PRWs	Production and related workers
R&D	Research and development
SG&A	Selling, general, and administrative

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. TA-421-5

UNCOVERED INNERSPRING UNITS FROM CHINA

DETERMINATION

On the basis of information developed in the subject investigation, the United States International Trade Commission determines, pursuant to section 421(b)(1) of the Trade Act of 1974,¹ that uncovered innerspring units² from the People's Republic of China are 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.

BACKGROUND

Following receipt of a petition filed on January 6, 2004, on behalf of the American Innerspring Manufacturers (AIM),³ Memphis, TN, the Commission instituted investigation No. TA-421-5, *Uncovered Innerspring Units From China*, under section 421 of the Trade Act of 1974 to determine whether uncovered innerspring units from China are 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.

Notice of the institution of the Commission's investigation and of the scheduling of a public hearing to be held in connection therewith was given by posting a copy of the notice on the Commission's website (www.usitc.gov) and by publishing the notice in the *Federal Register* (69 FR 2002, January 13, 2004). The hearing was held on February 19, 2004, in Washington, DC and all persons who requested the opportunity were permitted to appear in person or by counsel.

The views of the Commission are contained in USITC Publication 3676 (March 2004), entitled *Uncovered Innerspring Units from China: Investigation No. TA-421-5*.

¹ 19 U.S.C. § 2451(b)(1).

² For purposes of this investigation, the product subject to this investigation is uncovered innerspring units composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the innerspring component in the manufacture of innerspring mattresses. Included within this definition are innersprings typically ranging from 34 inches to 76 inches in width and 71 inches to 84 inches in length, corresponding to the sizes of adult mattresses (twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. The subject product is properly imported under statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States (HTS).

Not included in the scope of the petition are "pocket" coils, which are individual coils covered by a "pocket" or "sock" of a nonwoven synthetic material and then glued together in a linear fashion.

³ Petitioning firms include Atlas Spring Manufacturing, Gardena, CA; Hickory Springs Manufacturing Co., Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc., Taylor, MI.

VIEWS ON MARKET DISRUPTION

I. VIEWS OF THE COMMISSION

A. Determination

Pursuant to section 421(b)(1) of the Trade Act of 1974 (19 U.S.C. § 2451(b)(1)) and on the basis of the information obtained in this investigation, the Commission determines that uncovered innerspring units (innersprings) from China are 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 innersprings.

B. Summary

The petition in this investigation was filed on January 6, 2004, by American Innerspring Manufacturers (AIM), Memphis, TN.¹ In addition to the AIM members, the domestic industry also is composed of five other domestic producers.² The responding parties to the investigation are five Chinese producers and a Chinese trade association.³

The domestic like product is uncovered innerspring units. Innersprings are used as a component in the manufacture of innerspring mattresses. The vast majority of imported and domestic products are sold to end users, mattress manufacturers, for the manufacture of adult-sized mattresses, *i.e.*, twin, full, queen, and king sizes. The Chinese and domestic innerspring units can be used interchangeably.

1. Views of Chairman Okun and Commissioners Koplán and Pearson

Chairman Okun and Commissioners Koplán and Pearson find that the record before the Commission establishes that imports of innerspring units from China are not increasing rapidly, either absolutely or relative to domestic production or consumption. While subject imports are increasing, they remained very small in absolute and relative terms throughout the period examined, and the increase in imports was not significant during the period examined.

Under section 421, imports are increasing rapidly if there has been a significant increase in imports during a recent period of time. The term “rapidly” suggests a significant change in the quantity of imports. The term “increasing rapidly” suggests that the volume, or the amount of increase, must be significant. The Commission, therefore, must carefully evaluate the increase in imports, import levels, and the timing of the increase. The increasing rapidly test will not be met when the increase is not significant (*i.e.*, imports are increasing slowly), even though the percentage increase may be high, as when even a very small increase in imports from a base of zero or virtually zero shows a high percentage increase.

¹ Members of AIM include Atlas Spring Manufacturing; Hickory Springs Manufacturing Co.; Leggett & Platt; and Joseph Saval Spring & Wire Co., Inc. Confidential Staff Report (“CR”) at Table I-4; Public Staff Report (“PR”) at Table I-4.

² They include ***, ***, ***, ***, and ***.

³ Zhejiang Shaoxing Huaweimei Furniture Co., Ltd.; Nanjing Kylin Mattress and Furniture Factory; Nanjing Lechao Bed-Clothes Co., Ltd; Bao Ding Yongan Furniture Material Co., Ltd.; Foshan Yuantian Mattress Machinery Co., Ltd.; and the China Chamber of Commerce for Import and Export of Light Industrial Products & Arts-Crafts. *See, e.g.*, Respondents’ pre-hearing brief.

The investigative record shows that imports, whether measured in absolute or relative terms, were very small throughout the period examined. In absolute terms, imports have increased from 10,000 units in 2001, to 221,000 units in 2002, and to 411,000 units in 2003, but this occurred in a market of more than 20 million units. The ratio of imports from China to U.S. production was less than 0.05 percent in 2001, and then increased to 1.1 percent in 2002 and 2.0 percent in 2003. The ratio of imports from China to U.S. apparent consumption was less than 0.05 percent in 2001, before increasing to 1.0 percent in 2002 and 2.0 percent in 2003. While there has been an increase, the amount of increase has not been rapid either on an absolute basis or relative to domestic production or domestic consumption (i.e., subject imports have been increasing slowly). Having found that the first condition is not satisfied, Chairman Okun and Commissioners Koplan and Pearson find that market disruption does not exist.

2. Views of Vice Chairman Hillman and Commissioners Miller and Lane

Vice Chairman Hillman and Commissioners Miller and Lane reach a negative determination on the basis that the domestic innersprings industry is neither materially injured nor threatened with material injury, and market disruption therefore does not exist. They do not find it necessary to reach the issue of rapidly increasing imports.

The domestic industry is not materially injured. The various indicators show an industry that is, as a whole, very healthy. The domestic industry was highly profitable throughout the period examined. Domestic prices were stable and in some cases rising. The industry also maintained an overwhelming share of the domestic market throughout the period. While some indicators, such as production, employment, and capacity utilization, declined slightly during the period, other indicators were positive, such as rising capacity, capital expenditures, productivity, and hourly wages, and declining inventories.

The domestic industry is likewise not threatened with material injury. The indicators as a whole, particularly for 2002 and 2003, show stable prices, continuing high levels of profitability and market share, and continued ability to make the investments necessary to modernize and remain competitive. These indicators do not suggest an imminent deterioration in the industry's condition. Nor is there evidence in the form of significant unused capacity or forthcoming capacity in China, signed contracts for imports from China, shipments of such imports in transit, or inventories of innersprings from China that would indicate imminent material injury to the domestic industry.

C. Background and scope of investigation

The imported innersprings from China that are the subject of this investigation consist of the following:

a series of individual metal springs wired together and fitted to an outer wire frame and are suitable for use as the innerspring component in the manufacture of innerspring mattresses. Included within this definition are innersprings typically ranging from 34 inches to 76 inches in width and 71 inches to 84 inches in length, corresponding to the sizes of adult mattresses (twin, twin long, full, full long, queen, California king, and king) and units in smaller constructions, such as crib and youth mattresses.⁴

The coil, helical and border are the three main components that form an innerspring unit. Industry designations for innerspring units usually refer to size, gauge of border rod, and density of coils based on the number of coils in a corresponding full size innerspring unit. Eighty-five to 90 percent of

⁴ CR at I-3, PR at I-2.

U.S. mattress consumption is innerspring mattresses.⁵ Overall demand for innersprings is tied to demand for mattresses, which in turn is influenced by overall economic factors, including the strength of housing sales. Demand for innersprings, as measured by apparent U.S. consumption, declined irregularly from 1999 to 2003.⁶

The domestic innerspring industry is composed of two major groups of manufacturers: bedding suppliers that produce to supply mattress manufacturers, and maker/users that produce innersprings for internal consumption in the production of finished mattresses.⁷ The Commission sent questionnaires to *** domestic producers of innerspring units. Three domestic producers, ***.⁸ The other domestic producers are manufacturers of components for the bedding industry. Of these firms, Leggett & Platt is, by far, the largest domestic producer of innersprings; it recently acquired another domestic producer, Joseph Saval Spring & Wire Co., Inc., in October 2003.⁹

The Commission obtained data from five Chinese respondent firms that produce innersprings for sale in the U.S. market, accounting for the vast majority of production of innersprings in China for export to the United States.¹⁰

D. Statutory framework

The determination that the Commission must make is set out in section 421(b)(1)¹¹ of the Trade Act, which states in part that the Commission, upon the filing of a petition or receipt of a request or resolution, shall promptly conduct an investigation—

to determine whether products of the People's Republic of China are 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.

This standard is satisfied if the following conditions are met—

- (1) there is market disruption or the threat of market disruption to domestic producers of the like or directly competitive products; and
- (2) imports from China are in such increased quantities or under such conditions as to cause or threaten to cause such market disruption.

The term “market disruption” is defined in section 421(c)(1)¹² to exist—

⁵ CR at I-4 to I-5, PR at I-3 to I-4.

⁶ CR at V-4 to V-5, PR at V-3 to V-4.

⁷ CR at I-13, PR at I-9.

⁸ CR at I-16 to I-17, PR at I-10 to I-11.

⁹ CR and PR, Table I-4; CR at I-16, PR at I-10.

¹⁰ CR at IV-1, PR at IV-1; CR and PR, Table II-1 and IV-2.

¹¹ 19 U.S.C. § 2451(b)(1).

¹² 19 U.S.C. § 2451(c)(1).

whenever imports of an article like or directly competitive with an article produced by a domestic industry are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat of material injury, to the domestic industry.

Thus, in order to determine that market disruption exists, the Commission must find that the following conditions are satisfied—

- (1) imports of the subject product from China are increasing rapidly, either absolutely or relatively;
- (2) the domestic industry is materially injured, or threatened with material injury; and
- (3) such rapidly increasing imports are a significant cause of the material injury or the threat of material injury.¹³

Section 421(d)¹⁴ provides that the Commission, in determining whether market disruption exists, shall consider objective factors, including—

- (1) the volume of imports of the product which is the subject of the investigation;
- (2) the effect of imports of such product on prices in the United States for like or directly competitive articles; and
- (3) the effect of imports of such product on the domestic industry producing like or directly competitive articles.

Section 421(d) further provides that the presence or absence of any of these three factors “is not necessarily dispositive of whether market disruption exists.”

E. Domestic industry

Section 421(c) defines the domestic industry in terms of the producers of “like or directly competitive” products. In making its determination under section 421(c), the Commission follows a two-step practice of first determining what constitutes the product like or directly competitive with the imports subject to the investigation, and then identifying who produces it (the domestic industry).¹⁵

¹³ Section 421(c)(2) further states that the term “significant cause” refers “to a cause which contributes significantly to the material injury of the domestic industry, but need not be equal to or greater than any other cause.” 19 U.S.C. § 2451(c)(2).

¹⁴ 19 U.S.C. § 2451(d).

¹⁵ See e.g., *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 7.

1. Like or directly competitive domestic article

(a) *The statutory framework and Commission practice*

When assessing what constitutes the like or directly competitive product, the Commission applies the definitions of “like or directly competitive” in the legislative history of what is now section 202 of the Trade Act¹⁶ and considers such factors as (1) the physical properties of the article, (2) its customs treatment, (3) its manufacturing process (i.e., where and how it is made), (4) its uses, and (5) the marketing channels through which the product is sold.¹⁷ If the Commission finds that there is domestic production of a like product, it has not found it necessary to look further and determine whether there is also domestic production of directly competitive products.¹⁸ The Commission considers the decision regarding the like or directly competitive product to be a factual determination.¹⁹

Once the Commission has identified the like or directly competitive goods, it then determines whether there are clear dividing lines between the domestic goods, and thus whether there are one or several domestic products like (or directly competitive with) the imported goods.²⁰

(b) *Arguments of the parties*

Petitioner and respondents generally agree on the definition of the like or directly competitive product.

Petitioner contends that the innerspring units produced by the domestic industry are “like” the subject imported innerspring units because they are virtually identical, produced in the same manner, used for the same purpose, and marketed through the same channels.²¹ According to petitioner, both the domestic and imported innerspring units are compatible with common U.S. innerspring mattress sizes,²² and there is no material difference in the construction of domestic and imported innerspring units that affects their use by innerspring mattress manufacturers.²³ Petitioner does not include pocket coils in its definition of the like or directly competitive domestic product.²⁴

At the hearing, respondents testified that they agree with the petitioner’s definition of the domestic like product and that they do not object to the exclusion of pocket coils from the definition.²⁵

¹⁶ See e.g., *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 7.

¹⁷ See e.g., *Certain Ductile Iron Waterworks Fittings from China*, Inv. No. TA-421-4 (Critical Circumstances Phase), USITC Pub. 3642 (October 2003) at 5.

¹⁸ See e.g., *Certain Ductile Iron Waterworks Fittings from China*, Inv. No. TA-421-4 (Critical Circumstances Phase), USITC Pub. 3642 (October 2003) at 5.

¹⁹ See e.g., *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 8.

²⁰ See e.g., *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 8.

²¹ Petitioner’s pre-hearing brief at 10; Hearing transcript (“tr.”) at 104–105 (Mr. Gillon).

²² Petitioner’s pre-hearing brief at 11–12.

²³ Petitioner’s pre-hearing brief at 12.

²⁴ Hearing tr. at 105 (Mr. Gillon).

²⁵ Hearing tr. at 146 (Mr. House).

(c) *Analysis*

After considering the factors the Commission traditionally applies (i.e., physical properties, customs treatment, production processes and facilities, uses, and marketing channels), including additional information and arguments with respect to these factors, we find that domestically produced innersprings are like the imported innersprings from China described in the Notice of Investigation. We also find that the various types and sizes of domestic innersprings are part of a continuum, with no clear dividing line between them.

We begin our analysis by examining the imported product. Our Notice of Investigation describes the imported product as follows:

Uncovered innerspring units are composed of a series of individual metal springs wired together and fitted to an outer wire frame and are suitable for use as the innerspring component in the manufacture of innerspring mattresses. The imported products are provided for in statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States (HTS). Although the HTS category is provided for convenience and Customs purposes, the written description of the merchandise under investigation is dispositive.^{26 27}

Physical properties. The evidence indicates that the physical properties of the domestic products and the subject imports are substantially identical. Domestic product and subject imports are both made of individual coils of steel wire that are held together in rows by lacing a specific number of coils together. These laced coils are attached to a border rod, a heavier gauge wire, that forms the perimeter of the innerspring unit. Both domestic and subject innersprings are sized for common U.S. innerspring mattress sizes and are constructed with similar coil densities. Innersprings, whether domestic or subject, are virtually indistinguishable in appearance.²⁸

Customs treatment. Both domestic and imported innerspring units are classified within the same category, HTSUS 9404.29.9010, as uncovered innerspring units.²⁹

Manufacturing process. The evidence indicates that the subject imports and domestic product are constructed and manufactured substantially the same way. Innerspring units are produced in several stages. First, high carbon steel rod is manufactured into wire. This wire is fed into a machine, which bends the wire into a spiraled coil. The coils are then fed into an assembler and laced together by wire bent into a helix or spiral until the specified size of a unit is reached. For the border of the unit, heavy gauge wire is shaped to form a rectangular shape. This border is then attached to the assembled coils using a metal clip, metal ring, or diameter helical.³⁰ Production of both domestic and imported innerspring units involves the same components, equipment, facilities, workers, and skills.³¹

²⁶ 69 FR 2002, 2003 (Jan. 13, 2004).

²⁷ Pocketed coils, which are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material and glued together in a linear fashion, are not included in the scope of this investigation. CR at I-3, PR at I-3.

²⁸ Petitioner’s pre-hearing brief at 11–12.

²⁹ CR at I-13, PR at I-8; Petitioner’s pre-hearing brief at 13.

³⁰ CR at I-6 to I-8, PR at I-5 to I-6.

³¹ Petition at 6–7; Petitioner’s pre-hearing brief at 12.

Uses. The evidence indicates that the subject imports and domestic product have the same uses—as a component in the manufacture of innerspring mattresses.³² The U.S. shipment data show that the vast majority of both domestic and subject innerspring units are used for the manufacture of adult-sized mattresses, *i.e.*, twin, full, queen, and king sizes.³³ All five responding U.S. producers and four importers reported that U.S. and Chinese-produced innersprings can be used interchangeably.³⁴

Marketing channels. The evidence indicates that the vast majority of imported and domestic products are sold to end users, mattress manufacturers. End users account for more than *** percent of all innerspring units sold in the United States. Only a limited quantity of innersprings is sold to distributors.³⁵

(d) *Conclusions*

In view of the similarities in physical properties, uses, manufacturing process, customs treatment, and marketing channels for the imported and domestically produced innersprings, we find that domestically produced innersprings are “like” the imported innersprings. We also find that the various sizes of innersprings are part of a continuum of products, and thus we define a single “like” product. There is no clear dividing line among the various sizes and types of innersprings. The various sizes of innersprings have the same physical attributes in terms of components, materials, general appearance, are produced in the same plants and on the same equipment, are used for the same end uses, and are largely sold directly to mattress manufacturers.

2. The domestic industry

Neither section 421 nor its legislative history defines the term “domestic industry.” However, the term is defined in other statutory authorities. Section 202(c)(6)(A)(i) of the Trade Act (19 U.S.C. § 2252(c)(6)(A)(i)) defines the term “domestic industry” to mean—

with respect to an article, the domestic producers as a whole of the like or directly competitive article or those producers whose collective production of the like or directly competitive article constitutes a major proportion of the total domestic production of such article.

In previous section 421 investigations, having found domestic production of a like product, the Commission found the domestic industry to consist of the domestic firms and workers producing that product.³⁶ We follow that practice here.

In the current case, the Commission identified nine domestic firms producing innersprings: ***, Atlas Spring Manufacturing, ***, Hickory Springs Manufacturing, Leggett & Platt, Saval Spring & Wire, and ***.³⁷ With the exception of ***, the Commission collected useable financial and other data from

³² Petitioner’s pre-hearing brief at 12.

³³ CR and PR, Table I-1.

³⁴ CR at V-6, PR at V-4.

³⁵ CR at I-9, PR at I-7; Hearing tr. at 14–15 (Mr. Bush).

³⁶ *See, e.g., Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 14.

³⁷ ***. CR and PR, Table I-4.

these firms for the entire period examined. ***.³⁸ We find the domestic innerspring operations of ***, Atlas Spring Manufacturing, ***, Hickory Springs Manufacturing, Leggett & Platt, Saval Spring & Wire, and *** to constitute the relevant domestic industry.

II. VIEWS OF CHAIRMAN OKUN AND COMMISSIONERS KOPLAN AND PEARSON

The statute. To find market disruption, the statute requires that the Commission find that imports of a product from China “are increasing rapidly, either absolutely or relatively.” Thus, the increase must be occurring “rapidly.” The requirement is met if the rapid increase is in absolute terms or in relative terms. The statute does not indicate whether “relatively” means with respect to domestic production (as would generally be the case under other safeguards laws, such as section 201), or consumption, or something else. The use of the disjunctive “or” means that the rapid increase would have to be either in absolute terms or in relative terms. The use of the word “are” suggests that the rapid increase should be recent and continuing, as opposed to in the distant past.

Section 421 does not otherwise define “increasing rapidly” or the timing or circumstances of the increase. In the absence of express direction, we have determined that imports are increasing rapidly if there has been a significant increase in such imports (either absolute or relative to domestic production) during a recent period of time.^{39 40}

Arguments of the parties. The parties disagree with respect to whether imports from China are increasing rapidly. Petitioner contends that imports of innersprings from China have increased rapidly in both absolute and relative terms.⁴¹ Petitioner cites data allegedly showing that imports increased in each year of the period examined in both absolute and relative terms, and cites specific import data and percentage increases to support its claim that imports are increasing rapidly.^{42 43}

³⁸ CR and PR, Table I-4, n.2.

