

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)	Investigation Nos.:
)	701-TA-452 and
RAW FLEXIBLE MAGNETS FROM)	731-TA-1129-1130
CHINA AND TAIWAN)	(Preliminary)

Pages: 1 through 209

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Friday,
October 12, 2007

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:33 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

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DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
OLYMPIA HAND, INVESTIGATOR
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IOANA MIC, ECONOMIST
CHARLES YOST, AUDITOR
RUBEN MATA, INDUSTRY ANALYST

APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping Duties:

On behalf of Magnum Magnetics Corp.:

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TOM LOVE, Vice President, Magnum Magnetics Corp.
GARY MURPHY, Consultant, Magnum Magnetics Corp.
(former President of Magnetic Specialty)
KENNETH R. BUTTON, Economic Consulting Services

RITCHIE T. THOMAS, Esquire
GEORGE N. GRAMMAS, Esquire
IAIN R. McPHIE, Esquire
Squire, Sanders & Dempsey
Washington, D.C.

In Opposition to the Imposition of Antidumping Duties:

On behalf of Adams Magnetic Products Co.; Graphic
Business Solutions, Inc.; Magnet Sales and
Manufacturing, Inc.; and Master Magnetics, Inc.:

SCOTT LEWIS, President, Adams Magnetic Products
Co.

LIZBETH R. LEVINSON, Esquire
RONALD M. WISLA, Esquire
Garvey Schubert Barer
Washington, D.C.

On behalf of Magnet Technology, Inc.:

LARRY MOSTELLER, President and CEO, Magnet
Technology, Inc.

JOHN DONOHUE, Esquire
THERESA HUYNH LANZDORF, Esquire
Kittredge, Donley, Elson, Fullem & Embick
Philadelphia, Pennsylvania

I N D E X

	PAGE
OPENING STATEMENT OF RITCHIE T. THOMAS, ESQUIRE, SQUIRE, SANDERS & DEMPSEY	6
OPENING STATEMENT OF JOHN DONOHUE, ESQUIRE, KITTRIDGE, DONLEY, ELSON, FULLEM & EMBICK	9
OPENING STATEMENT OF LIZBETH R. LEVINSON, ESQUIRE, GARVEY SCHUBERT BARER	13
STATEMENT OF RITCHIE T. THOMAS, ESQUIRE, SQUIRE, SANDERS & DEMPSEY	16
STATEMENT OF ALLEN LOVE, PRESIDENT, MAGNUM MAGNETICS CORP.	20
STATEMENT OF TOM LOVE, VICE PRESIDENT, MAGNUM MAGNETICS CORP.	33
STATEMENT OF KENNETH R. BUTTON, ECONOMIC CONSULTING SERVICES	46
STATEMENT OF GARY MURPHY, CONSULTANT, MAGNUM MAGNETICS CORP. (FORMER PRESIDENT OF MAGNETIC SPECIALTY)	98
STATEMENT OF JOHN DONOHUE, ESQUIRE, KITTRIDGE, DONLEY, ELSON, FULLEM & EMBICK	118
STATEMENT OF LARRY MOSTELLER, PRESIDENT AND CEO, MAGNET TECHNOLOGY, INC.	119
STATEMENT OF LIZBETH R. LEVINSON, ESQUIRE, GARVEY SCHUBERT BARER	128
STATEMENT OF SCOTT LEWIS, PRESIDENT, ADAMS MAGNETIC PRODUCTS CO.	129

I N D E X

	PAGE
CLOSING STATEMENT OF RITCHIE T. THOMAS, ESQUIRE, SQUIRE, SANDERS & DEMPSEY	198
CLOSING STATEMENT OF JOHN DONOHUE, ESQUIRE, KITTRIDGE, DONLEY, ELSON, FULLEM & EMBICK	203
CLOSING STATEMENT OF LIZBETH R. LEVINSON, ESQUIRE, GARVEY SCHUBERT BARER	205

1 P R O C E E D I N G S

2 (9:33 a.m.)

3 MR. CARPENTER: Good morning, and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 countervailing duty and antidumping investigation Nos.
7 701-TA-452 and 731-TA-1129-1130 concerning imports of
8 Raw Flexible Magnets From China and Taiwan.