³⁹ See e.g., *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 14; *Certain Ductile Iron Waterworks Fittings from China*, Inv. No. TA-421-4, USITC Pub. 3657 (December 2003) at 11–12. While neither section 421 nor its legislative history expressly adopts either the section 406 practice or its legislative history, we note that section 406(e)(2)(B)(I) of the Trade Act states that imports are increasing rapidly “if there has been a significant increase in such imports (either actual or relative to domestic production) during a recent period of time.”

⁴⁰ In *Certain Ductile Iron Waterworks Fittings from China*, Inv. No. TA-421-4, USITC Pub. 3657 (December 2003) at 12, n. 60, Chairman Okun and Commissioners Koplan and Pearson stated that they would focus their analysis on the more recent time rather than the beginning of the period of investigation because it is more relevant to the purpose underlying the statute. First, the legislative history to section 421 states that the legislation “implements the anti-surge mechanism established under the U.S.-China Bilateral Trade Agreement.” Second, Congress specifically designed the product specific safeguard to “address concerns about potential increased import competition from China in the future.” U.S. House of Representatives, Committee on Ways and Means, *Permanent Normal Trade Relations with the People’s Republic of China*, H.R. No. 106-632, 106th Cong., 2nd Sess., at 16, 19 (emphasis added). Chairman Okun and Commissioners Koplan and Pearson interpret the section 421 legislative history as providing relief only if market disruption occurs or continues after China’s accession to the World Trade Organization (December 2001).

⁴¹ Petitioner’s pre-hearing brief at 14.

⁴² Petitioner’s pre-hearing brief at 14.

⁴³ In the petition and at the hearing, petitioner asserted that in recent years a substantial portion of the subject imports have been misclassified as mattress supports, and that official U.S. import statistics for innersprings substantially understated innerspring imports. See, e.g., hearing tr. at 5–6, 98–99 (Mr. Gillon). Responses to

(continued...)

Respondents assert that the statutory test is not met. They contend that the statute does not contemplate market disruption by a small quantity of imports. They note text in the legislative history of section 406 of the Trade Act of 1974 which states that a “reasonable quantity” of subject imports could be present in the domestic market “without causing market disruption.”⁴⁴ They argue that the facts in this case show that the increase in subject imports over the period examined, in absolute terms, has been “tiny,” and that import market share has increased from “zero to negligible” over the last five years.⁴⁵

Finding. For the reasons set forth below, we find that imports of the subject goods from China are not increasing rapidly and that this first criterion is not satisfied. While the subject imports are increasing, they were very small throughout the period examined. We find that they are not increasing rapidly, in either absolute or relative terms, and that their increase was not significant during the period.

Subject imports from China. Commission data compiled from questionnaire responses show that imports of innersprings from China increased from almost non-existent to very low levels during the period examined.⁴⁶ During the recent period, imports of innersprings from China increased from 10,000 units in 2001, to 221,000 units in 2002, and to 411,000 units in 2003.⁴⁷ This is in comparison with U.S. apparent consumption of innersprings, which was 21,299,000 units in 2001, 21,379,000 units in 2002, and 21,005,000 units in 2003,⁴⁸ and domestic production of innersprings, which was 21,469,000 units in 2001, 21,022,000 units in 2002, and 20,813,000 units in 2003.⁴⁹

Analysis. The facts in this investigation show that imports of innersprings from China are not increasing rapidly. While the information before us shows that the subject imports are increasing, particularly in percentage terms, we find that the subject imports are not increasing rapidly under the statute. We find that imports from China remained very small in absolute and relative terms throughout the period examined, and their increase was not significant during the period examined.

Unlike the criterion in section 202 of the Trade Act, section 421 requires not only that imports be “increasing” but that imports be “increasing rapidly.” Under section 421, the Commission has determined that imports are increasing rapidly if there has been a significant increase in imports during a recent period of time. The term “rapidly” suggests a significant change in the quantity of imports, and this is supported by dictionary definitions. For example, The New Shorter Oxford English Dictionary defines “rapid” to mean “moving or capable of moving with great speed; quick-moving, swift.”⁵⁰ The

⁴³ (...continued)

Commission questionnaires sent to importers confirmed petitioner’s claim, although they showed a lower level of imports than that estimated by petitioner. The import data relied on by the Commission are based on responses to Commission questionnaires and official Commerce statistics as adjusted by Commission staff for underreporting and for HTS misclassifications based on an analysis of Customs data. CR at I-2 to I-3, and PR at I-2. At the hearing both petitioner and the respondents expressed general agreement with the import data presented in the Commission staff report.

⁴⁴ Respondents’ post-hearing brief at 13.

⁴⁵ Hearing tr. at 11, 110 (Mr. House); Hearing tr. at 122 (Mr. Reilly).

⁴⁶ CR and PR, Table II-1 and Figures II-1 and II-2.

⁴⁷ CR and PR, Table II-1.

⁴⁸ CR and PR, Table C-1.

⁴⁹ CR and PR, Table II-2.

⁵⁰ The New Shorter Oxford English Dictionary on Historical Principles 2477 (1993). Moreover, Webster’s defines “rapid” to mean “moving, acting, or occurring with great speed.” Webster’s II New Riverside University

(continued...)

term “increasing rapidly” suggests that the volume of subject imports, or the amount of increase, must be significant.

The Commission, in deciding whether imports are increasing rapidly, must carefully evaluate the increase in imports, import levels, and the timing of the increase, and this is the practice that the Commission has followed in the preceding four investigations when it found that the subject imports *were* increasing rapidly.⁵¹ Thus, the statute suggests that something more than a simple percentage increase is required: it suggests that the increasing rapidly test will not be met when the increase in imports is not significant (i.e., imports are increasing slowly), even though the percentage increase may be high, as when even a very small increase in imports from a base of zero or virtually zero shows a high percentage increase.

Applying this analysis to the facts in the present case, we find that the increase in subject imports was not significant in either absolute or relative terms. The data show that imports, whether measured in absolute or relative terms, were small throughout the period examined and did not increase by a significant amount. In absolute terms, imports have increased from 10,000 units in 2001, to 221,000 units in 2002, and to 411,000 units in 2003, but this occurred in a market of more than 20 million units.⁵² While the subject imports increased by 2,203 percent from 2001 to 2002, and increased 85.6 percent from 2002 to 2003, these percentage increases were more the function of the virtually non-existent initial volume and did not represent a significant increase in the volume of imports.

The same is true for the respective ratios of subject imports to domestic production and domestic consumption. The ratio of imports from China to U.S. production was less than 0.05 percent in 2001, and then increased to 1.1 percent in 2002 and 2.0 percent in 2003.⁵³ Thus, the ratio has increased by less than 2 percentage points since 2001. The ratio of imports from China to U.S. apparent consumption was less than 0.05 percent in 2001, before increasing to 1.0 percent in 2002 and 2.0 percent in 2003.⁵⁴ This ratio similarly has increased by less than 2 percentage points since 2001. Thus, while both ratios have increased, we do not find that the facts in the present case demonstrate these increases are significant or rapid. This conclusion remains the same whether we focus on the most recent year or the most recent two or three years.

Our decision here is based on the facts in this case, and should not be interpreted to suggest that we have developed a new numerical test or threshold for deciding when imports are increasing rapidly. Nor should our analysis be interpreted to suggest that, in deciding whether imports are increasing rapidly, we are reaching issues more appropriately considered in our causation analysis. Our analysis here is no

⁵⁰ (...continued)

Dictionary 974 (1994). The dictionary notes that “rapid” is derived from the Latin *rapidus*, which means to seize.

⁵¹ The significance of the increase in imports in prior cases is clear from the increase in volume and the increases in the ratios of subject imports to domestic production and domestic consumption. For example, in *Certain Steel Wire Garment Hangers from China*, the Commission decision with the fullest set of publicly available data, subject imports increased in volume from 28.8 million units in 1997, to 85.0 million units in 1998, 130.7 million units in 1999, 217.9 million units in 2000, and 288.7 million units in 2001. Imports were 197.3 million units in January–September 2001 (interim 2001), and more than doubled to 405.7 million units in January–September 2002 (interim 2002). The ratio of subject imports to domestic production increased from 0.7 percent in 1997 to 8.4 percent in 2001, and was 15.5 percent in January–September (interim) 2002 as compared to 7.1 percent in interim 2001; and the ratio of subject imports to apparent U.S. consumption similarly increased, from 0.7 percent in 1997 to 7.0 percent in 2001, and was 12.9 percent in interim 2002 as compared with 6.5 percent in interim 2001. *Certain Steel Wire Garment Hangers from China*, Inv. No. TA-421-2, USITC Pub. 3575 (February 2003) at 12.

⁵² CR and PR, Table II-1.

⁵³ CR and PR, Table II-2.

⁵⁴ CR and PR, Table C-1.

different from that which we applied in earlier section 421 cases, even though we found the test satisfied in those cases.⁵⁵ As is clear from the findings in those earlier cases, we considered the amount and timing of the increase in imports, in both absolute and relative terms and as compared to earlier levels, in deciding whether the test was met.⁵⁶ What is different here are the facts with respect to the very small amount of subject imports and the small increase during the period.

Having found that the first condition is not satisfied, we find that market disruption does not exist. Accordingly, we find it is not necessary to reach the issue of material injury or threat of material injury or causation.

III. VIEWS OF VICE CHAIRMAN HILLMAN AND COMMISSIONERS MILLER AND LANE

In our view, the fundamental issue in this investigation is the lack of any indication of material injury or threat of material injury to the domestic industry. Because we reach our negative determination based on lack of material injury or threat thereof, we do not find it necessary to reach the issue of whether subject imports from China are increasing rapidly. We also need not and do not reach the issue of how to analyze whether imports are increasing rapidly under the type of fact pattern presented in this investigation.

The statute. To find market disruption, the Commission must find that the domestic industry is materially injured or threatened with material injury. The criterion is satisfied if we find either material injury or the threat of material injury.

Neither section 421 nor its legislative history defines the terms “material injury” or “threat,” identifies economic factors to be considered, or cross-references any definitions, factors, or Commission practice under other statutory authorities to which the Commission might look for instruction. However, the term “material injury” appears in both section 406 of the Trade Act of 1974 and Title VII of the Tariff Act of 1930. Title VII of the Tariff Act defines “material injury” to mean “harm which is not inconsequential, immaterial, or unimportant.”⁵⁷ Section 406 does not define “material injury,” but its legislative history contrasts the term with “serious” injury used in section 201—

⁵⁵ Commissioner Pearson participated only in the most recent of the four completed section 421 investigations, Investigation No. TA-421-4, *Certain Ductile Iron Waterworks Fittings from China*.

⁵⁶ In all previous section 421 investigations, the Commission has cited data showing the year-to-year change in the volume of imports and ratios of imports to production and imports to consumption. See *Pedestal Actuators from China*, Inv. No. TA-421-1, USITC Pub. 3557 (November 2002) at 12; *Certain Steel Wire Garment Hangers from China*, Inv. No. TA-421-2, USITC Pub. 3575 (February 2003) at 11–12; *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 16–18; and *Certain Ductile Iron Waterworks Fittings from China*, Inv. No. TA-421-4, USITC Pub. 3657 (December 2003) at 13–14. When the Commission considered whether imports were rapidly increasing in absolute terms, the Commission always considered whether the amount of increase (i.e., on a per unit or ton basis) was significant. In the last three investigations, the Commission also considered the percentage increase of such imports. In the first section 421 investigation, the Commission considered only whether the amount of increase in absolute terms was significant because subject imports had increased from zero. *Pedestal Actuators from China*, Inv. No. TA-421-1, USITC Pub. 3557 (November 2002) at 12.

⁵⁷ Section 771(7)(A); 19 U.S.C. § 1677(7)(A).

the market disruption test is intended to be more easily met than the serious injury tests in section 201. . . . the term ‘material injury’ in section 406 is intended to represent a lesser degree of injury than the term ‘serious injury’ standard employed in section 201.⁵⁸

In the absence of express direction in section 421, the Commission has found that “material injury” in section 421 cases represents a lesser degree of injury than “serious injury” under section 202 of the Trade Act.⁵⁹ This lesser degree of injury applies for both “present” injury and “threat” analyses. The Commission also has found it appropriate, in analyzing present material injury, to consider all relevant economic factors that have a bearing on the state of the industry, including the three broad factors in section 202(c)(1)(A) relating to idling of productive facilities, inability of firms to operate at a reasonable level of profitability, and unemployment or underemployment. It also has considered other relevant economic factors, such as production, sales, inventories, capacity and capacity utilization, market share, employment, wages, productivity, profits, capital expenditures, and research and development expenditures. We do not view any single factor as necessarily dispositive, and consider all relevant factors within the context of the relevant business cycle and conditions of competition that are distinctive to the affected industry.

Neither section 421 nor its legislative history defines the term “threat” of material injury, or cross references another definition, such as the statutory definition in section 202(c)(6)(D) of the Trade Act of 1974⁶⁰ or in title VII. Section 406 of the Trade Act did not define the term either. In past section 406 investigations, the Commission applied the definition in the 1974 legislative history of section 201, which defined a threat to exist “when serious injury, although not yet existing, is imminent.”⁶¹ Section 202 of the Trade Act was amended in 1994 to add a definition—new section 202(c)(6)(D) defines “threat of serious injury” to mean “serious injury that is clearly imminent.”

In the absence of express direction in section 421, we find it appropriate to apply the definition of “threat” in section 202 of the Trade Act. We also find the factors set out in section 202(c)(1)(B) of the Trade Act relating to threat of injury to be instructive and apply those factors.⁶² We employed this analysis in considering threat in the section 421 investigation *Certain Brake Drums and Rotors from*

⁵⁸ Trade Act of 1974, Senate Report No. 93-1298, 93rd Cong., 2nd Sess., *reprinted in* 1974 U.S.C.A.A.N. 7186, 7343–44.

⁵⁹ *Certain Steel Wire Garment Hangers from China*, Inv. No. TA-421-2, USITC Pub. 3575 (February 2003) at 13. *See also Pedestal Actuators from China*, Inv. No. TA-421-1, USITC Pub. 3557 (November 2002) at 13; and Views of Chairman Okun at 34.

⁶⁰ 19 U.S.C. § 2252(c)(6)(D).

⁶¹ *See, e.g.*, U.S. House of Representatives, Committee on Ways and Means, *Trade Reform Act of 1973*, H.R. No. 93-571, 93d Cong., 1st Sess., p. 47.

⁶² The factors listed in section 202(c)(1)(B) are as follows—

(i) a decline in sales or market share, a higher and growing inventory (whether maintained by domestic producers, importers, wholesalers, or retailers), and a downward trend in production, profits, wages, productivity, or employment (or increasing underemployment) in the domestic industry,

(ii) the extent to which firms in the domestic industry are unable to generate adequate capital to finance the modernization of their domestic plants and equipment, or are unable to maintain existing levels of expenditures for research and development,

(iii) the extent to which the United States market is the focal point for the diversion of exports of the article concerned by reason of restraints on exports of such article to, or on imports of such article into, third country markets.

China.⁶³ We note that in section 201 cases the Commission has employed a somewhat different analysis in considering the issue of “threat” of injury, as opposed to present injury. In its “threat” analysis, the Commission has focused more on recent trends and projections—for example, on whether there has been a recent sharp deterioration in the condition of the industry and a recent surge in imports, and whether the surge in imports and decline in industry indicators are projected to continue into the future to injurious effect.⁶⁴

Arguments of the parties. The parties disagree as to whether this criterion is satisfied, with the petitioner arguing that the domestic industry is materially injured and threatened with further material injury, and the respondents arguing that it is not.

Petitioner argued in its pre-hearing brief that the domestic industry is materially injured and threatened with further material injury; however, at the hearing and in its post-hearing brief, petitioner focused its argument on threat of material injury. With respect to present material injury, petitioner cited a decline in capacity utilization, a reduction in the number of production shifts, a negative impact on profitability and profit margins and the fact that several firms operated at a loss in 2003, declining industry operating income, declining employment, and harmful declines in sales volume, market share, units shipped, value of commercial U.S. shipments, and pressure on prices.⁶⁵

Petitioner argued the Commission should find a threat of material injury to exist when the evidence “tends to indicate that increasing imports are a significant threat of material injury to the industry (i.e. injury that has not yet occurred, but which is ‘clearly imminent’).”⁶⁶ Petitioner did not cite a statutory basis for this interpretation or Commission precedent. In support of its claim that imports are a “significant threat” of material injury, petitioner asserts that (1) prices of imports from China are so low that domestic producers would have to operate at a loss to meet those prices; (2) because domestic manufacturers cannot meet the price of imports from China, existing price differentials will continue to pull in imports from China in increasing amounts; (3) manufacturing capacity and manufacturing trends in China indicate that China’s production capacity is significant and its production can increase quickly; (4) increasing prices of raw materials will create additional pressure on domestic producers’ operating margins, hampering their ability to meet prices of the imports from China; and (5) “should” low-priced imports from China cause further closures or consolidations in the U.S. innerspring industry, it would significantly injure the domestic industry and greatly disrupt the “normal development” of the domestic innerspring market.⁶⁷

Respondents argued that petitioner had “essentially conceded” its present injury case at the hearing,⁶⁸ and that in any event industry profit and other data showed that the domestic industry was not materially injured.⁶⁹ With respect to threat of material injury, Chinese respondents argued that the Commission should reject petitioner’s “significant threat” definition as contrary to the statute and

⁶³ Inv. No. TA-421-3, USITC Pub. 3622 (August 2003) at 18–19, 24–25, 27–29.

⁶⁴ See, e.g., *Crabmeat from Swimming Crabs*, Inv. No. TA-201-71, USITC Pub. 3349 (August 2000) at I-18–21; and *Lamb Meat*, Inv. No. TA-201-68, USITC Pub. 3176 (April 1999) at I-18–21. See also, *Steel*, Inv. TA-201-73, USITC Pub. 3479 (December 2001) at 163–66.

⁶⁵ Petitioner’s pre-hearing brief at 18–21.

⁶⁶ Petitioner’s post-hearing brief at 4.

⁶⁷ Petitioner’s post-hearing brief at 4.

⁶⁸ Respondents’ post-hearing brief at 2–3.

⁶⁹ Respondents’ post-hearing brief at 3.

Commission practice,⁷⁰ and instead should, as it did in *Brake Drums and Rotors*, apply the definition of threat in section 202(c)(6)(D) of the Trade Act of 1974 and find that the threatened injury must be “clearly imminent.”⁷¹ They argued that all relevant indicators point to a negative determination with regard to threat of material injury, and in support cited data relating to the domestic industry’s market share and profits, domestic prices, and non-threatening Chinese capacity levels, inventories, and export projections to the U.S. market.⁷²

Overview of the domestic industry. As indicated above, the domestic innersprings industry consists of eight domestic producers. The Commission collected varying amounts of financial and other data from these firms for calendar years 1999 through 2003.⁷³ The vast majority of domestically produced innersprings are sold to end users that manufacture mattresses.⁷⁴ Items available from both U.S. producers and importers from China include innersprings for adult twin-, full-, queen-, and king-sized mattresses, and these items account for by far the largest share of U.S.-produced innersprings.⁷⁵ U.S. producers also offer specialty items not available from importers, including innersprings for youth, crib, and futon mattresses.⁷⁶ The overall demand for innersprings in the United States is closely tied to the demand for mattresses that use them as an input, and the demand for mattresses in turn is influenced by the strength of housing sales.⁷⁷ Apparent U.S. consumption of all categories of innersprings in quantity terms declined irregularly during 1999–2003, decreasing from 21.5 million units to 21.0 million units,⁷⁸ with most of the decline in specialty innersprings.⁷⁹

The domestic industry is not materially injured. We find that the domestic innersprings industry is not materially injured. The various indicators show an industry that is, as a whole, very healthy. The domestic industry was highly profitable throughout the period examined. Domestic prices were stable and in some cases rising. The industry also maintained an overwhelming share of the domestic market throughout the period. While some indicators such as production, employment, and capacity utilization declined slightly during the period, other indicators were positive, such as rising capacity, capital expenditures, productivity, and hourly wages, and declining inventories.

Operating income reported for U.S. producers on their innersprings operations was positive in each year of the period, and was consistently high throughout the period examined. Operating income as measured in both value and as a ratio to net sales was at its highest level in 2002 and, although down modestly in 2003, remained very high. Operating income rose from \$*** million in 1999 to \$*** million in 2000, and then fell to \$118.4 million in 2001, rose to \$123.7 million in 2002, and then fell to \$110.1 million in 2003. Operating margins remained at a consistently high level throughout the period examined, at *** percent in 1999, *** percent in 2000, 23.1 percent in 2001, 23.6 percent in 2002, and

⁷⁰ Respondents’ post-hearing brief at 14–15.

⁷¹ Respondents’ post-hearing brief at 14.

⁷² Respondents’ post-hearing brief at 16–18.

⁷³ CR and PR, Table I-4.

⁷⁴ CR at I-9, PR at I-7.

⁷⁵ CR at V-2, PR at V-2.

⁷⁶ CR at V-2, PR at V-2.

⁷⁷ CR at V-4, PR at V-3.

⁷⁸ CR at V-4 to V-5, PR at V-3 to V-4.

⁷⁹ CR and PR, Table D-1.

22.0 percent in 2003.⁸⁰ Although between *** and *** of the seven or eight reporting firms⁸¹ showed an operating loss in each year of the period examined, the *** largest domestic producers, which accounted for *** percent of domestic production, were profitable throughout the period examined.⁸² The ratio of cost of goods sold to net sales for U.S. producers was essentially stable during the period examined, with only small changes from year to year; the ratio rose to 71.9 percent in 2003, its highest level of the period, from 70.3 percent in 2002, its lowest level of the period.⁸³ U.S. producers' capital expenditures fluctuated during the period, and were at their highest level at the end of the period in 2003.⁸⁴

U.S. producers maintained an overwhelming share of the domestic market throughout the period. As measured in terms of quantity, U.S. producers' share of the U.S. market ranged between 99.8 percent in 1999 and 2001 and 98.0 percent in 2003, and as measured in value, ranged between 99.8 percent in 1999 and 2001 and 98.7 percent in 2003.⁸⁵

Prices of U.S.-produced innersprings, as measured for six specific products and on an average per unit basis, were generally steady during the period examined and in some cases rose,⁸⁶ indicating that domestic producers were able to maintain and even increase prices. The Commission was able to substantiate fully only one of *** lost revenue allegations, and only part of four of *** lost sales allegations made by the petitioner and domestic producers.⁸⁷

Other indicators of the domestic industry's condition were mixed, but were relatively steady over the period examined and were not indicative of an industry in difficulty. Domestic capacity fluctuated during the period examined, but was higher at the end of the period than at the beginning.⁸⁸ Capacity utilization, however, trended downward during the period but was up slightly in 2003, compared to 2002.⁸⁹ Domestic production trended downward during the period, but was down less than 5 percent between 1999 and 2003. Production initially rose from 21.7 million units in 1999 to 22.2 million units in 2000, and then declined to 21.5 million units in 2001, to 21.0 million units in 2002, and 20.8 million units in 2003.⁹⁰ On the other hand, U.S. producers' end-of-period inventories declined by *** percent from 1999 to 2003, and the ratio of inventories to production as well as total shipments fell ***

⁸⁰ CR and PR, Table III-6.

⁸¹ Seven firms reported usable data for the years 1999 and 2000, and eight firms reported usable data for the years 2001–2003. CR and PR, Table III-8.

⁸² CR and PR, Tables III-8 and E-1.

⁸³ CR and PR, Table III-6.

⁸⁴ CR and PR, Table III-10. U.S. producers' research and development (R&D) expenses, which throughout the period were only a fraction of capital expenditures, also fluctuated, but trended downward. Id.

⁸⁵ CR and PR, Table V-1.

⁸⁶ CR and PR, Tables V-5–10, Table D-1.

⁸⁷ CR and PR, Tables V-11, V-12; CR at V-26 to V-28, PR at V-12. Purchasers *** agreed with parts of the lost sales allegations. However, the total quantities confirmed for these *** purchasers were only ***.

⁸⁸ Capacity was 24.2 million units in 1999, rose to 25.5 million units in 2000, fell to 25.4 million units in 2001, rose to 26.7 million units in 2002, and then fell to 26.3 million units in 2003. CR and PR, Table III-1.

⁸⁹ The capacity utilization rate trended downward during the period, declining from 89.9 percent in 1999 to 87.1 percent in 2000, 84.5 percent in 2001, and 78.8 percent in 2002, and then rose to 79.0 percent in 2003. CR and PR, Table III-1.

⁹⁰ CR and PR, Table III-1.

percentage points from 1999 to 2003.⁹¹ U.S. producers' total shipments followed a similar trend to domestic production, declining during the period examined, but only by 3.7 percent.⁹²

Employment and hours worked trended downward during the period examined, but wages paid, hourly wages, and productivity all increased. Employment initially increased from 2,795 production and related workers (PRWs) in 1999 to 2,800 in 2000, and then declined to 2,727 in 2001, 2,689 in 2002, and 2,571 in 2003. Hours worked declined each year. Total wages paid to production and related workers fluctuated, but were higher in 2003 than in 1999.⁹³ However, hourly wages (in dollars per hour) increased in each year of the period examined and were at their highest level in 2003; and productivity rose during the period examined, and was at its highest level in 2003.⁹⁴

In view of the above, we find that the indicators relating to the condition of the domestic industry do not show that the domestic innersprings industry is materially injured. The industry as a whole was highly profitable throughout the period examined, prices were steady or rising, and the industry held an overwhelming share of the domestic market throughout the period. While production, shipments, capacity utilization, and employment fell, capacity, capital expenditures, hourly wages, and productivity all rose.

The domestic industry is not threatened with material injury. We also do not find that the domestic innersprings industry is threatened with material injury—that is, we do not find that material injury is clearly imminent. Rather, the indicators as a whole, particularly for 2002 and 2003, show stable prices and a stable industry with continuing high levels of operating income, a continued overwhelming share of the domestic market, and a continuing ability to make the investments necessary to modernize and remain competitive. Nor is there evidence in the form of unused capacity or forthcoming capacity in China, signed contracts, or shipments in transit that would indicate imminent material injury from the subject imports.

Significantly, as stated in our analysis of present material injury, we have found that industry operating income, which was high throughout the period examined, was at its highest level in 2002 and down only slightly in 2003; the ratio of operating income to net sales in 2003, while down slightly from the 2002 level, was still above 20 percent.⁹⁵ Domestic industry capacity, capital expenditures, hourly wages, and productivity all rose during the period examined. While capacity was down slightly in 2003, it was still higher than the levels of 1999 through 2001.⁹⁶ While domestic industry capacity utilization declined earlier in the period, it was slightly higher in 2003 than in 2002.⁹⁷ Industry capital expenditures were at their highest level of the period in 2003,⁹⁸ indicating that the industry was not having difficulty

⁹¹ Inventories initially increased from *** million units in 1999 to *** million units in 2000, and then declined to *** million units in 2001, *** million units in 2002, and *** million units in 2003. CR and PR, Table III-3.

⁹² CR and PR, Table III-2. We note that the bulk of the decline in U.S. producers' shipments occurred in specialty sizes and types of innerspring units either not imported from China at all or imported in statistically insignificant quantities. CR and PR, Table D-1.

⁹³ Wages paid totaled \$68.5 million in 1999, rose to \$72.3 million in 2000, fell to \$71.5 million in 2001, rose to \$72.1 million in 2002, and fell to \$69.9 million in 2003. CR and PR, Table III-5.

⁹⁴ CR and PR, Table III-5.

⁹⁵ CR and PR, Table III-6

⁹⁶ CR and PR, Table III-1.

⁹⁷ CR and PR, Table III-1.

⁹⁸ CR and PR, Table III-10.

raising capital to modernize plants and equipment. Hourly wages and productivity also were both at their highest levels of the period in 2003.⁹⁹

There is no evidence of a downturn in prices. Prices for the six representative products were relatively stable or rising at the end of the period examined.¹⁰⁰ For 2003 alone, quarterly pricing data for the six products show that prices were highest for three of the products in the fourth quarter of the year, the last quarter of data reported to the Commission, and at their second highest level of the year in the fourth quarter for the three other products.¹⁰¹ Petitioner asserts that it is threatened with material injury because subject imports will prevent domestic producers from raising prices in the face of increasing raw material costs. However, the pricing data for the final quarter of 2003 show an ability to raise prices.¹⁰² Moreover, the industry's unit raw material costs fell from 2002 to 2003.¹⁰³

While several indicators such as production, shipments, employment, and wages paid declined during the period examined, none have fallen substantially either during the past one or two years or over the entire period examined. Moreover, some of the decline is offset or explained by factors other than imports from China. In general, the declines in 2003 appear to be at least in part due to a decline in apparent consumption, which fell 1.8 percent in volume terms and 3.8 percent in value terms. Moreover, some of the decline in shipments of domestically produced innersprings appears to be due to a decline in demand for specialty innerspring products as to which there are virtually no imports from China. In addition, part of the decline in employment and wages paid coincided with increases in productivity.

We also examined several other possible indicators of a threat of material injury, including importer inventories, the extent to which the United States market is the focal point for the diversion of exports of the product by reason of restraints on imports or exports by other countries, and recent data and projections for Chinese innerspring capacity, production, and shipments. We do not find that these indicators suggest material injury to be imminent. There is also no evidence on the record of signed contracts with Chinese exporters or shipments of exports in transit so as to indicate the imminent loss of substantial sales by U.S. producers.

The Commission obtained data from five Chinese firms that reportedly account for all exports of the subject innersprings to the U.S. market. Data provided by those firms show that their innersprings capacity, production, and shipments, including shipments to the home market and to the U.S. market, all have increased on an annual basis during the period examined. However, the data reported by Chinese manufacturers also show that their capacity, production, and shipments, including to the United States, will increase at a slower rate in 2004 and 2005 than during 1999–2003.¹⁰⁴ While U.S. importers' current orders for subject innerspring units for delivery during January–June 2004 suggest that Chinese manufacturers' projected shipments to the U.S. market may be understated,¹⁰⁵ U.S. imports from China, even at a level indicated by those orders, would still remain very small relative to the size of the U.S. market, and the higher level of imports indicated by those orders does not indicate an imminent substantial increase in the level of imports so as to threaten material injury. Even if the *entire* level of reported Chinese capacity for 2005 were shipped to the United States, it would still represent only *** percent of 2003 apparent U.S. consumption. We also note that shipments to the Chinese home market

⁹⁹ CR and PR, Table III-5.

¹⁰⁰ CR and PR, Tables V-5–10.

¹⁰¹ CR and PR, Tables V-5–10.

¹⁰² The record also contains company specific examples of price increases. See Respondents' pre-hearing brief at 11–12 and Exhibit 5; CR at III-8, PR at III-6, n. 12

¹⁰³ CR and PR, Table III-8.

¹⁰⁴ CR and PR, Table IV-2.

¹⁰⁵ CR at IV-5, PR at IV-4.

have increased considerably during the period examined,¹⁰⁶ indicating substantial growth in demand in the domestic Chinese market, and note that Leggett & Platt, the largest U.S. domestic producer, operates four subsidiaries in China that produce innersprings for the domestic Chinese market.¹⁰⁷

End-of-period importer inventories of innersprings from China were zero during the first 3 years of the period examined, and then rose to *** units in 2002 and *** units in 2003. However, the ratio of such inventories to imports from China, which was *** percent in 2002, the first year of reported inventories, fell by nearly half in 2003 to *** percent.¹⁰⁸ The record indicates that Chinese producers export very few innerspring units to third countries,¹⁰⁹ and there is no evidence of any import or export restraints relating to innersprings produced in China that have the effect of diverting innersprings from a third country market to the U.S. market.

In view of the above, we find that the domestic innersprings industry is not threatened with material injury.

Conclusion. For the above reasons, we find that the domestic industry is neither materially injured nor threatened with material injury. Accordingly, we find that market disruption does not exist and make a negative determination in this investigation under section 421(b)(1) of the Trade Act.

IV. CONCLUSION

For the reasons stated in these views, the Commission finds that market disruption does not exist and makes a negative determination in this investigation under section 421(b)(1) of the Trade Act.

¹⁰⁶ CR and PR, Table IV-2.

¹⁰⁷ CR at IV-1, PR at IV-1.

¹⁰⁸ CR and PR, Table IV-4.

¹⁰⁹ CR and PR, Table IV-2.

PART I: INTRODUCTION

BACKGROUND

On January 6, 2004, a petition was filed on behalf of the American Innerspring Manufacturers (AIM),¹ Memphis, TN, requesting that the Commission institute an investigation under section 421(b) of the Trade Act of 1974 (19 U.S.C. § 2451(b)) (the Act), to determine whether uncovered innerspring units (innersprings)² from China are 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. Effective January 6, 2004, the Commission instituted investigation No. TA-421-5. Information relating to the timetable for the investigation is provided below.³

Effective date	Action
January 6, 2004	Petition filed with the Commission; institution of inv. No. TA-421-5 (69 FR 2002, January 13, 2004)
February 19, 2004	Commission's hearing ¹
March 8, 2004	Commission's vote on market disruption
March 8, 2004	Commission's determination on market disruption transmitted to the President
March 26, 2004	Commission's report transmitted to the President

¹ A list of witnesses appearing at the hearing is presented in app. B.

PREVIOUS INVESTIGATIONS

There have been no previous Commission investigations regarding innersprings.

STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

Section 421(c) of the Act (19 U.S.C. § 2451(c)) states that:

market disruption exists whenever imports of an article like or directly competitive with an article produced by a domestic industry are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat of material injury, to the domestic industry.

Further, as defined in section 421(d) (19 U.S.C. § 2451(d)), the Commission is instructed to consider the following objective factors in determining whether market disruption exists:

¹ Petitioning firms include Atlas Spring Manufacturing, Gardena, CA; Hickory Springs Manufacturing Co., Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc., Taylor, MI.

² For a complete description of the product subject to this investigation, see the section of this part of the report entitled *The Subject Product*.

³ The *Federal Register* notice cited in the tabulation is presented in app. A.

- (1) *the volume of imports of the product which is the subject of the investigation;*
- (2) *the effect of imports of such product on prices in the United States for like or directly competitive articles; and*
- (3) *the effect of imports of such product on the domestic industry producing like or directly competitive articles.*

Information on the subject articles, the like or directly competitive domestic articles, and the U.S. market for such articles is presented in *Part I*. Data pertaining to the volume of U.S. imports and the question of rapidly increasing imports is presented in *Part II*. Information relating to the questions of material injury, including U.S. industry data on capacity, production, shipments, inventories, employment, and financial condition, is presented in *Part III*. Available information relating to the question of the threat of material injury, including data on capacity, production, shipments, and inventories of manufacturers in China, is presented in *Part IV*. The question of the causal relationship between the alleged injury and imports, with information on U.S. market penetration of imports, imports relative to production, and pricing, is presented in *Part V*. Additional information regarding efforts by U.S. producers to compete is presented in *Part VI*.

SUMMARY DATA

A summary of data collected in the investigation for innersprings is presented in appendix C, table C-1. U.S. industry data are based on the questionnaire responses of *** firms that accounted for most known U.S. production of innersprings during the period of investigation (i.e., 1999-2003). U.S. imports are compiled from data submitted in response to Commission questionnaires and from official Commerce statistics adjusted for underreporting and for HTS misclassifications based on analysis of Customs data.⁴

THE SUBJECT PRODUCT

As described in the Commission's notice of institution, the product subject to this investigation is uncovered innerspring units composed of a series of individual metal springs wired together and fitted to an outer wire frame,⁵ suitable for use as the innerspring component in the manufacture of innerspring mattresses.⁶ Included within this definition are innersprings typically ranging from 34 inches to 76 inches in width and 71 inches to 84 inches in length, corresponding to the sizes of adult mattresses (twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. The subject product is properly imported under statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States (HTS).⁷

⁴ See the *Customs Treatment* section of this part of the report for a discussion of the issue of HTS misclassification.

⁵ U.S. Customs & Border Protection, ruling HQ 957493, Apr. 3, 1995, found at <http://rulings.customs.gov/detail.asp?ru=957493&ac=pr>, retrieved Jan. 14, 2004.

⁶ *Innersprings from China: Institution and scheduling of an investigation*, 69 FR 2002, Jan. 13, 2004; petition, p. 3.

⁷ For further discussion of tariff classification of the subject product, see the section of this part of the report entitled *Customs Treatment*.

Not included in the scope of the petition are “pocket” coils,⁸ which are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material and then glued together in a linear fashion.⁹

THE LIKE OR DIRECTLY COMPETITIVE DOMESTIC ARTICLE

In making determinations of what constitutes the domestic product like or directly competitive with the imports subject to investigation, the Commission considers such factors as (1) the physical properties of the article, (2) its customs treatment, (3) its manufacturing process (i.e., where and how it is made), (4) its uses, and (5) the marketing channels through which the product is sold.¹⁰ Petitioners asserted that U.S.-produced innersprings and the imported product from China are physically similar, manufactured and constructed similarly, used similarly, and sold through the same marketing channels to the same end users.¹¹ Respondents did not argue with those characterizations. Information regarding the like product factors is presented below.

Physical Properties

Innerspring units, used to manufacture mattresses, are composed of a series of individual metal springs wired together and fitted to an outer metal frame. There are typically three main components to an innerspring unit—the coil, helical, and border. Coils can be double cone, continuous, or pocketed.¹² Double cone coil is the most common and has three configurations: bonnell, offset, and LFK (figure I-1). Bonnell and offset are knotted,¹³ while LFK is open-ended. Bonnell configuration coil, the most commonly used and stiffest,¹⁴ is hourglass-shaped, tapering inward from top to middle and then outward from middle to bottom.¹⁵ Bonnell coils are used in about 60 percent of innerspring units sold.¹⁶ Offset configuration coil is also shaped like an hourglass but has a completely flat top and bottom.¹⁷ LFK configuration coil has a cylindrical or columnar shape.¹⁸ Continuous coil is produced from a single wire, whereas “pocketed coil is inserted into a nonwoven fabric pocket and then sealed with glue, sewn, or ultrasonically welded.”¹⁹

⁸ Jan. 16, 2004, e-mail from W. Gillon, Butler Snow, counsel to petitioner.

⁹ Jan. 16, 2004, e-mail from ***.

¹⁰ *Certain Brake Drums and Rotors from China*, Inv. No. TA-421-3, USITC Pub. 3622 (Sept. 2003), at 8.

¹¹ Petition, p. 5.

¹² Coils are made from high-carbon steel rod that is drawn into wire of various gauges (diameters) by innerspring manufacturers or suppliers; 18 gauge (1.2mm) to 3 gauge (6.2mm) wire is most commonly used. Petition, p. 7.

¹³ Knotted coils are those in which the end has been tied to the coil so as not to produce a protruding wire.

¹⁴ Petition, app. A.; Clinton Bedding Co., “Mattress Innersprings Firmness Specifications,” found at www.clintonbedding.com/firm.htm, retrieved Nov. 24, 2003.