9 My name is Robert Carpenter. I'm the
10 Commission's Director of Investigations, and I will
11 preside at this conference. Among those present from
12 the Commission staff are, from my far right, Douglas
13 Corkran, the supervisory investigator; Olympia Hand,
14 the investigator; on my left, Mark Rees, the attorney/
15 advisor; Ioana Mic, the economist; Charles Yost, the
16 auditor; and Ruben Mata, the industry analyst.

17 I understand the parties are aware of the
18 time allocations. I would remind speakers not to
19 refer in your remarks to business proprietary
20 information and to speak directly into the
21 microphones. We also ask you to state your name and
22 affiliation for the record before beginning your
23 presentations.

24 Are there any questions?

25 (No response.)

1 MR. CARPENTER: If not, welcome, Mr. Thomas.
2 Please proceed with your opening statement.

3 MR. THOMAS: Thank you. Good morning. For
4 the record, my name is Ritchie Thomas, and I am senior
5 counsel with the law firm Squire, Sanders & Dempsey,
6 counsel for the Petitioner, Magnum Magnetics
7 Corporation of Marietta, Ohio.

8 Magnum is the largest producer of the
9 subject merchandise, raw flexible magnets. Magnum
10 stands alone as the U.S. industry representative in
11 these proceedings, a fact that demonstrates the
12 inroads raw flexible magnet imports from China and
13 Taiwan already have made in the U.S. market and the
14 extent to which other remaining domestic industry
15 members are themselves now importers or have other
16 interests in China, whose protection they put above
17 any interest they may have in maintaining production
18 operations in the United States.

19 But do not think Magnum is alone in its
20 desire to protect the health of the U.S. raw flexible
21 magnet industry from the effects of unfairly traded
22 imports. Magnum has received expressions of support
23 from customers and even from employees of some of the
24 importing firms that rate against it in these
25 investigations.

1 Magnum and the other U.S. raw flexible
2 magnet producers are essentially all that remain of
3 the once strong U.S. magnet industry. Other segments
4 -- for example, the production of hard ferrite button
5 magnets -- already have largely disappeared under the
6 onslaught of imports.

7 Now the flexible magnet industry is under
8 attack. The result of the proceeding stemming from
9 Magnum's petition seems like to decide the flexible
10 magnet industry's fate as a U.S. industry.

11 The product at issue, raw flexible magnets,
12 is a new one for the Commission, as is the industry
13 producing the product. However, at bottom this is a
14 relatively straightforward, simple case. The subject
15 imports and the domestic like product are effectively
16 fungible.

17 The data in the petition, however imperfect,
18 indicate that in recent years the subject imports have
19 increased dramatically, absolutely and as a percentage
20 of apparent domestic consumption. We are confident
21 the data the Commission is developing through its
22 questionnaires is confirming this.

23 The volume growth of the subject imports has
24 been at the expense of the U.S. industry. The subject
25 imports are being sold and offered in the U.S. market

1 at very low prices, underselling Magnum, depressing
2 and suppressing Magnum's prices and causing Magnum to
3 lose substantial sales volume and important customers.

4 The phrase "China pricing" touted by one of
5 the Chinese producers in its advertising material says
6 it all. The promise of China pricing is widely
7 recognized in the raw flexible magnet market as an
8 offer of flexible magnet at the lowest prices in the
9 market.

10 The availability of the subject imports at
11 very low prices additionally has led to a disruptive
12 effect on the longstanding structure of the market and
13 distribution channels. It has led some distributors
14 traditionally serving smaller customers to seek to
15 compete directly with Magnum for larger accounts,
16 using the low-priced imports as their supply and
17 Magnum, in defense, to seek to make some of the higher
18 value sales that formerly were the province of
19 distributors.

20 The result of the deprecations of the
21 imports are readily apparent in the financial
22 statements Magnum has submitted to the Commission.
23 Magnum has lost sales volume and its profitability has
24 suffered. There have been adverse effects on
25 employment and capacity utilization. No further

1 comment on these results is necessary.

2 Very soon you will hear direct testimony
3 from Magnum's top officials, who are also its owners.
4 That testimony makes clear that the U.S. raw flexible
5 magnet industry already has been severely injured as a
6 result of the subject imports and that it is
7 threatened with still further injury in the future
8 given the continued growth of flexible magnet
9 producers in China and Taiwan, the expansion of their
10 distribution facilities and networks in the U.S. and
11 the concentration on exploitation of the U.S. market.