¹⁵ Mattress Advantage, Glossary, found at www.mattressadvantage.com/Page.asp?Script=13, retrieved Jan. 14, 2004.

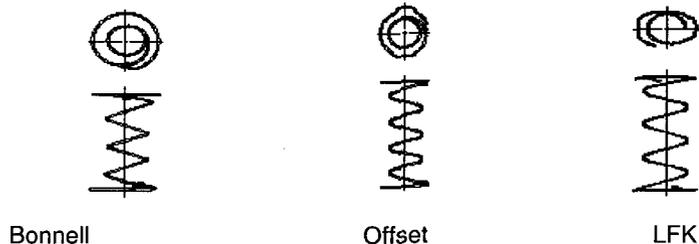
¹⁶ Hearing transcript, p. 64 (Bush).

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ Petition, p. 7. Pocketed coils are not subject to this investigation, but do account for 11 percent of domestic innerspring unit production. Petitioner’s posthearing brief, p. 35.

Figure I-1
Types of double cone coil configurations



Source: Petition, app. S.

Eighty-five to 90 percent of U.S. mattress consumption is innerspring mattresses, while 95-97 percent of mattresses imported from China are innerspring mattresses.²⁰

The innersprings produced by manufacturers in China for export to the United States and for domestic Chinese consumption differ in two respects. The grade of steel used to produce innersprings for the Chinese market is lower than that used in innersprings produced for export. A different spring design is also used to achieve a different compressability, creating a softer mattress for the U.S. market.²¹

The second main component is the helical, which is a wire bent into a spiral using a forming machine. The helical is used to lace or sew the coils together.²² The border, the third main component, is typically made of wire ranging from 3.8 mm to 6.2 mm in diameter. The finished border is 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 (figure I-2).²³

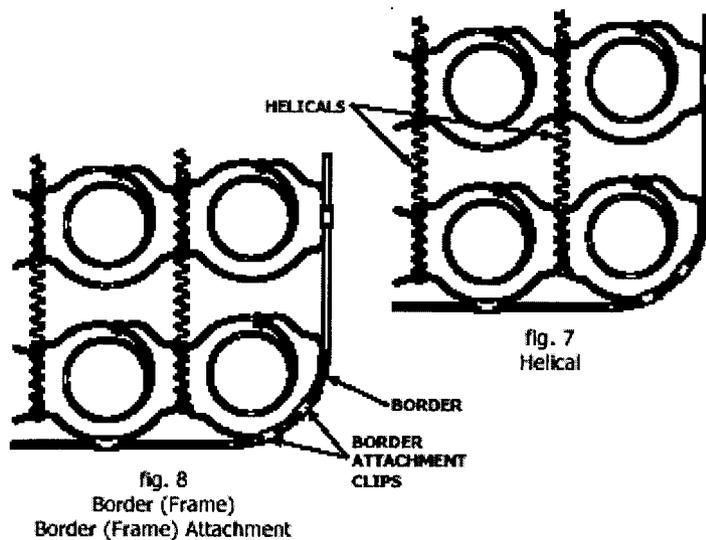
²⁰ Hearing transcript, p. 46 (Bush) and p. 56 (Wood).

²¹ Respondent's posthearing brief, app. 1, ques. 4 (as reported by the China Chamber of Commerce for Import and Export of Light Industrial Products & Arts-Crafts).

²² Pocketed coils do not use a helical. *Id.*

²³ *Id.*

Figure I-2
Innersprings: Formation of innerspring units using helicals and border



Source: Petition, app. S.

Manufacturing Process

The production of innerspring units typically has several stages, requiring a variety of machines and equipment. Chinese-made innerspring units are reportedly constructed using hand assembly operations.²⁴ Some innerspring unit manufacturers also produce mattresses, whereas others sell innerspring units to mattress manufacturers.

In the first stage, high carbon steel rod is first 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 innersprings manufacturers themselves.²⁵

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.²⁶ This “spiraled coil is then moved mechanically to a forming or knotting station” for processing.²⁷ Once completed, “the finished coil is either automatically fed into an assembly machine or manually placed into a container or another machine.”²⁸

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

²⁴ Petitioner’s posthearing brief, p. 17.

²⁵ *Id.*

²⁶ A cam is a rotating or sliding piece of machinery that enables a change from a circular to a linear motion.

²⁷ Petition, p. 7.

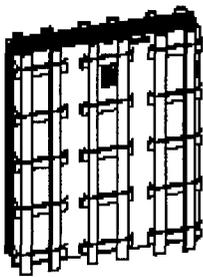
²⁸ *Id.*

preparation for the next row to be fed and attached to the previous. Once the finished size of a unit is reached, the assembled coils are ejected from the machine.”²⁹

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 tempered³⁰ according to manufacturer or customer requirements in large tempering ovens, although some manufacturers electrically temper innersprings during the forming process.

The finished innerspring unit is usually shipped compressed and enclosed in a wooden crate (figure I-3).³¹ They also can be compressed by a machine into a rolled package (figure I-3) or shipped to the customer individually without packaging.³²

Figure I-3
Innersprings: Types of packaging



Flat pack



Fig. 30
Roll Pack

Roll pack

Source: Petition, app. S.

Uses

The subject innerspring units are used in the production of twin, twin long, full, full long, queen, California king, king, crib, and youth mattresses.³³ Standard measurements and coil densities for adult mattresses, which are the same size as the innerspring units contained within, are shown in the following tabulation (measurements may vary up to one inch)³⁴:

²⁹ *Id.*

³⁰ Tempering removes the stresses placed on the coils during manufacture and assures that the coils will return to their original height after compression. American Wholesale Mattress, “The Learning Center,” found at www.bestmattress.com/learning.htm, retrieved Jan. 14, 2004; petition, p. 7.

³¹ Petition, p. 3.

³² *Id.*, app. O.

³³ *Id.*, p. 3.

³⁴ Norwalk Mattress Co., Inc., Norwalk, CT, found at www.norwalkmattress.com/standardsizes.htm, retrieved Jan. 14, 2004.

Type of innerspring unit	Measurement (Inches)	Row count	Total coils
Crib	27 x 52	NA	NA
Twin	36.5 x 73.5	9 x 24	216
Twin Long	36.5 x 78.5	9 x 26	234
Full	51.5 x 73.5	13 x 24	312
Full Long	51.5 x 78.5	13 x 26	338
Queen	58.5 x 78.5	15 x 26	390
California King	70 x 82.5	17 x 27	459
King	74.5 x 78.5	18 x 26	468

Source: Petition, p. 10; Norwalk Mattress Co., Inc., found at www.norwalkmattress.com/standardsizes.htm, retrieved Jan. 14, 2004.

Industry designations for innerspring units usually “refer to size, gauge of border rod, and density of coils based on the number of coils that would be in a corresponding full size innerspring unit.”³⁵ The gauge of the individual coils may also be included in the industry designation.³⁶

Information regarding U.S. shipments by producers and importers, by types, are presented in table I-1. These data indicate that, from 1999 to 2003, U.S. producers’ shipments of adult-size innersprings as a share of their total U.S. shipments rose *** percentage points while shipments of specialty sizes fell ***. Shipments of imports from China were *** of adult sizes.

Table I-1
Innersprings: U.S. producers' and U.S. importers' U.S. shipments, shares by types, 1999-2003

* * * * *

Marketing Channels

Information provided in response to the Commission’s questionnaires regarding producer and importer sales by marketing channels is presented in table I-2. The vast majority of innersprings sold in the United States, whether domestically produced or imported from China, are sold to end users (mattress manufacturers). End users account for *** percent of all innerspring units sold in the United States. Only a limited quantity of innersprings are sold to distributors.

Table I-2
Innersprings: U.S. producers' and U.S. importers' U.S. shipments, by channels of distribution, 1999-2003

* * * * *

³⁵ Petition, p. 11.

³⁶ *Id.*

Customs Treatment

Table I-3 presents current tariff rates for innersprings, which are properly provided for in HTS statistical reporting number 9404.29.9010. The petition alleged that imports of innersprings have been misclassified and are entering the United States under HTS statistical reporting number 9404.10.0000 (mattress supports, free of duty), because “the total quantities of subject imported innerspring units under HTSUS 9404.29.9010 do not reflect the quantities of imported innerspring units made in China that are being sold to mattress manufacturers in the United States.”^{37 38} Tariff provisions relating to HTS subheading 9404.10.0000 are also presented in table I-3.

**Table I-3
Innersprings: Tariff rates, 2004**

HTS provision	Article description ¹	General ²	Special ³	Column 2 ⁴
		Rates (percent <i>ad valorem</i>)		
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
9404.29.9010	Mattresses: Of other materials: Other: Uncovered innerspring units	6	Free, 4.5 (SG)	40

¹ An abridged description is provided for convenience; however, an unabridged description may be obtained from the respective headings, subheadings, and legal notes of the HTS.
² Normal trade relations, formerly known as the most-favored-nation duty rate, applicable to imports from China.
³ Free rate applies to eligible goods under the Generalized System of Preferences, African Growth and Opportunity Act, Caribbean Basin Economic Recovery Act, Andean Trade Preference Act, United States-Israel Free Trade Area, NAFTA-originating goods of Canada and Mexico, United States-Chile Free Trade Agreement, and the United States-Jordan Free Trade Area Implementation Act. The reduced “SG” rate is available under the United States-Singapore Free Trade Agreement.
⁴ Applies to products of a small number of countries that do not enjoy normal trade relations duty status.

Source: Harmonized Tariff Schedule of the United States (2004).

³⁷ *Id.*, p. 4. In response to the Commission’s importers’ questionnaire, most firms reported imports of the subject product from China under HTS statistical reporting number 9404.10.0000. ***.

The petition also alleges that the subject innerspring units “could be entering improperly under a variety of other headings” including statistical numbers 7320.20.5010, 7320.90.5010, and 7326.20.0050. *Id.*, p. 5. Heading 7320 covers springs of iron or steel, while heading 7326 covers miscellaneous articles of iron or steel, with general duty rates ranging from 2.9 to 3.9 percent *ad valorem*. ***.

³⁸ At the Commission’s hearing, petitioners testified that they have written to and spoken with Customs and Border Patrol officials in Washington, D.C., and the ports of Long Beach and Los Angeles, CA, regarding innersprings imports that may be misclassified. Petitioners testified that they have received no response and that one Customs investigator indicated that the misclassification issue “wasn’t something he was going to get aggressive about” in the near future. Hearing transcript, pp. 82-84 (Wood and Miller).

THE U.S. MARKET

U.S. Producers

The innerspring industry in the United States comprises two major groups of manufacturers: bedding suppliers that produce to supply mattress manufacturers, and maker/users that produce innersprings for internal consumption in the production of finished mattresses.³⁹

Questionnaires were sent to the *** firms listed in the petition as well as three firms identified in hearing testimony as maker/users. Table I-4 presents U.S. producers' plant locations, positions on the petition, U.S. production, and shares of total reported U.S. production in 2003. Company profiles are presented below.

Table I-4

Innersprings: U.S. producers, their positions on the petition, plant locations, U.S. production, and shares of U.S. production, 2003¹

Firm	Position on petition	Plant location(s)	U.S. production (1,000 units)	Share of U.S. production (percent)
Atlas	Petitioner	Gardena, CA	***	***
Hickory	Petitioner	Holland, MI Sheboygan, WI South Micaville, NC	***	***
Leggett & Platt	Petitioner	Phoenix, AZ Southgate, CA Monroe, GA Winchester, KY Oxford, MA Carthage, MO High Point, NC Mason, OH Georgetown, KY	***	***
Saval	Petitioner	Taylor, MI	***	***
***	***	***	***	***
Total			***	100.0

¹ In addition to the firms listed below, *** was also included in the petition as a U.S. producer of innersprings that is not a member of AIM. Petition, app. L. However, ***.

² ***.

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

³⁹ Hearing transcript, p. 14 (Bush).

Petitioners

Atlas Spring Manufacturing (Atlas), headquartered in Gardena, CA, has manufactured bedding and furniture products since 1932.⁴⁰ Atlas produces Bonnell and specialty coils and produces both standard innerspring units and those for futons, cribs, waterbeds, and institutions (dormitories, hospitals, and the government).⁴¹ Innersprings accounted for *** percent of Atlas' total sales in the facilities where innersprings were produced during 2003; ***.

Hickory Springs Manufacturing Co. (Hickory) of Hickory, NC, is a large integrated manufacturer of components for the furniture and bedding industries, as well as other industries such as bonded carpet cushion, carbon steel wire, and extruded plastics for the construction and telecommunications industries.⁴² Spiller Springs, a former independent innersprings manufacturer based in Sheboygan, WI, is a subsidiary of Hickory. Innersprings accounted for *** percent of Hickory's total sales in the facilities where innersprings were produced during 2003;⁴³ ***.

Leggett & Platt, Inc. (Leggett & Platt), based in Carthage, MO, is a diversified Fortune 500 company that earned \$4.3 billion in sales in 2002 (18 percent international sales).⁴⁴ Leggett & Platt is a leading North American manufacturer of components for residential furniture and bedding; retail store fixtures and point-of-purchase displays; components for office furniture; nonautomotive aluminum die castings; drawn steel wire; automotive seal support and lumbar systems; and bedding industry machinery for wire forming, sewing, and quilting.⁴⁵ The company is organized into five segments: residential furnishings (47 percent of sales), commercial fixturing and components (20 percent), industrial materials (13 percent), aluminum products (11 percent), and specialized products (9 percent).⁴⁶ Innersprings are part of the residential furnishings segment and have been manufactured by Leggett & Platt since 1933. Innersprings accounted for *** percent of Leggett & Platt's total sales in the facilities where innersprings were produced during 2003; ***.

Joseph Saval Spring & Wire Co., Inc. (Saval) of Taylor, MI, manufactured innersprings, box springs, and wood foundations during the period of investigation. Leggett & Platt purchased Saval in October 2003. Innersprings accounted for *** percent of Saval's total sales in the facilities where innersprings were produced during 2003.

Nonpetitioning Firms

***⁴⁷ ***.

⁴⁰ Atlas Spring Manufacturing, found at www.atlasspring.com/Company/index.html, retrieved Jan. 26, 2004.

⁴¹ Petition, app. A.

⁴² Hickory Springs Manufacturing Co., found at www.hickorysprings.com/companyinfo/companyhistory.html, retrieved Jan. 26, 2004.

⁴³ Hickory reportedly ***." Hickory producer questionnaire response, section II-2.

⁴⁴ Leggett & Platt 2002 Annual Report, found at http://media.corporate-ir.net/media_files/NYS/LEG/reports/AR2002.pdf, retrieved Jan. 26, 2004.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ ***.

*** 48
*** 49 ***
*** 50
*** 51

Recent Mergers and Acquisitions

Consolidation has taken place in the innersprings industry in recent years. For example, ***.⁵² Leggett & Platt ***⁵³ and ***.⁵⁴

During 2002, Leggett & Platt purchased seven businesses, including two in the Residential Furniture Segment.⁵⁵ The Residential Furniture acquisitions added \$16 million to Leggett & Platt's total sales.⁵⁶ Leggett & Platt had acquired 10 businesses in 2001 and 21 companies in 2000.⁵⁷ However, all of the springs and box springs companies that were acquired in these years were foreign entities.⁵⁸

Innersprings companies have also acquired other businesses to enhance their competitiveness through vertical integration. In 2002, Leggett & Platt acquired a bankrupt steel mill, which opened in the first half of 2003 and is expected to supply half of the company's steel rod requirements.⁵⁹ The steel rod mill is expected to produce about 450,000 tons, or up to \$150 million, of rod annually at full capacity.⁶⁰

U.S. Importers

The petition listed 10 U.S. importers of innersprings from China.⁶¹ The importers identified during this investigation, their U.S. imports, and shares of total imports during 2003 is presented in table I-5. Three companies, ***, accounted for the majority of total imports from China (**% percent). The

48 ***

49 ***

50 ***

51 ***

⁵² Petition, app. L.

⁵³ Leggett & Platt producer questionnaire response, section II-2.

⁵⁴ Petition, app. L.

⁵⁵ Innersprings belong to this industry segment. Leggett & Platt, Form 10-K, p. 2, found at www.sec.gov/Archives/edgar/data/58492/000095013103001429/d10k.htm, retrieved Jan. 27, 2004.

⁵⁶ *Id.*, p. 2.

⁵⁷ *Id.*, p. 29.

⁵⁸ Leggett & Platt, Inc., Fact Book, No. 2003, p. A-3, found at http://media.corporate-ir.net/media_files/NYS/LEG/custom/2003tableofcontents.htm, retrieved Jan. 28, 2004.

⁵⁹ Steel rod is used to manufacture innersprings. Leggett & Platt, Form 10-K, p. 5, found at www.sec.gov/Archives/edgar/data/58492/000095013103001429/d10k.htm, retrieved Jan. 27, 2004.

⁶⁰ *Id.*

⁶¹ Petition, app. M.

vast majority (***) percent) of imports of innersprings from China were imported by five firms for resale to mattress manufacturers.⁶²

Table I-5

Innersprings: U.S. importers of product from China, their U.S. imports, and shares of total U.S. imports from China, by firms, 2003

* * * * *

Apparent U.S. Consumption

As shown in table I-6 and Figure I-4, apparent U.S. consumption of innersprings decreased by 2.4 percent in terms of quantity during 1999-2003. See *Part V* for a discussion of producers' and importers' comments on trends in demand during the period examined.

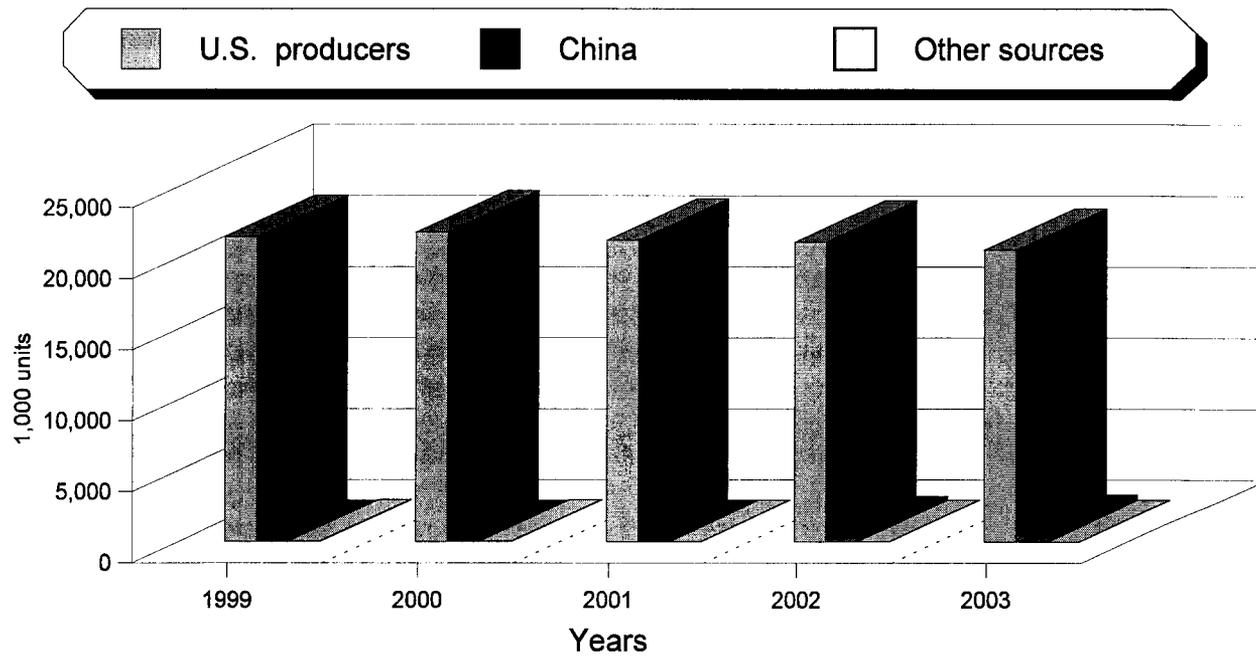
Table I-6

Innersprings: Apparent U.S. consumption, 1999-2003

Item	Calendar year				
	1999	2000	2001	2002	2003
Quantity (1,000 units)					
U.S. producers' shipments	21,476	21,820	21,258	21,129	20,575
U.S. imports from--					
China	(¹)	7	10	221	411
All other sources	51	51	31	28	18
Total U.S. shipments of imports	51.2	58	41	250	429
Apparent consumption	21,527	21,879	21,299	21,379	21,005
Value (\$1,000)					
U.S. producers' shipments	479,278	500,161	496,694	506,581	484,601
U.S. imports from--					
China	4	133	174	2,864	5,894
All other sources	1,121	1,137	989	915	517
Total U.S. shipments of imports	1,125	1,270	1,163	3,779	6,412
Apparent consumption	480,403	501,431	497,858	510,360	491,013
¹ Less than 500 units.					
Source: Compiled from data submitted in response to Commission questionnaires, and official Commerce statistics adjusted for underreporting and for HTS misclassifications based on analysis of Customs data.					

⁶² The four firms that imported innersprings from China for internal consumption in the production of finished mattresses include ***.

Figure I-4
Innersprings: Apparent U.S. consumption, 1999-2003



Source: Table I-6.

PART II: THE QUESTION OF RAPIDLY INCREASING U.S. IMPORTS

U.S. IMPORTS

Because significant quantities of subject products were not imported under the proper HTS number, 9404.29.9010, U.S. imports in this report were compiled from responses to Commission questionnaires, and official Commerce statistics adjusted to correct for underreporting and for misclassifications using Customs data.¹ Adjusted data regarding U.S. imports of innersprings are presented in table II-1.

From 1999 to 2003, imports from China rose from less than 1,000 units to 411,000 units, while the unit value decreased 46 percent, from \$25.15 per unit to \$14.34 per unit. China's share of total imports in terms of quantity rose from 0.3 percent in 1999 to 95.7 percent in 2003. Nonsubject sources of innersprings include Canada, Germany, Mexico, and South Africa.

U.S. IMPORTS RELATIVE TO PRODUCTION

Table II-2 presents information regarding the relationship of U.S. innerspring imports to U.S. production. The ratio of innerspring imports from China to U.S. production rose from less than 0.05 percent in 1999 to 2.0 percent in 2003.

Absolute and relative levels of U.S. imports from China are graphically depicted in figures II-1 and II-2. Additional information regarding import market shares is presented in *Part V* of this report.

¹ The methodology for estimating U.S. imports is as follows: (a) imports from China are based first, on data compiled from responses to the Commission's importers' questionnaire (comprising 96 percent of total U.S. imports from China, as adjusted); supplemented secondly by an estimate of underreported imports of innersprings from China entering under HTS item 9404.10.0000 (based on a per-unit analysis of import entries and transactions with an average unit value of \$8-20) listed in Customs data, information provided in the petition (apps. I & M), and follow-up contacts with identified importers (the resulting estimated imports comprised 4 percent of total imports from China, as adjusted); and (b) imports from nonsubject sources were compiled from official import statistics for HTS item 9404.29.9010. There has been no allegation by any party that imports of innersprings from nonsubject sources have been misclassified during the period of investigation.

Table II-1
Innersprings: U.S. imports, by sources, 1999-2003

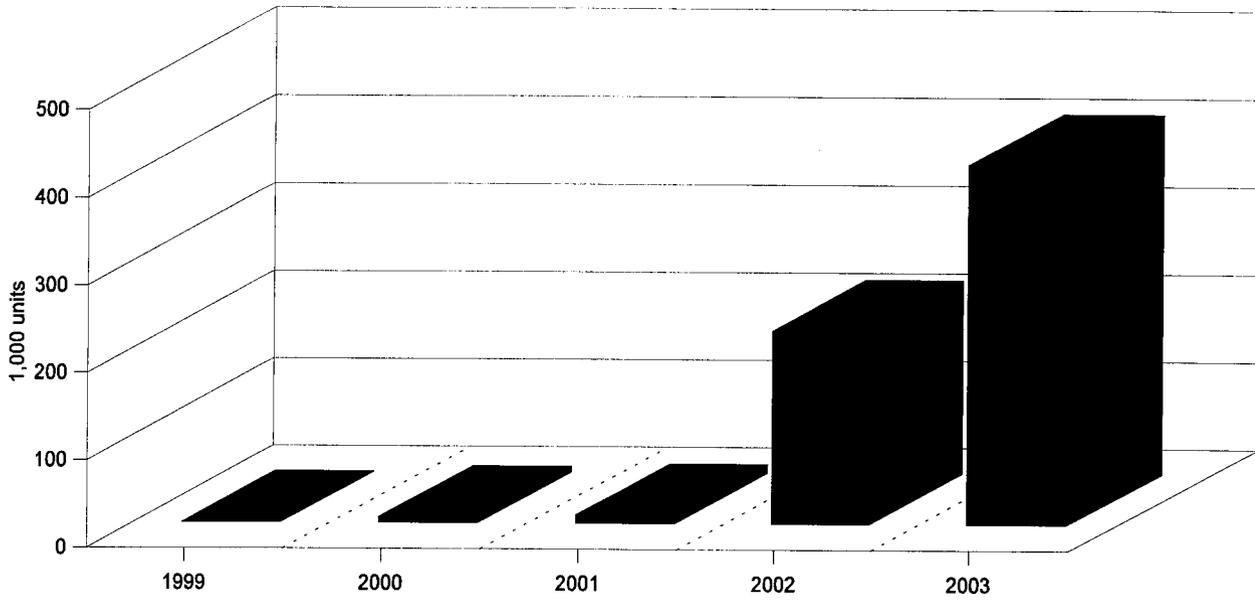
Source	Calendar year					Period changes			
	1999	2000	2001	2002	2003	1999-2000	2000-2001	2001-2002	2002-2003
Quantity (1,000 units)					(Percent, except where noted)				
China	(¹)	7	10	221	411	3,873.8	44.0	2,203.1	85.6
Other sources	51	51	31	28	18	0.4	-39.6	-9.2	-34.7
Total	51	58	41	250	429	13.0	-30.0	513.6	72.0
Value (1,000 dollars)²									
China	4	133	174	2,864	5,894	3,050.6	30.8	1,545.4	105.8
Other sources	1,121	1,137	989	915	517	1.4	-13.0	-7.5	-43.5
Total	1,125	1,270	1,163	3,779	6,412	12.9	-8.4	224.8	69.7
Unit value (per unit)									
China	\$25.15	\$19.94	\$18.10	\$12.93	\$14.34	-20.7	-9.2	-28.6	10.9
Other sources	21.88	22	31.84	32.44	28.06	1.0	44.0	1.9	-13.5
Average	21.90	21.86	28.59	15.14	14.93	-0.2	30.8	-47.1	-1.4
Share of quantity (percent)									
China ³	0.3	11.5	23.6	88.7	95.7	11.2	12.1	65.1	7.0
Other sources ³	99.7	89	76.4	11.3	4.3	-11.2	-12.1	-65.1	-7.0
Total	100.0	100.0	100.0	100.0	100.0	(⁴)	(⁴)	(⁴)	(⁴)
Share of value (percent)									
China ³	0.4	10.5	15.0	75.8	91.9	10.1	4.5	60.8	16.1
Other sources ³	99.6	90	85.0	24.2	8.1	-10.1	-4.5	-60.8	-16.1
Total	100.0	100.0	100.0	100.0	100.0	(⁴)	(⁴)	(⁴)	(⁴)
¹ Less than 500 units. ² Landed, duty-paid. ³ Period changes are in percentage points. ⁴ Not applicable.									
Source: Compiled from data submitted in response to Commission questionnaires, and official Commerce statistics adjusted for underreporting and for HTS misclassifications based on analysis of Customs data.									

Table II-2

Innersprings: U.S. production, U.S. imports, and the ratio of U.S. imports to U.S. production, 1999-2003

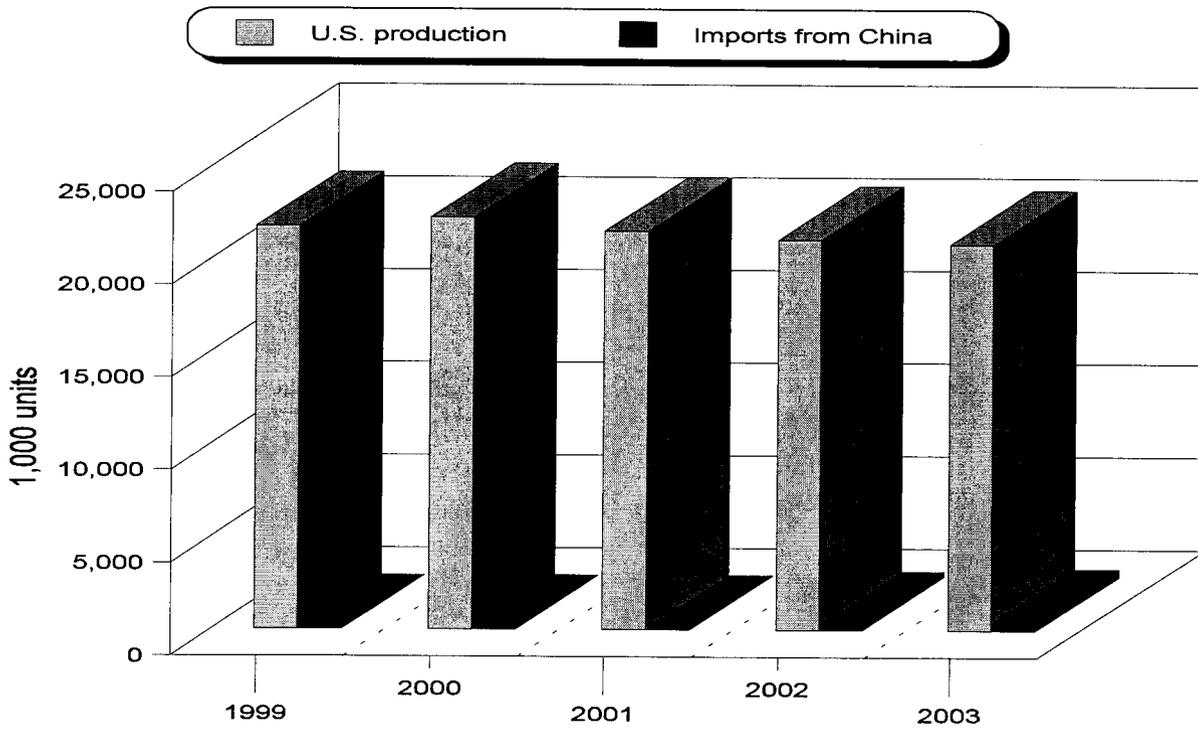
Item	Calendar year				
	1999	2000	2001	2002	2003
U.S. production (1,000 units)	21,723	22,204	21,469	21,022	20,813
U.S. imports from--(1,000 units)					
China	(¹)	7	10	221	411
All other sources	51	51	31	28	18
Total imports	51	58	41	250	429
Ratio of imports to production-(percent)					
China	(²)	(²)	(²)	1.1	2.0
All other sources	0.2	0.2	0.1	0.1	0.1
Total imports	0.2	0.3	0.2	1.2	2.1
¹ Less than 500 units. ² Less than 0.05 percent.					
Source: Compiled from responses to the Commission's questionnaires, and official Commerce statistics adjusted for HTS misclassifications based on analysis of Customs data.					

Figure II-1
Innersprings: U.S. imports from China, 1999-2003



Source: Table II-1.

Figure II-2
Innersprings: U.S. production and U.S. imports from China, 1999-2003



Source: Table II-2.

PART III: THE QUESTION OF MATERIAL INJURY

The information in this section of the report was compiled from responses to the Commission's questionnaires. Eight firms, which are believed to account for the vast majority of U.S. production of innersprings during the period of investigation, supplied information on such operations. These eight firms include the petitioners, Atlas, Hickory, Leggett & Platt, and Saval, as well as nonpetitioners ***.¹ The majority of data presentations in this part of the report provide information on the U.S. industry as a whole. Company-by-company data are presented in appendix E.

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Table III-1 presents data (graphically presented in figure III-1) concerning capacity, production, and capacity utilization for domestic manufacturers of innersprings. U.S. producers reportedly do not produce other products on the same equipment and machinery used in the production of innersprings.

Table III-1
Innersprings: U.S. production capacity, production, and capacity utilization, 1999-2003

Item	Calendar years				
	1999	2000	2001	2002	2003
Capacity (1,000 units)	24,155	25,481	25,405	26,682	26,339
Production (1,000 units)	21,723	22,204	21,469	21,022	20,813
Capacity utilization (percent)	89.9	87.1	84.5	78.8	79.0

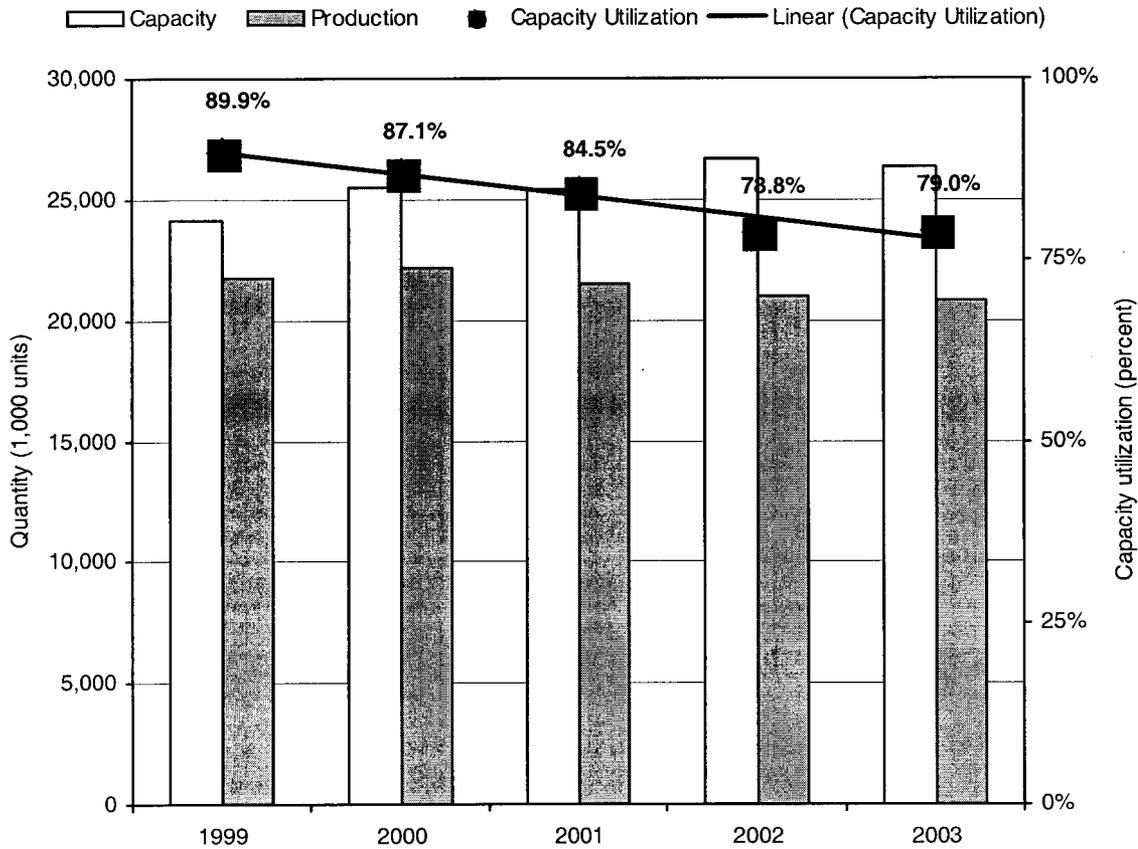
Source: Compiled from data submitted in response to Commission questionnaires.

U.S. production capacity rose 9.0 percent from 1999 to 2003, while production fell 4.2 percent.² Capacity utilization from 1999 to 2003 fell almost 11 percentage points, from 89.9 percent to 79.0 percent.

¹ As noted previously in this report, although *** is listed in the petition as a U.S. producer of innersprings that is not a member of AIM, ***. Table I-4, fn. 1.

² Leggett & Platt reportedly "***." Leggett & Platt producer questionnaire response, section II-2.

Figure III-1
Innersprings: U.S. production capacity, production, and capacity utilization, 1999-2003



Source: Table III-1.

U.S. PRODUCERS' U.S. SHIPMENTS, EXPORT SHIPMENTS, AND INVENTORIES

U.S. producers' shipments of innersprings are presented in table III-2 and inventories are shown in table III-3. Internal consumption for use in the production of finished mattresses accounted for *** percent of total U.S. shipments during 1999-2003. Exports were a small (***) and stable share of total U.S. shipments, and export markets included Canada, Mexico, Puerto Rico, Saudi Arabia, Dominican Republic, Australia, and Israel. From 1999 to 2003, U.S. producers' total shipments by quantity fell slightly while remaining almost even in terms of value. The value per unit from 1999 to 2003 rose *** percent. Inventories in terms of quantity fell *** percent from 1999 to 2003. The ratio of inventories to production as well as total shipments fell *** percentage points from 1999 to 2003.

**Table III-2
Innersprings: U.S. producers' shipments, by types, 1999-2003**

Item	Calendar year				
	1999	2000	2001	2002	2003
Quantity (1,000 units)					
Commercial U.S. shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. shipments	21,476	21,820	21,258	21,129	20,575
Export shipments	***	***	***	***	***
Total shipments	***	***	***	***	***
Value (\$1,000)					
Commercial U.S. shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. shipments	479,278	500,161	496,612	506,581	484,601
Export shipments	***	***	***	***	***
Total shipments	***	***	***	***	***
Unit value					
Commercial U.S. shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. shipments	22.32	22.92	23.36	23.98	23.55
Export shipments	***	***	***	***	***
Total shipments	***	***	***	***	***
Share of quantity (percent)					
Commercial U.S. shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	100.0	100.0	100.0	100.0	100.0
Share of value (percent)					
Commercial U.S. shipments	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. shipments	***	***	***	***	***
Export shipments	***	***	***	***	***
Total shipments	100.0	100.0	100.0	100.0	100.0

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

Table III-3
Innersprings: U.S. producers' end-of-period inventories, 1999-2003

* * * * *

IMPORTS AND OTHER PURCHASES BY U.S. PRODUCERS

Table III-4 presents data, as reported by U.S. producers, on their imports, purchases of imports, and other purchases of innersprings. Such imports and purchases of innersprings by U.S. producers are minimal (***) percent of U.S. production) and are made in order to supplement product lines or because of production restraints.

Table III-4
Innersprings: U.S. producers' direct imports, purchases of U.S. imports, other purchases, and ratios to production, by sources, 1999-2003

* * * * *

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

*** firms that produced innersprings were able to supply employment information related to their U.S. establishments in which the subject product is produced. The data are shown in table III-5. From 1999 to 2003, the number of production and related workers decreased by 8.0 percent and the number of hours worked decreased by 13.8 percent. During the same time period, the hourly wage rose 17.7 percent, productivity rose 9.0 percent, and the unit labor cost rose 7.6 percent.