12 Thank you.

13 MR. CARPENTER: Thank you, Mr. Thomas.

14 Ms. Levinson and Mr. Donohue?

15 MR. DONOHUE: Good morning, Mr. Carpenter
16 and staff members. My name is John Donohue. I am
17 counsel to the law firm of Kittredge, Donley, Elson,
18 Fullem & Embick in Philadelphia, Pennsylvania, and I
19 appear this morning on behalf of Magnet Technology,
20 Inc. of Lebanon, Ohio.

21 We are about to embark on a proceeding that
22 will be both very draining on the time and resources
23 of my client, who is both a U.S. producer and an
24 importer, and it will be equally draining on the time
25 and resources of the government. Having reviewed the

1 petition, one is hardpressed to determine what the
2 countervailing effect of such an undertaking will be.
3 Let me give you one estimate of comparables here.

4 It is quite possible that when the all-in
5 costs of my client's participation in this case are
6 finished if this case were to proceed to an LTFV
7 preliminary and final and then to an injury final, the
8 costs to this small U.S. producer could exceed the
9 total value of the subject merchandise imported by him
10 in the last year. Not the profit on the merchandise;
11 on the value of the merchandise. His volumes are that
12 small.

13 One should only carefully put a burden on
14 such a business very reluctantly and only upon a clear
15 showing that the injury alleged in the volumes alleged
16 is really so, but the law clearly specifies that such
17 complex investigations cannot go forward unless the
18 Petitioner represents the industry in which he
19 participates.

20 The underlying principles -- the underlying
21 principles -- of the antidumping law here are clear.
22 As this Commission well knows and it has stated
23 forcefully in the past and in other cases, this law is
24 not created to help a corporation. It's not even
25 created to help employees of a corporation. Other

1 laws with which this Commission are familiar are more
2 flexible and are more streamlined and are designed for
3 those goals.

4 This law is designed to protect an industry
5 from predatory pricings. My client is a member of
6 that industry as a U.S. producer, and he does not
7 believe that he is being injured by imports. He
8 believes he knows why some of the Petitioner's sales
9 have been lost, and you will hear from him on that
10 point, and he knows that they were not by reason of
11 less than fair value selling.

12 There is a genuine question here of whether
13 this incredibly complex process should be invoked
14 where there is so little industry support of the
15 petition. The Commission and the Commerce Department,
16 in examining the questionnaire responses and the
17 underlying entry data which we have requested be
18 reviewed, will know far better than we will that sales
19 of this product by the Petitioner and whether it
20 represents in fact a statutory 25 percent minimum of
21 total domestic production that the statute requires.

22 My client can only say that based on his
23 knowledge of the industry as a whole he suspects that
24 the Petitioner's production volumes are not. We have
25 asked the Commission and Commerce to specially inquire

1 as to this, the standing of the single company to
2 speak on behalf of all when no one else stands in
3 support of the petition.

4 I have every confidence that the Commission
5 and Commerce will examine that matter closely,
6 especially as it relates to standing, which in effect
7 is the very legitimacy of this proceeding. Beyond
8 that I can only say that my client does not come to
9 this Commission flush with success. Frankly, he is
10 struggling.

11 It would be easy for him to blame the
12 faceless opponent and the complex economic theory
13 understandable to only a few, but those are not the
14 basis of his difficulties, and he will not say that
15 they are.

16 This is an industry dominated by two
17 companies, and he simply seeks an alternative source
18 of supply to compete against the two giants. He will
19 never abandon U.S. production. He will never cease
20 being a U.S. producer, but he will not place the blame
21 where blame is not due, and he respectfully insists on
22 the right to alternative support sources of supply.

23 One of the key questions that this
24 Commission must decide is whether Magnum speaks for us
25 all. Let us be clear. It does not.

1 Thank you, Mr. Chairman.

2 MS. LEVINSON: Good morning, Mr. Carpenter
3 and staff. I'm Lizbeth Levinson of Garvey Schubert
4 Barer. We represent four importers of flexible
5 magnets. These importers are Adams Magnetic Products
6 Company, Master Magnetics, Inc., Graphic Business
7 Solutions and Magnet Sales and Manufacturing.