Table III-5
Innersprings: U.S. producers' employment-related indicators, 1999-2003

Item	Calendar year				
	1999	2000	2001	2002	2003
Production and related workers (PRWs)	2,795	2,800	2,727	2,689	2,571
Hours worked by PRWs (1,000 hours)	5,775	5,596	5,375	5,298	4,977
Wages paid to PRWs (1,000 dollars)	68,487	72,250	71,510	72,076	69,871
Hourly wages	\$11.62	\$12.72	\$13.09	\$13.34	\$13.68
Productivity (units per hour)	3.7	3.9	3.9	3.9	4.0
Unit labor costs (per unit)	\$3.15	\$3.26	\$3.36	\$3.46	\$3.39

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

FINANCIAL EXPERIENCE OF U.S. PRODUCERS

Background

The financial data of the innersprings operations of *** U.S. producers are reflected in this section of the report: ***, Atlas, ***, Hickory, Leggett & Platt, Saval, and ***. Atlas and Saval reported their financial results on the basis of fiscal years ending July and June, respectively. The other producers reported their financial results on a calendar-year basis.³ U.S. producers reported their financial results using U.S. generally accepted accounting principles (GAAP).

Saval, the *** U.S. producer in terms of sales revenue, was purchased by Leggett & Platt in October 2003. At the beginning of January 2004, Saval's operations were closed and its manufacturing equipment was distributed to various Leggett & Platt facilities.⁴

Internal consumption ranged from *** of the industry's total volume and was reported by ***. *** companies for which internal consumption represented either all or the majority of activity. ***'s average unit value of internal consumption was higher than its average unit commercial sales value.⁵ In contrast, ***'s average unit internal consumption values were lower than their average unit commercial sales values.⁶ The only company to report transfers to related firms was ***.⁷

Leggett & Platt's revised raw material cost represents purchased cost less an elimination for related parties' estimated profit.⁸ ***'s manufacturing costs, as reported to the Commission, do not include transfer profits.⁹

Operations on Innersprings

Income-and-loss data for U.S. producers are presented in table III-6 and on a unit basis in table III-7. Table III-8 presents selected company-specific data as referenced in this section of the report. Table III-9 presents a variance analysis of the overall financial results.¹⁰

Leggett & Platt and *** represent the majority of total sales revenue reported for the period: around *** percent and *** percent, respectively. Revenue and profitability were highest in 2002, while volume was highest in 2000. As indicated in the variance analysis, operating income in 2003 was

³ Hickory confirmed that, while it uses a fiscal year ending in September, the financial results reported to the Commission were on a calendar year basis. ***. Feb. 25, 2004 phone conversation with ***.

⁴ Jan. 26, 2004, fax from ***, Saval, to David Boyland, ITC auditor. ***. Jan. 29, 2004 e-mail from ***, Saval, to David Boyland, ITC auditor.

⁵ ***. Feb. 24, 2004 phone conversation with ***.

⁶ ***. Jan. 22, 2004, e-mail from ***, Hickory, to David Boyland, ITC auditor. ***. Jan. 27, 2004, memo from ***, Leggett & Platt, to David Boyland, ITC auditor.

⁷ ***.

⁸ Leggett & Platt's 2002 10-K notes that "{s}ubstantially all of the Company's requirements for steel wire, an important material in many of the Company's products, are supplied by Company-owned wire drawing mills. Examples of products produced using steel wire include residential furnishings such as innersprings and box springs, commercial fixtures such as displays, shelving and racks and specialized products such as automotive seating systems." Leggett & Platt's 2002 10-K at p. 6.

⁹ Feb. 6, 2004 e-mail from ***, to David Boyland, ITC auditor. ***.

¹⁰ ***.

lower compared to 2002 primarily due to reduced average unit revenue in conjunction with higher average unit cost of goods sold (COGS) and lower volume.

Differences in company-specific average sales values suggest that variations in cost are likely due, at least in part, to product mix.¹¹ Although higher raw material costs at the end of the period were referenced by several respondents, changes in raw material costs (which appear to have peaked in 2002) during the period of investigation were not a major factor in the industry's financial performance.¹² Average unit direct labor and other factory costs also generally increased throughout the period. At the end of the period, higher average unit other factory costs appear to have been, at least in part, due to increased energy costs and lower fixed cost absorption.¹³ For most of the period, higher average unit sales values offset increases in average unit COGS and added to average unit gross profit. In 2003, overall gross margins slipped due to lower average unit revenue and higher average unit other factory costs.

As a ratio to net sales, SG&A expenses of *** were consistently higher than those calculated for the other U.S. producers. This helps to explain why, despite generating consistent gross margins, *** reported operating losses throughout the period, *** reported operating losses in 2000 through 2003, and *** reported operating losses in 2002 and 2003.¹⁴ The industry's overall increase in SG&A expenses in 2001 was primarily attributable to ***.¹⁵

¹¹ ***. Feb. 24, 2004 phone conversation with ***.

¹² According to Leggett & Platt's 2002 10-K, ". . . the Company did experience higher raw material costs (most notably steel) during the past year ." Leggett & Platt's 2002 10-K at p. 6. In 2003, higher raw material costs were also noted as a factor affecting profitability. Leggett & Platt's 2003 3rd quarter 10-Q at p. 15. According to a 2004 Leggett & Platt news release, the company initiated price increases in the fourth quarter 2003 to help cover higher input costs. An additional price increase (across all product lines for an average 4-6 percent increase) was to be implemented in the first quarter 2004. Retrieved on Jan. 21, 2004 from http://biz.yahoo.com/prnews/031208/cgmo78_1.html. ***.

¹³ Leggett & Platt's 2003 3rd quarter 10-Q states that "EBIT {earnings before interest and taxes of Leggett & Platt's Residential Furnishings' business segment of which innersprings is a part} declined {for the first three quarters of 2003} \$22.8 million, or 13.0% during the period, as the absence of last year's restructuring costs were more than offset by impacts from foreign currency, the absence of last year's partial reversal of Canadian lumber duty accruals, lower production levels at the Company's U.S. spring facilities, sales mix and higher raw material and energy costs." (emphasis added) Leggett & Platt's 2003 3rd quarter 10-Q at p. 15.

¹⁴ ***. Jan. 23, 2004 fax from ***, Atlas Spring, to David Boyland, ITC auditor. ***.

¹⁵ ***.

Table III-6

Innersprings: Results of U.S. producers' operations, fiscal years 1999-2003

Item	Fiscal year				
	1999	2000	2001	2002	2003
	Quantity (1,000 units)				
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total net sales	***	***	21,781	21,814	21,122
Value (\$1,000)					
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total net sales	***	***	513,196	524,713	501,291
COGS	***	***	361,133	369,049	360,314
Gross profit	***	***	152,063	155,664	140,976
SG&A expenses	***	***	33,651	31,952	30,900
Operating income	***	***	118,412	123,712	110,076
Interest expense	***	***	3,490	2,426	2,281
Other expenses	***	***	2,025	797	1,293
Other income items	***	***	224	306	367
Net income	***	***	113,121	120,795	106,869
Depreciation/amortization	***	***	22,899	21,579	20,458
Estimated cash flow	***	***	136,019	142,374	127,328
Ratio to net sales (percent)					
COGS	***	***	70.4	70.3	71.9
Gross profit	***	***	29.6	29.7	28.1
SG&A expenses	***	***	6.6	6.1	6.2
Operating income	***	***	23.1	23.6	22.0
Net income	***	***	22.0	23.0	21.3
Number of firms reporting					
Operating losses	***	***	2	3	3
Data	***	***	8	8	8

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

Table III-7

Innersprings: Results of U.S. producers' operations (per unit), fiscal years 1999-2003

Item	Fiscal year				
	1999	2000	2001	2002	2003
Unit value (dollars)					
Commercial sales	***	***	***	***	***
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
Total net sales	***	***	23.56	24.05	23.73
Cost of goods sold					
Raw material	***	***	8.39	8.60	8.52
Direct labor	***	***	1.99	2.05	2.03
Other factory costs	***	***	6.21	6.27	6.50
Total COGS	***	***	16.58	16.92	17.06
Gross profit	***	***	6.98	7.14	6.67
SG&A expenses	***	***	1.55	1.46	1.46
Operating income	***	***	5.44	5.67	5.21
Source: Compiled from data submitted in response to Commission questionnaires.					

Table III-8

Innersprings: Selected financial information of U.S. producers' operations, fiscal years 1999-2003

* * * * *

Table III-9

Innersprings: Variance analysis of financial results, fiscal years 1999-2003

Item	Fiscal years				
	1999-2003	1999-2000	2000-2001	2001-2002	2002-2003
	Value (\$1,000)				
Sales variance:					
Price variance	***	***	***	10,737	(6,772)
Volume variance	***	***	***	780	(16,650)
Net sales variance	***	***	***	11,517	(23,422)
COGS variance:					
Cost variance	***	***	***	(7,367)	(2,976)
Volume variance	***	***	***	(549)	11,711
Net COGS variance	***	***	***	(7,916)	8,735
Gross profit variance	***	***	***	3,601	(14,688)
SG&A variance:					
Expense variance	***	***	***	1,750	38
Volume variance	***	***	***	(51)	1,014
Net SG&A variance	***	***	***	1,699	1,052
Net operating variance	***	***	***	5,300	(13,635)
Summarized as:					
Price variance	***	***	***	10,737	(6,772)
Net cost/expense	***	***	***	(5,617)	(2,938)
Net volume variance	***	***	***	180	(3,926)
Net operating variance	***	***	***	5,300	(13,635)

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

Capital Expenditures, Research and Development Expenses, and Investment in Productive Assets

The responding producers' data on capital expenditures, research and development (R&D) expenses, and the original cost and book value of property, plant, and equipment are shown in table III-10.¹⁶

Table III-10

Innersprings: Capital expenditures, research and development (R&D) expenses, and overall value of property, plant, and equipment for fiscal years 1999-2003

* * * * *

¹⁶ ***. Jan. 27, 2004 memo from ***, Leggett & Platt, to David Boyland, ITC auditor.

Capital and Investment

The Commission requested U.S. producers to describe any actual or anticipated negative effects due to imports of innersprings from China on their growth, investment, and ability to raise capital or development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments. Their responses are presented in appendix F.

PART IV: THE QUESTION OF THREAT OF MATERIAL INJURY

THE CHINESE INDUSTRY AND MARKET

The petition identified eight manufacturers/exporters of innersprings in China but presented useable contact information for only two of the firms. Information regarding five manufacturers/exporters in China was provided by counsel for the foreign producers. Respondents argued that the five firms account for the universe of Chinese firms that produce innersprings for export to the United States.¹ The firms and their production and exports to the United States during 2003 are presented in table IV-1.

Data with respect to innersprings operations of the five respondent firms in China are presented in table IV-2. Capacity, production, internal consumption, home market shipments, and export shipments to the United States increased dramatically from 1999 to 2002. Capacity and home market shipments then leveled off, while production, internal consumption, and export shipments to the United States continued to increase somewhat. Capacity utilization rose from 2000 to 2003 and is expected to continue to rise through 2005.

Leggett & Platt operates four subsidiaries in China that manufacture innersprings for the domestic Chinese market. *** data were submitted for the four firms which are located in ***. Available data regarding Leggett & Platt's innersprings operations in China are presented in table IV-3.

The Chinese market for mattresses (and thus innersprings) is estimated to range from 12 million to 15 million units.² Respondents and Leggett & Platt's innersprings operations in China account for approximately *** million units of capacity to produce innersprings in China (tables IV-2 and IV-3).

¹ Respondents' prehearing brief, p. 27, fn. 11; respondents' posthearing brief, pp. 5 and 6.

² Hearing transcript, p. 56 (Wood); respondents' posthearing brief, p. 23.

Table IV-1

Innersprings: Chinese manufacturers/exporters, U.S. importing firms, production in China, and exports to the United States, by firms, 2003

Firm	U.S. importing firm(s)	Innersprings share of total sales (percent)	Production		Exports to U.S.	
			Quantity (1,000 units)	Share (percent)	Quantity (1,000 units)	Share (percent)
Bao Ding	***	***	***	***	***	***
Foshan	***	***	***	***	***	***
Nanjing Kylin	***	***	***	***	***	***
Nanjing Lechao	***	***	***	***	***	***
Zhejiang Huaweimei	***	***	***	***	***	***
Total			***	100.0	***	100.0
<p>¹ Bao Ding exports to the United States ***. ² Bao Ding reported that it plans to ***.” ³ Foshan ***.</p>						
<p>Source: Compiled from data submitted in response to Commission questionnaires.</p>						

Table IV-2

Innersprings: Chinese production capacity, production, shipments, and inventories, 1999-2003 and projected 2004-05

Item	Actual experience					Projections ¹	
	1999	2000	2001	2002	2003	2004	2005
Quantity (1,000 units)							
Capacity	***	***	630	754	752	752	755
Production	***	***	336	514	578	637	675
End of period inventories	***	***	***	***	***	***	***
Shipments:							
Internal consumption	***	***	***	***	***	***	***
Home market	***	***	***	***	***	***	***
Exports to--							
The United States	0	0	***	223	265	298	308
All other markets	***	***	***	***	***	***	***
Total exports	***	***	***	***	***	***	***
Total shipments	***	***	339	505	575	638	679
Value (\$1,000)							
Exports to the United States	***	***	***	2,608	3,078	3,375	3,453
Unit value (per unit)							
Exports to the United States	***	***	***	\$11.69	\$11.63	\$11.32	\$11.22
Ratios and shares (percent)							
Capacity utilization	***	***	53.3	68.2	76.8	84.7	89.4
Inventories to production	***	***	***	***	***	***	***
Inventories to total shipments	***	***	***	***	***	***	***
Share of total quantity of shipments:							
Internal consumption	***	***	***	***	***	***	***
Home market	***	***	***	***	***	***	***
Exports to--							
The United States	0.0	0.0	***	44.2	46.1	46.7	45.3
All other markets	***	***	***	***	***	***	***
All export markets	***	***	***	***	***	***	***
<p>¹ *** reported high growth in the Chinese economy with projected increases of *** percent in home market sales, third-country exports expected to increase based on existing orders or trials, and exports to the United States projected to increase 20 percent based on the quality of the firm's products. *** reportedly based its projections on "customer's request."</p> <p>² Not applicable.</p>							
Source: Compiled from data submitted in response to Commission questionnaires.							

Table IV-3

Innersprings: Leggett & Platt’s Chinese capacity and exports to all other markets, 1999-2003 and projected 2004-05

* * * * *

Chinese Producers

Foshan Yuantian Mattress Machinery Co., Ltd. was founded in 1983 in Foshan City, Guangdong. Foshan Yuantian designs, manufactures, and sells mattress machinery, mattresses, and components.³ Founded in 1985, Nanjing Kylin Mattress and Furniture Factory is located in Nanjing and manufactures mattresses, foam, and mattress components.⁴ Zhejiang Huaweimei Furniture Group produces Bonnell innerspring mattresses, sofas, beds, and bedding, and other products. Zhejiang Huaweimei, located in Shaoxing, Zhejiang, has been in business for more than 20 years and employs 1,200 people.⁵

U.S. IMPORTERS’ INVENTORIES

Data on U.S. importers’ inventories of innersprings are presented in table IV-4, indicating modest amounts of subject and no nonsubject innersprings held in inventory.

Table IV-4

Innersprings: U.S. importers’ end-of-period inventories of imports, 1999-2003

* * * * *

U.S. IMPORTERS’ CURRENT ORDERS

Through its questionnaire, the Commission asked U.S. importers whether they had arranged for the importation of the subject innerspring units from China for delivery after December 31, 2003. Four U.S. importers reported imports of innersprings totaling *** units for delivery during January-June 2004: ***⁶ ***. ***.^{7 8}

³ Foshan Yuantian Mattress Machinery Co., Ltd., found at www.yuantian.com/eng/profile/htm, retrieved Jan. 26, 2004.

⁴ Nanjing Kylin Mattress and Furniture Factory, found at www.qtcj.com/news/en/e_news_detail.asp?id=52, retrieved Jan. 26, 2004.

⁵ Zhejiang Huaweimei Furniture Group, found at www.huaweimei.com/brief.htm, retrieved Jan. 26, 2004.

⁶ Importer questionnaire responses, p. 4, question II-3.

⁷ Feb. 27 and Mar. 2, 2004, telephone interviews with***. *Id.* Counsel for respondents reported that ***. Mar. 2, 2004, submission to Brian Allen.

⁸ Although respondents have argued that there are a small number of U.S. importers of innersprings from China operating in highly localized (western U.S.) selling areas, petitioners have alleged that during 2004 imports of innersprings from China will be shipped to the eastern United States. Respondents’ posthearing brief, p. 21; and hearing transcript, p. 61 (Bush), and petitioner’s posthearing brief, attach. C. ***.” (Feb. 26, 2004, telephone interview with ***).

IMPORT RESTRICTIONS OR REMEDIES IN OTHER COUNTRIES

Innersprings from China are reportedly not subject to import restrictions or remedies in any WTO-member countries.⁹

⁹ Foreign producer questionnaire responses, p. 3, question 5.

PART V: THE QUESTION OF THE CAUSAL RELATIONSHIP BETWEEN THE ALLEGED INJURY AND IMPORTS

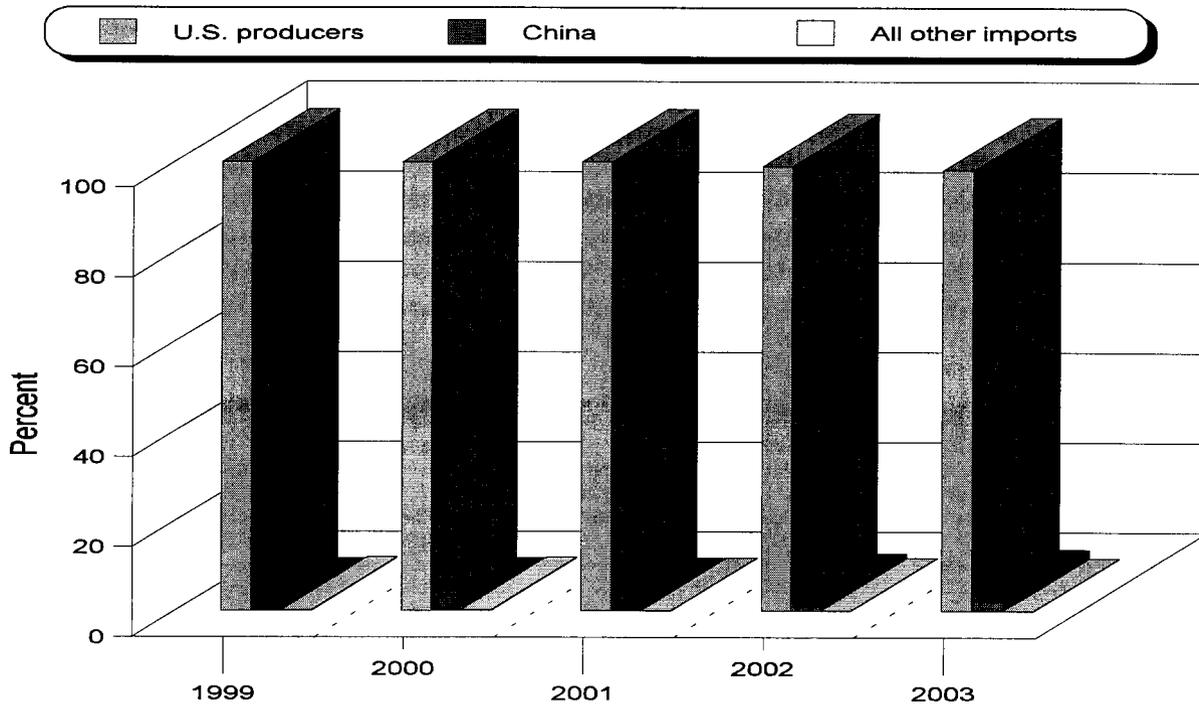
U.S. MARKET PENETRATION OF IMPORTS

Apparent U.S. consumption and U.S. market shares are presented in table V-1 and figure V-1. Apparent consumption from 1999 to 2003 fell slightly in terms of quantity but rose slightly in terms of value. From 1999 to 2003, U.S. imports of innersprings from China as a share of apparent consumption increased 2.0 percentage points in terms of quantity, from less than 0.05 percent to 2.0 percent, and in terms of value rose 1.2 percentage points, from less than 0.05 percent to 1.2 percent. From 1999 to 2003, U.S. producers' share of consumption in terms of quantity fell 1.8 percentage points, from 99.8 percent to 98.0 percent, and in terms of value fell 1.1 percentage points, from 99.8 percent to 98.7 percent.