8 The Petitioner has brought this petition on
9 its own without the affirmative support of any other
10 domestic producer. The other major U.S. producer,
11 Flexmag, has not signed onto this petition and is
12 distinctly absent today.

13 Mr. Thomas in his opening remarks claims
14 that he has the support of customers and employees.
15 However, he has not mentioned anything about where the
16 other major domestic producer is today. This is quite
17 unusual. The Commission's preliminary injury
18 determination, however, must be based on the domestic
19 industry as a whole, not only upon the Petitioner's
20 experience.

21 It is our understanding, which we believe
22 will be confirmed in the questionnaire responses, that
23 Flexmag is prosperous and that no reasonable
24 indication exists whatsoever that the domestic
25 industry as a whole is materially injured. Any injury

1 that the Petitioner itself may be suffering is
2 entirely self-inflicted and cannot be attributable to
3 Chinese imports.

4 As you will hear from the Respondent witness
5 later today, Magnum's ill-advised purchase of its
6 competitor, MSI, and its inability to integrate its
7 new production facility has overextended the
8 Petitioner's finances, giving rise to previously
9 nonexistent quality problems and diminished levels of
10 customer service.

11 Moreover, Petitioner's heavy-handed tactics
12 and business practice have alienated its customer
13 base. As you will hear later today, the Petitioner
14 has indeed lost substantial business in recent
15 periods. However, Petitioner's losses have been
16 primarily due to its domestic competitor, Flexmag, not
17 to Chinese imports.

18 To the extent that Chinese imports have
19 increased during the period of investigation, factors
20 such as diversification of supply sources rather than
21 pricing alone have caused distributors and fabricators
22 to seek Chinese imports in order to supplement their
23 domestic source of supply, which still predominates
24 over the low level of Chinese imports.

25 Petitioner has vastly overstated the true

1 extent of Chinese imports by relying upon a basket
2 category of import statistics attributable to products
3 far beyond the scope of this petition. The Commission
4 is correct to rely upon the product specific
5 information that will be obtained from the
6 questionnaire responses to accurately measure import
7 and consumption levels.

8 In addition, the pricing data sought by the
9 Commission is unlikely to prove usable in this case.
10 The reason for this is that the Petitioners and
11 importers of raw flexible magnets are not competing
12 head-to-head. The Petitioners are producing and
13 selling rolls of magnet, which is the subject
14 merchandise.

15 Importers, however, for the most part are
16 not selling subject merchandise. They are processing
17 the magnet rolls and selling a value-added product
18 that for the most part the domestic producers are not
19 selling.

20 Once the correct extent of Chinese imports
21 are measured, the Commission's preliminary injury
22 determination will necessarily be negative and
23 terminate this proceeding.

24 Thank you very much.

25 MR. CARPENTER: Thank you. Just as a

1 procedural matter, I will note that you went a few
2 minutes past your opening statement allocation.
3 Therefore, we will subtract out from your direct
4 presentation time.

5 MS. LEVINSON: That's fine.

6 MR. CARPENTER: Okay. As another matter, I
7 just wanted to clarify that as most of you know, the
8 question of standing of the Petitioner to file a
9 petition is a decision within the purview of the
10 Department of Commerce, and the Commission does not
11 get involved in that decision. I just wanted to make
12 that clear. Thank you very much.

13 At this time, Mr. Thomas, if you would bring
14 your panel forward, please?

15 (Pause.)

16 MR. CARPENTER: Please proceed whenever
17 you're ready.

18 MR. THOMAS: Good morning. Thank you for
19 the opportunity to present the views of Petitioner,
20 Magnum Magnetics Corporation. Again, I'm Ritchie
21 Thomas of Squire, Sanders & Dempsey, counsel for
22 Magnum.

23 Let me introduce the other members of our
24 team to you. With me at my left are Allen Love,
25 president of Magnum; Tom Love at my right, vice

1 president of Magnum; and Gary Murphy, former president
2 of Magnetic Specialty, Inc. and a consultant to Magnum
3 who is knowledgeable of the flexible magnet industry.

4 Also at the table are Dr. Kenneth Button of
5 Economic Consulting Services and my colleagues from
6 Squire Sanders, George Grammas and Iain McPhie.

7 Let me briefly preview the testimony of our
8 witnesses. Allen Love will be talking to you about
9 Magnum, the product at issue, raw flexible magnet, the
10 production processes and quality control procedures
11 Magnum uses to make the product.

12 Tom Love will then tell you about the sales
13 and distribution network for the product, developments
14 in the U.S. flexible magnet market in the period of
15 investigation, the rapid growth of subject imports in
16 the POI, underselling by the imports and Magnum's lost
17 sales and revenues.

18 Dr. Button of ECS will address conditions of
19 competition in the raw flexible magnet industry in the
20 U.S., some of the indicia of adverse volume effects of
21 the subject imports and the impact of subject imports
22 on Magnum's output, sales, capacity utilization,
23 market share, employment profits and ability to raise
24 capital.

25 Then I will conclude our presentation by

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1 dealing with the somewhat technical questions of the
2 identification of the domestic like product, the
3 domestic industry and cumulation.

4 Mr. Murphy has no prepared statement, but is
5 available to respond to the staff's questions.

6 The subject merchandise is raw flexible
7 magnet from the People's Republic of China and from
8 Taiwan. In this context, raw flexible magnet is a
9 term of art referring to the unprinted flexible
10 magnets that are described in the scope part of
11 Magnum's petition.

12 The term excludes printed flexible magnet,
13 which is typically a product of printers and
14 advertising specialty manufacturers and not the
15 companies that produce raw flexible magnet from
16 scratch.

17 This is a new product to the Commission, and
18 the industry that makes it is also new to the
19 Commission. It is nonetheless important to those
20 companies and workers who compose it.

21 Before we turn to the company witnesses I'll
22 briefly outline our case. The evidence before the
23 Commission clearly establishes that there is a
24 reasonable indication that the U.S. industry producing
25 raw flexible magnets is experiencing material injury

1 by reason of the imports of the dumped and subsidized
2 raw flexible magnets from China and Taiwan and is
3 threatened with still further such material injury by
4 reason of the same imports.

5 There has been a large increase in imports
6 from China and Taiwan in the period of investigation.
7 The available import data implies such an increase.
8 The growing impact of the imports in the marketplace
9 are the consequence of such an increase, and we are
10 confident that if importers respond comprehensively to
11 the Commissioners' questionnaire the Commission's data
12 will confirm the increase.

13 Available data indicate that during the
14 investigation period subject imports increased sharply
15 in volume as compared with other imports. Moreover,
16 the imports succeeded in the same period in capturing
17 an ever increasing share of the U.S. market for raw
18 flexible magnets.

19 In order to earn this market share, the
20 imports were priced very aggressively. As a result,
21 Magnum and presumably other U.S. producers who sell
22 into the merchant market whose imports are present
23 have experienced suppression and depression. The
24 phrase China pricing is well known in the industry to
25 mean the lowest possible pricing.

1 The effect of subject imports has been that
2 Magnum has lost sales and revenues. The unfairly low
3 prices offered by the subject imports have forced
4 Magnum to reduce its prices in annual and spot
5 contract negotiations and represents a constant
6 pressure on Magnum's prices.

7 This has left Magnum unable to recover
8 increasing costs of raw materials and of the
9 investments that it made in order to lower its
10 production costs. As Magnum witnesses will testify,
11 Magnum is already materially injured. Magnum's
12 profitability has declined sharply, and the continued
13 viability of the company is threatened. Any
14 additional lost sales or revenues would be potentially
15 devastating.

16 Without relief from the dumped and
17 subsidized imports, Magnum will be unable to recapture
18 or even maintain its production and shipment volumes
19 and will not be able to raise its prices to a level
20 where it can recover its costs and return to financial
21 health.

22 With that introduction, I will turn things
23 over to Mr. Allen Love.

24 MR. A. LOVE: Good morning. I'm Allen Love,
25 president of Magnum Magnetics. We are the Petitioner

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1 in this proceeding. Magnum Magnetics is a domestic
2 producer of raw flexible magnet.

3 I want to thank you for your time today and
4 the opportunity to discuss the serious injury that
5 imports of our products from China and Taiwan are
6 causing us and the future injury that is sure to occur
7 if effective action is not taken as a result of our
8 petition.

9 We need your help. Magnum has filed this
10 petition and we are here today because we find our
11 market being disrupted, our customer base eroding and
12 the prices of our products being depressed and
13 suppressed by imports from China and Taiwan.