Table V-1
Innersprings: Apparent U.S. consumption and market shares, 1999-2003

Item	Calendar year				
	1999	2000	2001	2002	2003
Quantity (1,000 units)					
Apparent consumption	21,527	21,879	21,299	21,379	21,005
Value (\$1,000)					
Apparent consumption	480,403	501,431	497,858	510,360	491,013
Share of quantity (percent)					
U.S. producers' shipments	99.8	99.7	99.8	98.8	98.0
U.S. imports from--					
China ²	(¹)	(¹)	(¹)	1.0	2.0
All other sources	0.2	0	0.1	0.1	0.1
Total imports	0.2	0.3	0.2	1.2	2.0
Share of value (percent)					
U.S. producers' shipments	99.8	99.7	99.8	99.3	98.7
U.S. imports from--					
China	(¹)	(¹)	(¹)	0.6	1.2
All other sources	0.2	0	0.2	0.2	0.1
Total imports	0.2	0.3	0.2	0.7	1.3
¹ Less than 0.05 percent. ² If only importer questionnaire data were used (per respondents' argument) then imports from China would account for 1.9 percent of apparent consumption during 2003 and remain unchanged for the prior periods.					
Source: Compiled from responses to Commission questionnaires, and official Commerce statistics adjusted for HTS misclassifications based on analysis of Customs data.					

Figure V-1
Innersprings: Market shares of apparent U.S. consumption, 1999-2003



Source: Table V-1.

PRICES AND RELATED INFORMATION

Market Segments and Channels of Distribution

U.S. producers and importers of Chinese-produced innersprings sell many of the same products to the same categories of customers. Items available from both U.S. producers and importers from China include innersprings for adult twin-, full-, queen-, and king-sized mattresses. These items accounts for by far the largest share of U.S.-produced innersprings. However, U.S. producers also offer specialty items not available from importers including innerspring for youth, crib, and futon mattresses. Most sales by both producers and importers go to end users that manufacture mattresses.¹

U.S.-produced innersprings are sold in all area of the United States where mattresses are produced, while sales of imports from China are limited to specific states. Leggett & Platt, the largest U.S. producer sells ***. Of the other four producers that described market areas, one said that it sells ***, one said that its sales are ***, one said that its sales are in ***, and one said that its sales are ***. Of the four responding importers, one sells in ***, one sells in ***, one sells in ***, and one sells in ***.

¹ In some cases, individual mattress manufacturers are members of associations that included other firms making the same products lines under licensing agreements. For example, seven separate companies actually manufacture Serta Mattresses under such arrangements. Each of these companies has separate manufacturing, marketing, and sales organizations. *** (Feb. 19, 2004, telephone interview).

Lead times for delivery of innersprings varied widely according to questionnaire responses. For most U.S.-produced innersprings, they ranged from one to five days. However, one producer reported that its lead time is three working days for local delivery and eight working days for long-haul deliveries. For most imports, lead times ranged from one to seven days.

U.S. inland shipping distances for U.S.-produced innersprings were compared with those for imports from China. For U.S. producers, *** percent of their U.S. sales occur within 100 miles of their storage or production facility, *** percent are within distances of 101 to 1,000 miles, and *** percent occur at distances of over 1,000 miles from their facilities. For imports from China, an average of *** percent of sales occurred within 100 miles of importers' storage facilities, about *** percent were within 101 to 1,000 miles, and *** percent involved distances of over 1,000 miles.

Supply Considerations

Domestic Producers

The supply response of domestic innerspring producers to changes in price depends on such factors as the level of excess capacity, the availability of alternate markets for U.S.-produced innersprings, inventory levels, and the ability to shift to the manufacture of other products. The capacity utilization rates ranged from a low of *** percent in 2002 and 2003 to a high of *** percent in 1999. Exports are relatively small, accounting for *** percent of shipments annually during 1999-2003. The ratio of end-of-period inventories to U.S. shipments ranged from *** percent to *** percent during 1999-2003. None of the U.S. producers reported making any other products on the equipment used to make innersprings.

Chinese Producers

The supply response of Chinese producers to changes in price in the U.S. market is likely to depend upon such factors as capacity utilization rates in China, the availability of home markets for Chinese producers, and the availability of other export markets besides the United States. Chinese producers reported a capacity utilization rate of 76.8 percent in 2003, suggesting that they have some capability of expanding production for export. Also the United States market accounted for about 46 percent of Chinese industry shipments and virtually all of China's exports in 2003. Therefore, there is currently little, if any, potential for diverting Chinese shipments from other export markets to the United States. However, China's home market currently accounts for about 30 percent of its total shipments and thus Chinese suppliers may have the potential to shift sales from the home market to the United States, although the quality of steel used to produce innersprings for the Chinese market is lower than that used in exports as noted in *Part I*.

Demand Considerations

The overall demand for innersprings in the United States is closely tied to the demand for mattresses that use them as an input, and the demand for mattresses is in turn influenced by the strength of housing sales.² The demand for innersprings as measured by combined apparent consumption of all

² This information came from the executive summary of an annual report published in 2002 by the International Sleep Association. In addition, at the hearing, Mr. Bush of Hickory Springs stated that the bedding industry depends
(continued...)

categories of innersprings in quantity terms declined irregularly during 1999-2003, decreasing from 21.5 million units to 21.0 million units.

Demand Trends

When producers and importers were asked how demand for innersprings in the United States had changed since 1999, responses were mixed. Two of the five responding U.S. producers, ***, stated that demand had decreased during this period due to a poor economy. *** also attributed the decline to increased imports from China. *** stated that demand was flat during 1999-2000 and then declined during 2001-2002 before increasing slightly in 2003. *** stated that the principal factors affecting demand are the economy, housing starts, and relocations. *** said that there was some increase in demand for certain high profile products, but there had been little change overall in the types of products used. *** said that its demand has increased. Among importers, ***, the only importer to comment, stated that demand had decreased due to the substitution of alternative materials such as foam and latex.

Substitute Products

When producers and importers were asked what other products could be substituted for innersprings in mattresses, air, water, and foam were frequently mentioned. While mattress producers could shift to these other products, it is unlikely that this would occur as the result of a small increase in the price of innersprings.³

Substitutability Issues

Producers and importers were asked to compare U.S.-produced and imported products both in terms of interchangeability and in differences in product characteristics such as quality, availability, technical support or sales conditions that significantly affect sales. Questionnaire respondents were asked to compare the U.S.-produced products with imports from China and with imports from nonsubject countries. Two producers cited certain advantages for the U.S. product. They were also asked to compare imports from China with imports from nonsubject countries.

In the comparisons between the United States and China, all five responding producers and four importers agreed that the products can be used interchangeably, but opinions differed concerning the effects of significant differences in product characteristics or sales conditions. Three of the five U.S. producers said that such differences affect sales. Two producers cited certain U.S. advantages, including better quality, short delivery lead times, a greater product range, and the ability to ship small quantities. Of the two importers that commented, one said that the products that they import from China are equal or superior to the U.S.-produced innersprings and the other also said that imports from China are superior in quality.

In the comparisons between the United States and nonsubject countries, all five responding

² (...continued)

greatly upon housing starts with sales at their highest levels during summer months when relocations are most likely to occur. He said that the industry has recently recovered from the disruptions that resulted from September 11, 2001. He also stated that the bedding industry is a mature industry with major growth unlikely to occur during a given year. Hearing transcript, p. 44 (Bush).

³ According to ***, the substitution of other products would be based upon a marketing decision rather than a small change in the price of innersprings (Jan. 23, 2004, telephone interview).

producers and three importers agreed that the products can be used interchangeably, but opinions again differed concerning the effects of significant differences in product characteristics or sales conditions. Two of four producers stated that the differences affect sales, again citing factors listed for China such as better quality, short delivery lead times, and a greater product range. Among importers that commented, two said that the differences are not significant, and the others indicated that they did not know.

In the comparisons between China and nonsubject imports, all five responding producers and three importers said that the products can be used interchangeably, while opinions varied concerning differences. Three producers stated that there were no differences. One producer stated that there was very little difference between imports from China and imports from South Africa. However, this producer said that the quality of imports from Germany is superior to the quality of imports from China. Among importers, two said that the differences between imports from China and nonsubject imports are not significant, and the other two stated that they did not know.

U.S. Purchasers

Of the 20 purchasers that provided questionnaires, 17 are end users that use the innersprings in mattresses, and three are distributors. The combined value of purchases by these firms amounted to about \$38 million in 2003. Most of these purchasers know the country of origin of the mattresses that they purchase.⁴ Seven of the firms bought imports from China during 2000-2003, two bought from South Africa, and one bought from Germany. None of the other purchasers reported buying any imported innersprings.

When asked whether U.S.-produced innersprings can be used in the same applications as imports from China, ten purchasers responded. Nine said that they can be used in the same applications, and one said that they can be used interchangeably in some instances but not in others. Two firms also said that imports from South Africa can be used in the same applications as those produced in the United States, and one firm said that imports from Germany can be used in the same application. None of the other firms provided country comparisons.

When asked whether the relative shares of purchases from different countries had changed during the past five years, seven firms reported that their purchases of imports from China had increased relative to purchases of U.S.-produced innersprings. Four of the firms attributed the change to lower prices of the Chinese imports. Two others reported that they made the change due to both price and quality considerations.⁵ The other purchaser reported that it increased purchases of the Chinese product due to increased prices by the domestic suppliers and to what it considered to be unfair treatment in pricing by these producers from customer to customer. One firm that increased purchases of imports from China due to price also reported that it had also increased its purchases of imports from South Africa and Germany due to their lower price. Another firm reported that its purchases of imports from South Africa had increased due to price.

Factors Affecting Purchasing Decisions

When asked to rank the three most important factors in purchasing decisions, responses by the 20 purchasers show that quality was ranked first by eight purchasers, followed by price with seven as shown in table V-2. Availability also ranked as an important consideration.

⁴ Of the 20 purchasers, 16 reported that they are always aware of whether the innersprings that they purchase are U.S.-produced or imported, three reported that they are sometimes aware, and one reported that it is never aware.

⁵ One of these firms also said that it was able to get springs of a special design from the Chinese source.

Table V-2**Innersprings: Ranking of factors used in purchasing decisions as reported by U.S. purchasers**

Factor	Number of firms reporting		
	Number one factor	Number two factor	Number three factor
Availability	3	2	4
Price	7	7	4
Quality	8	6	3
Other ¹	2	4	7

¹ Other factors include delivery, factory location, lead time, prearranged contract, product design, product range, service, and traditional supplier.

Note: Some firms listed less than three factors as important purchasing considerations.

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

Purchasers were also asked to rank the factors shown in table V-3 in terms of their importance in purchasing decisions. Each purchaser was asked to indicate whether a factor was very important, somewhat important, or not important. Averaging the results for responding purchasers indicates that the most important factors were product quality (meeting specifications), lowest price, product consistency, reliability of supply, and availability.

Table V-3**Innersprings: Importance of purchasing factors**

Factor	Average importance score ¹	Factor	Average importance score ¹
Availability	2.7	Product quality - meeting specs	2.9
Delivery terms	2.2	Product quality - exceeding specs	2.6
Delivery time	2.5	Product range	2.3
Discounts offered	2.4	Reliability of supply	2.9
Lowest price	2.9	Technical support	2.3
Minimum quantity requirements	2.0	Transportation network	2.2
Packaging	2.3	U.S. transportation costs	2.3
Product consistency	2.9		

¹ 3 = very important, 2 = somewhat important, 1 = not important.

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

Purchasers were further asked to compare U.S.-produced innersprings with imports from China and other countries for the same 15 factors, indicating whether the domestic product was superior, comparable, or inferior. The results for the comparisons between the United States and China are presented in table V-4 and show that a majority of the eight responding purchasers ranked the U.S. product superior or comparable in 14 of the factors. However, Chinese products were ranked lower in price. In addition to the comparisons between the United States and China, two purchasers compared the U.S. product with imports from South Africa and another compared it with imports from Germany. In the comparisons between the U.S. product and imports from South Africa, both purchasers ranked the

Table V-4

Innersprings: Comparisons between U.S.-produced and imported products from China as reported by U.S. purchasers

Factor	Number of firms reporting		
	U.S. superior	Comparable	U.S. inferior
Availability	6	2	0
Delivery terms	5	2	0
Delivery time	6	2	0
Discounts offered	3	3	0
Lowest price ¹	0	0	8
Minimum quantity requirements	5	2	0
Packaging	1	7	0
Product consistency	2	6	0
Product quality (meets expectations)	6	2	0
Product quality (exceeds expectations)	5	3	0
Product range	8	0	0
Reliability of supply	4	2	2
Technical support/service	5	1	2
Transportation network	5	1	1
U.S. transportation costs	2	4	1

¹ A rating of superior means that the price is generally lower. For example, if a firm reports "U.S. superior," this means that it rates the U.S. price generally lower than the China price.

Note: Some purchasers did not rank all of the factors.

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

U.S. product superior or comparable in all characteristics where comparisons were made except price where South Africa was ranked superior in both cases. In the comparison between the U.S. product and Germany, the U.S. product was ranked superior or comparable to the German product in eight characteristics, while the German product was ranked superior in six characteristics including price, packaging, product consistency, product quality (meeting expectations), product quality (exceeding expectations), and product range.

Elasticity Estimates

Preliminary estimates of elasticities are discussed below and these estimates may be used in the preparation of remedy recommendations. Parties were invited to comment on these estimates in their briefs, but neither side commented.

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. This elasticity depends upon such factors as the level of excess capacity, the availability of alternate markets and the ability to shift to alternative products. The earlier analysis of these factors indicates that the U.S. industry should have some flexibility in adjusting supply in response to price change. Therefore, this elasticity is likely to be in the 5 to 10 range.

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 availability of substitute products, as well as the cost share of innersprings in the production of mattresses.⁶ While substitutes for innersprings are available, a small change in the prices of innersprings is unlikely to lead to substitutions. Therefore, the aggregate demand for innersprings is probably relatively inelastic; a range of -.5 to -1.0 is suggested.

Substitution Elasticity

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported innersprings from China.⁷ Based on available information indicating that the domestic and imported products from China can generally be used interchangeably, the elasticity of substitution between U.S.-produced innersprings and imported innersprings is likely to be in the range of 3 to 5.

Factors Affecting Pricing

Exchange Rates

Nominal exchange rates are not presented since the Chinese currency, the yuan, has consistently been pegged to the U.S. dollar since January 1, 1994. Therefore, the U.S. and Chinese currencies were virtually constant in relation to each other throughout 1999-2003.⁸ Real exchange rates cannot be calculated since no producer price index for China is available.

⁶ Available information indicates that innersprings account for a small to moderate share of the overall cost of mattresses. *** estimates that the cost shares range from about 10 percent for more expensive mattresses to as much as 20 percent for the less expensive mattresses (Jan. 23, 2004, telephone interview). In its importers questionnaire, *** estimates that innersprings typically account for about 20 percent of the cost of the mattress.

⁷ The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like product to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject imports (or vice versa) when prices change.

⁸ International Monetary Fund, *International Financial Statistics*, April 2003 and October 2003.

Tariff Rates and Transportation Costs to U.S. Market

Available information on duties collected and ocean transportation costs on items subject to investigation is very limited since a large share of imported innersprings from China and other foreign sources enter the United States under a basket categories of goods that include other items not being investigated. All imports under HTS item 9404.29.9010, are subject to investigation, although imports under this heading account for a very small share of all subject imports. Customs data show that during 2003 calculated import duties for imports from China averaged about 6 percent of the customs value, and ocean transportation averaged about 25 percent of the customs value.⁹

Pricing Practices

Prices of innersprings are determined in a number of ways. Among producers, prices are generally negotiated both for individual transactions and for contracts. However, of the four importers of Chinese-produced innersprings, three reported that they use price lists.

Prices of innersprings are quoted on both an f.o.b. and delivered basis. Leggett & Platt ***, while all four of the other producers ***. Of the four importers, ***.

Discounts on sales of innersprings are common. Leggett & Platt reported that ***. Among other producers, ***. All five responding producers reported that they provide discounts of *** percent for early payments of accounts. Among importers, ***.

The majority of all sales of U.S.-produced innersprings are on a spot basis, and all reported sales of imports from China are on a spot basis. Leggett & Platt reported that ***. For the other three responding producers, percentages of spot sales ranged from ***. For the firms that use contracts, conditions vary. Contract periods range from six months to 10 years. The periods for renegotiation ranged from six months to three years. In two cases, prices but not quantities were fixed during the contract period, while in one case minimum quantities were fixed during the period. Some contracts contain meet-or-release provisions.

Price Data

The Commission asked U.S. producers and importers of innersprings from China to provide quarterly data for the total quantity and value of selected products that were shipped to unrelated customers in the U.S. market during 1999-2003. The products for which data were requested are as follows:

Product 1.— Twin size: 312 coil count, 9-gauge border rod, 13-gauge coil, measuring 36.5 by 73.5 inches.

Product 2.— Full size: 312 coil count, 9-gauge border rod, 13-gauge coil, measuring 51.5 by 73.5 inches.

Product 3.— Queen size: 312 coil count, 6-gauge border rod, 13-gauge coil, measuring 58.5 by 78.5 inches.

⁹ The estimated transportation cost was obtained by subtracting the customs value from the c.i.f. value of the imports for 2002 and then dividing by the customs value.

Product 4.– Queen size: 336 coil count, 6-gauge border rod, 13-gauge coil, measuring 58.5 by 78.5 inches.

Product 5.– King size: 312 coil count, 6-gauge border rod, 13-gauge coil, measuring 74.5 by 78.5 inches

Product 6.– Calif. king size: 312 coil count, 6-gauge border rod, 13-gauge coil, measuring 70 by 82.5 inches

Four U.S. producers and two importers provided varied amounts of pricing data for sales of the requested products.¹⁰ Among producers, three firms provided data for all products in all quarters. Neither of the importers that provided usable price data ***. However, price data for an alternative product, 4a, were collected for this final staff report.¹¹ The pricing data reported by the responding producers accounted for approximately 9 percent of U.S. producers' shipments of innersprings in 2003, and the data reported by the responding importers accounted for about 43 percent of U.S. imports from China in that year.

Price Trends

Quarterly weighted-average prices of U.S. producers for products 1, 2, 3, 4, 5, and 6 and importers for products 1, 2, 3, 4a, 5 and 6 are shown in tables V-5 through V-10 and in figures V-2 through V-7 for 1999-2003. U.S. producer prices for product 1 showed a slight decline over the period, but for all other products producer prices either increased slightly or remained relatively stable. Prices for the two importers of innersprings from China were only available from the second quarter of 2002 onward since no sales of these products occurred in earlier periods. The data show that for products 1, 2, 3, and 4a the price decreased from the second quarter of 2002 to the third quarter of 2002 and remained lower throughout the last quarter of 2003. For the other two products, the Chinese prices were stable throughout April-June 2002 through October-December 2003.

Table V-5

Innersprings: Weighted-average f.o.b. prices and quantities of domestic and imported product 1¹ and margins of underselling/(overselling), by quarters, 1999-2003

* * * * *

Table V-6

Innersprings: Weighted-average f.o.b. prices and quantities of domestic and imported product 2¹ and margins of underselling/(overselling), by quarters, 1999-2003

* * * * *

¹⁰ A third importer, ***.

¹¹ At the hearing, Mr. Jeffrey Miller of Atlas stated that while importers do not offer product 4, they offer another product virtually identical to product 4 except that it has a 338 coil count rather than a 336 coil count (hearing transcript, p. 103). ***.

Table V-7

Innersprings: Weighted-average f.o.b. prices and quantities of domestic and imported product 3¹ and margins of underselling/(overselling), by quarters, 1999-2003

* * * * *

Table V-8

Innersprings: Weighted-average f.o.b. prices and quantities of domestic product 4¹ and imported product 4a², by quarters, 1999-2003

* * * * *

Table V-9

Innersprings: Weighted-average f.o.b. prices and quantities of domestic and imported product 5¹ and margins of underselling/(overselling), by quarters, 1999-2003

* * * * *

Table V-10

Innersprings: Weighted-average f.o.b. prices and quantities of domestic and imported product 6¹ and margins of underselling/(overselling), by quarters, 1999-2003

* * * * *

Figure V-2

Innersprings: Weighted-average f.o.b. prices of domestic and imported product 1, by quarters, 1999-2003

* * * * *

Figure V-3

Innersprings: Weighted-average f.o.b. prices of domestic and imported product 2, by quarters, 1999-2003

* * * * *

Figure V-4

Innersprings: Weighted-average f.o.b. prices of domestic and imported product 3, by quarters, 1999-2003

* * * * *

Figure V-5

Innersprings: Weighted-average f.o.b. prices of domestic 4 and imported product 4a, by quarters, 1999-2003

* * * * *

Figure V-6
Innersprings: Weighted-average f.o.b. prices of domestic and imported product 5, by quarters, 1999-2003

* * * * *

Figure V-7
Innersprings: Weighted-average f.o.b. prices of domestic and imported product 6, by quarters, 1999-2003

* * * * *

Price Comparisons

Prices of imports from China were lower than U.S. producer prices in all of the 35 quarterly comparisons for products 1, 2, 3, 5, and 6. Percentage margins of underselling ranged from 11.3 to 20.4 for product 1, from 17.4 to 27.4 for product 2, from 21.2 to 25.7 for product 3, from 29.1 to 31.1 for product 5, and from 29.2 to 32.3 for product 6. In the comparison between the U.S. product 4 and the imported product 4a, the Chinese price was lower than the U.S. price in all seven quarters,

Lost Sales and Lost Revenues

In the petition and in producer questionnaire responses, AIM members provided *** usable lost sales allegations involving over *** units of innersprings valued at over \$*** and *** lost revenue allegations valued at more than \$*** involving *** units of innersprings. The Commission staff contacted all *** of the purchasers named in the allegations; seven purchasers responded.¹² The results are summarized in tables V-11 and V-12 and are discussed below.

Table V-11
Innersprings: U.S. producers' lost sales allegations

* * * * *

Table V-12
Innersprings: U.S. producers' lost revenue allegations

* * * * *

***.
 ***.

¹² None of the other purchasers were willing to respond despite repeated contacts by the staff.

PART VI: U.S. PRODUCERS' EFFORTS TO COMPETE AND REQUESTED RELIEF

EFFORTS BY U.S. PRODUCERS TO COMPETE

U.S. firms were requested in the Commission's producer questionnaire to provide information on their competitive efforts since January 1999 and the adjustments they would make in their innersprings operations if import relief were granted. Their responses are presented in tables VI-1 and VI-2, respectively.¹ For the majority of the firms, upgrades and new machinery purchases were the leading expenditures.

**Table VI-1
Innersprings: Responses regarding efforts undertaken to compete since January 1, 1999, by firm**

* * * * *

**Table VI-2
Innersprings: Responses regarding adjustments to operations if import relief were provided, by firm**

* * * * *

REQUESTED IMPORT RELIEF

Petitioner, AIM, requested that the Commission recommend the imposition of a tariff of not less than 45 percent on imports of innersprings from China as an import remedy. Petitioner based its recommendation upon "reported price undercutting as high as 34" percent and the assertion that "U.S. Customs data supports price undercutting exceeding 50" percent.² Respondents argued that no remedy is appropriate in this case, although they acknowledged that it would be "within the discretion of the Commission to accompany {a} negative determination with an admonishment or a recommendation to the Customs Service that the current tariff rate be correctly implemented."³

In response to the Commission's questionnaires, *** requested an increase in tariffs from the current 6 percent level to 45 percent and a quota on imports to "{f}reeze at current level{s}." *** requested an increased tariff of 30-35 percent. *** requested, in order of support, an increased tariff of 45 percent, a quota set at 2001 levels, or a tariff-rate quota with an unspecified tariff above 2001 import levels. *** requested an increased tariff or quota but did not specify quantities.

¹ *** did not provide information.

² Petition, p. 35; petitioner's posthearing brief, p. 22.

³ Respondent's posthearing brief, p. 33.

APPENDIX A
FEDERAL REGISTER NOTICES

**INTERNATIONAL TRADE
COMMISSION**

[Investigation No. TA-421-5]

Innersprings from China

AGENCY: International Trade
Commission.

ACTION: Institution and scheduling of an
investigation under section 421(b) of the

Trade Act of 1974 (19 U.S.C. 2451(b)) (the Act).

SUMMARY: Following receipt of a petition filed on January 6, 2004, on behalf of the U.S. member companies of The American Innerspring Manufacturers (AIM),¹ Memphis, TN, the Commission instituted investigation No. TA-421-5, Innersprings from China, under section 421(b) of the Act to determine whether uncovered innerspring units (innersprings)² from China are 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.

For further information concerning the conduct of this investigation, 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 206, subparts A and E (19 CFR part 206), as amended, 68 FR 65164 (Nov. 19, 2003).

EFFECTIVE DATE: January 6, 2004.

FOR FURTHER INFORMATION CONTACT: Brian Allen (202-708-4728), 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 this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

SUPPLEMENTARY INFORMATION: *Participation in the investigation and service list.* Persons wishing to participate in the investigation as parties must file an entry of appearance

¹ Petitioning firms include Atlas Spring, Gardena, CA; Hickory Springs Manufacturing Co., Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc., Taylor, MI.

² Uncovered innerspring units are composed of a series of individual metal springs wired together and fitted to an outer wire frame and are suitable for use as the innerspring component in the manufacture of innerspring mattresses. The imported products are provided for in statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States (HTS). Although the HTS category is provided for convenience and Customs purposes, the written description of the merchandise under investigation is dispositive.

with the Secretary to the Commission, as provided in section 201.11 of the Commission's rules, not later than seven days after publication of this notice in the *Federal Register*. The Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

Limited disclosure of confidential business information (CBI) under an administrative protective order (APO) and CBI service list. Pursuant to section 206.47 of the Commission's rules, the Secretary will make CBI gathered in this investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made not later than seven days after the publication of this notice in the *Federal Register*. A separate service list will be maintained by the Secretary for those parties authorized to receive CBI under the APO.

Hearing. The Commission has scheduled a hearing in connection with this investigation beginning at 9:30 a.m. on February 19, 2004, at the U.S. International Trade Commission Building. Subjects related to both market disruption or threat thereof and remedy may be addressed at the hearing. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before February 10, 2004. All persons desiring to appear at the hearing and make oral presentations should attend a prehearing conference to be held at 9:30 a.m. on February 13, 2004, at the U.S. International Trade Commission Building. Oral testimony and written materials to be submitted at the hearing are governed by sections 201.6(b)(2) and 201.13(f) of the Commission's rules.

Written submissions. Each party is encouraged to submit a prehearing brief to the Commission. The deadline for filing prehearing briefs is February 12, 2004. Parties may also file posthearing briefs. The deadline for filing posthearing briefs is February 24, 2004. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the consideration of market disruption or threat thereof and/or remedy on or before February 24, 2004. Parties may submit final comments on market disruption on March 4, 2004, and on remedy on March 11, 2004. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain CBI must also conform with the requirements of section 201.6 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).

In accordance with section 201.16(c) of the Commission's rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the 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.

Remedy. Parties are reminded that no separate hearing on the issue of remedy will be held. Those parties wishing to present arguments on the issue of remedy may do so orally at the hearing or in their prehearing briefs, posthearing briefs, or final comments on remedy.

Authority: This investigation is being conducted under the authority of section 421 of the Trade Act of 1974; this notice is published pursuant to section 206.3 of the Commission's rules.

Issued: January 8, 2004.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 04-694 Filed 1-12-04; 8:45 am]

BILLING CODE 7020-02-U

People's Republic of China are 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.

Background

Following receipt of a petition filed on January 6, 2004, on behalf of the American Innerspring Manufacturers (AIM),³ Memphis, TN, the Commission instituted investigation No. TA-421-5, Uncovered Innerspring Units From China, under section 421 of the Trade Act of 1974 to determine whether uncovered innerspring units from China are 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.

Notice of the institution of the Commission's investigation and of the scheduling of a public hearing to be held in connection therewith was given by posting a copy of the notice on the Commission's Web site (<http://www.usitc.gov>) and by publishing the notice in the Federal Register (69 FR 2002, January 13, 2004). The hearing was held on February 19, 2004, in Washington, DC and all persons who requested the opportunity were permitted to appear in person or by counsel.

Issued: March 8, 2004.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 04-5630 Filed 3-11-04; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. TA-421-5]

Uncovered Innerspring Units from China

Determination

On the basis of information developed in the subject investigation, the United States International Trade Commission determines, pursuant to section 421(b)(1) of the Trade Act of 1974,¹ that uncovered innerspring units² from the

¹ 19 U.S.C. 2451(b)(1).

² For purposes of this investigation, the product subject to this investigation is uncovered innerspring units composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the innerspring component in the manufacture of innerspring mattresses. Included within this definition are innersprings typically ranging from 34 inches to 76 inches in width and 71 inches to 84 inches in length, corresponding to the sizes of adult mattresses (twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. The subject product is properly imported under statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States (HTS).

Not included in the scope of the petition are "pocket" coils, which are individual coils covered by a "pocket" or "sock" of a nonwoven synthetic material and then glued together in a linear fashion.

³ Petitioning firms include Atlas Spring Manufacturing, Gardena, CA; Hickory Springs Manufacturing Co., Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc., Taylor, MI.

APPENDIX B
HEARING WITNESSES

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission’s hearing held in connection with the following investigation:

Subject: Certain Innersprings from China
Inv. No: TA-421-5
Date and Time: February 19, 2004 - 9:30 a.m.

The hearing was held in Room 101 (Main Hearing Room) of the United States International Trade Commission Building, 500 E Street, SW, Washington, D.C.

IN SUPPORT OF RELIEF:

Butler, Snow, O’Mara, Stevens & Cannada, PLLC
Memphis, TN
on behalf of

American Innerspring Manufacturers

James J. Bush, Vice President, Bedding Products Division,
Hickory Springs Manufacturing Co.
Jeffrey C. Miller, Senior Vice President, Atlas Spring Manufacturing Co.
William Jeffrey Wood, President, Western Division
Bedding Components, Leggett & Platt, Inc.
Robert P. Antoshak, President, Globecot, Inc.

William A. Gillon)
) – OF COUNSEL
Julie R. Baldrige)

IN OPPOSITION TO RELIEF:

Kaye Scholer LLP
Washington, D.C.
on behalf of

**Zhejiang Huaweimei Furniture Co., Ltd.; Nanjing Kylin Mattress and Furniture Factory;
Nanjing Lachao Bed-Clothes Co., Ltd.; Bao Ding Yongan Furniture Material Co., Ltd.;
Foshan Yuantian Mattress Machinery Co., Ltd.; and The China Chamber of Commerce
for Import and Export of Light Industrial Products & Arts-Crafts and its members
(CCCLA)**

John G. Reilly, Nathan Associates, Inc.

Michael P. House) – OF COUNSEL

APPENDIX C
SUMMARY DATA

Table C-1

Innersprings: Summary data concerning the U.S. market, 1999-2003

(Quantity=1,000 units; value=1,000 dollars; unit values, unit labor costs, and unit expenses are *per unit*; and period changes=*percent*, except where noted)

Item	Calendar year					Period changes				
	1999	2000	2001	2002	2003	1999-2003	1999-2000	2000-2001	2001-2002	2002-2003
U.S. consumption quantity: Amount	21,527	21,879	21,299	21,379	21,005	-2.4	1.6	-2.6	0.4	-1.8
Producers' share ¹	99.8	99.7	99.8	98.8	98.0	-1.8	0.0	0.1	-1.0	-0.9
Importers' share: ¹										
China	(²)	(²)	(²)	1.0	2.0	2.0	0.0	0.0	1.0	0.9
Other sources	0.2	0.2	0.1	0.1	0.1	-0.2	0.0	-0.1	0.0	0.0
Total	0.2	0.3	0.2	1.2	2.1	1.8	0.0	-0.1	1.0	0.9
U.S. consumption value: Amount	480,403	501,431	497,858	510,360	491,013	2.2	4.4	-0.7	2.5	-3.8
Producers' share ¹	99.8	99.7	99.8	99.3	98.7	-1.1	0.0	0.0	-0.5	-0.6
Importers' share: ¹										
China	(²)	(²)	(²)	0.6	1.2	1.2	0.0	0.0	0.5	0.6
Other sources	0.2	0.2	0.2	0.2	0.1	-0.1	0.0	0.0	0.0	-0.1
Total	0.2	0.3	0.2	0.7	1.3	1.1	0.0	0.0	0.5	0.6
U.S. imports from--										
China:										
Quantity	(³)	7	10	221	411	(⁴)	3,873.8	44.0	2,203.1	85.6
Value	4	133	174	2,864	5,894	(⁴)	3,050.6	30.8	1,545.4	105.8
Unit value	\$25.15	\$19.94	\$18.10	\$12.93	\$14.34	-43.0	-20.7	-9.2	-28.6	10.9
Ending inventory	***	***	***	***	***	***	***	***	***	***
Other sources:										
Quantity	51	51	31	28	18	-64.0	0.4	-39.6	-9.2	-34.7
Value	1,121	1,137	989	915	517	-53.9	1.4	-13.0	-7.5	-43.5
Unit value	\$21.88	\$22.11	\$31.84	\$32.44	\$28.06	28.2	1.0	44.0	1.9	-13.5
Ending inventory	***	***	***	***	***	***	***	***	***	***
All sources										
Quantity	51	58	41	250	429	741.1	13.0	-30.0	513.6	72.0
Value	1,125	1,270	1,163	3,779	6,412	473.3	12.9	-8.4	224.8	69.7
Unit value	\$21.90	\$21.86	\$28.59	\$15.14	\$15	-31.8	-0.2	30.8	-47.1	-1.4
Ending inventory	***	***	***	***	***	***	***	***	***	***

Table continued on next page.

Table C-1--Continued

Innersprings: Summary data concerning the U.S. market, 1999-2003

(Quantity=1,000 units; value=1,000 dollars; unit values, unit labor costs, and unit expenses are *per unit*; and period changes=*percent*, except where noted)

Item	Calendar year					Period changes				
	1999	2000	2001	2002	2003	1999-2003	1999-2000	2000-2001	2001-2002	2002-2003
U.S. producers'--										
Capacity quantity	24,155	25,481	25,405	26,682	26,339	9.0	5.5	-0.3	5.0	-1.3
Production quantity	21,723	22,204	21,469	21,022	20,813	-4.2	2.2	-3.3	-2.1	-1.0
Capacity utilization ¹	89.9	87.1	84.5	78.8	79.0	-10.9	-2.8	-2.6	-5.7	0.2
U.S. shipments:										
Quantity	21,476	21,820	21,258	21,129	20,575	-4.2	1.6	-2.6	-0.6	-2.6
Value	479,278	500,161	496,612	506,581	484,601	1.1	4.4	-0.7	2.0	-4.3
Unit value	\$22.32	\$22.92	\$23.36	\$23.98	\$23.55	5.5	2.7	1.9	2.6	-1.8
Export shipments:										
Quantity	***	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***	***
Inventories/total shipments ¹	***	***	***	***	***	***	***	***	***	***
Production workers	2,795	2,800	2,727	2,689	2,571	-8.0	0.2	-2.6	-1.4	-4.4
Hours worked (1,000 hours)	5,775	5,596	5,375	5,298	4,977	-13.8	-3.1	-3.9	-1.4	-6.1
Wages paid (1,000 dollars)	68,487	72,250	71,510	72,076	69,871	2.0	5.5	-1.0	0.8	-3.1
Hourly wages	\$11.62	\$12.72	\$13.09	\$13.34	\$13.68	17.7	9.4	2.9	1.9	2.6
Productivity (units/hr.)	3.7	3.9	3.9	3.9	4.0	9.0	5.6	-0.2	-1.1	4.6
Unit labor costs	\$3.15	\$3.26	\$3.36	\$3.46	\$3.39	7.6	3.3	3.3	3.0	-2.1
Net sales:										
Quantity	***	***	21,781	21,814	21,122	***	***	***	0.2	-3.2
Value	***	***	513,196	524,713	501,290	***	***	***	2.2	-4.5
Unit value	***	***	\$23.56	\$24.05	\$23.73	***	***	***	2.1	-1.3
COGS	***	***	361,133	369,049	360,314	***	***	***	2.2	-2.4
Gross profit or (loss)	***	***	152,063	155,664	140,976	***	***	***	2.4	-9.4
SG&A expenses	***	***	33,651	31,952	30,900	***	***	***	-5.0	-3.3
Operating income	***	***	118,412	123,712	110,076	***	***	***	4.5	-11.0
Capital expenditures	***	***	21,280	16,855	21,436	***	***	***	-20.8	27.2
Unit COGS	***	***	\$16.58	\$16.92	\$17.06	***	***	***	2.0	0.8
Unit SG&A expenses	***	***	\$1.54	\$1.46	\$1.46	***	***	***	-5.2	-0.1
Unit operating income	***	***	\$5.44	\$5.67	\$5.21	***	***	***	4.3	-8.1
COGS/sales ¹	***	***	70.4	70.3	71.9	***	***	***	0.0	1.5
Operating income or (loss)/sales ¹	***	***	23.1	23.6	22.0	***	***	***	0.5	-1.6

¹ Period changes are in percentage points.

² Less than 0.05 percent.

³ Less than 500 units.

⁴ Not meaningful.

⁵ Not applicable.

Note.—Because of rounding, figures may not add to the totals shown.

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

APPENDIX D

U.S. SHIPMENTS BY SIZE AND TYPES

Table D-1
Innersprings: U.S. shipments, by size and type, 1999-2003

* * * * *

APPENDIX E

U.S. PRODUCERS' COMPANY-BY-COMPANY COMPARISONS

Table E-1

Innersprings: U.S. producer trade and employment comparisons, by firms, 1999-2003

* * * * *

APPENDIX F

**EFFECTS OF IMPORTS OF INNERSPRINGS FROM CHINA ON U.S. FIRMS'
EXISTING DEVELOPMENT AND PRODUCTION EFFORTS, GROWTH,
INVESTMENT, AND ABILITY TO RAISE CAPITAL**

The Commission requested U.S. firms to describe any actual or anticipated negative effects, since January 1, 1999, of imports of innersprings from China on their growth, investment, and ability to raise capital or development and production efforts (including efforts to develop a derivative or more advanced version of the product). Responses are shown below.

Actual Negative Effects

***	***.
Atlas	***.
***	***.
Hickory	***.
Leggett & Platt	***.
Saval	***.
***	***.

Anticipated Negative Effects

***	***.
Atlas	***.
***	***.
Hickory	***.
Leggett & Platt	***.
Saval	***.
***	***.