14 The mainland Chinese have targeted the
15 magnet industry, and as a result we are one of the
16 last magnet manufacturers of any kind left in the
17 United States today. With the exception of raw
18 flexible magnet, all other magnets sold in the U.S.
19 are dominated by the Chinese manufacturers. As AIC
20 Magnetics, Ltd. of China boasts on their website, they
21 already dominate the flexible magnet markets in
22 Europe, the Mid East, Asia and Australia.

23 We believe this is our last, best chance for
24 a discipline to be imposed that will assure the
25 pricing from China is fair and that they do not

1 continue to use the competitive advantage they have
2 because of subsidies they receive from their
3 government.

4 In the case of Jasdi, the principal importer
5 from Taiwan, we hope to impose a price discipline that
6 assures that they and other Taiwanese producers of our
7 products will compete fairly in this country as well.

8 Magnum is the largest producer of raw
9 flexible magnet in the United States. We appear alone
10 in these proceedings because the only other large
11 producers in the United States, Flexmag and Holm
12 Industries, have other interests or are not directly
13 affected.

14 Flexmag is owned by Arnold Magnetics.
15 Arnold is a large producer of all kinds of magnets and
16 magnetic products, including flexible magnets. Arnold
17 has shut down production of magnets in the United
18 States before and relocated to China. They have
19 magnet production facilities in China and therefore
20 interests they need to protect there.

21 Holm Industries manufactures gaskets for
22 refrigerators and freezers of which their raw flexible
23 magnet production is a component of. They do not sell
24 raw flexible magnet as a main business. They consume
25 it internally. This leaves us and Flexmag Arnold as

1 the two major merchant market producers of raw
2 flexible magnet remaining in the United States.

3 Magnum was founded in 1991 in Marietta,
4 Ohio, when my brother and I convinced a group of local
5 investors to back us as partners. We are six
6 generation residents of Marietta. Our ancestors came
7 to the area when it was settled, and Marietta is the
8 first permanent settlement in the Northwest Territory.
9 We are very committed to our community and our
10 employees.

11 Flexible magnet was first developed in the
12 1950s by BF Goodrich at their Marietta facility. We
13 identified the raw flexible magnet in the U.S. as a
14 growth market, and for many years it has been, but
15 because of the accused imports it no longer is for us.

16 We are not only the biggest producer in the
17 United States. We believe we are the most efficient,
18 lowest cost producer in the United States also. We
19 believe we have the best product on the market. A lot
20 of our equipment is custom designed and manufactured
21 in-house by our own people. We recognize our people
22 as our biggest asset.

23 We have open book managed our company since
24 its inception. Our employees are informed in all
25 aspects of our business. They are involved in a

1 culture of continuous improvement, and they are
2 rewarded through profit sharing. Our people are
3 dedicated. They care about their jobs and the
4 products they produce. We are constantly reviewing
5 and revising our processes and our raw material
6 sourcing in order to still further reduce costs.

7 In early 2005 we acquired the assets of
8 Magnetic Specialty, Inc., another Marietta-based raw
9 flexible magnet producer which already was finding it
10 difficult to compete in a U.S. market that was under
11 increasing pressure as a result of the growing imports
12 from China and Taiwan.

13 We merged MSI's production operations into
14 ours and streamlined the combination. We have
15 invested in still more production equipment designed
16 to increase the efficiency of our magnetic compounding
17 and blending operations.

18 However, we believe we have reached the
19 point where it is unlikely we will be able to achieve
20 further significant production cost reductions by the
21 kind of process adjustments and debottlenecking that
22 have been successful in the past. However, we will
23 keep trying.

24 Consequently, our ability to still further
25 reduce prices in the face of underpricing by the

1 Chinese and Taiwanese is now effectively exhausted.
2 This leaves us, and we believe by extension the rest
3 of the U.S. industry, highly vulnerable to the pricing
4 and market penetration practices of the Chinese and
5 Taiwanese producers.

6 Our products are flexible magnetic sheeting,
7 strips and profile shapes. Flexible magnet sheeting
8 is exactly what it sounds like: Sheets of material
9 that are highly flexible and have permanent magnetic
10 properties.

11 By permanent magnetic properties, I mean
12 capable of being permanently magnetized by exposing
13 the material to a strong magnetic field so that when
14 the field is removed the material retains the magnetic
15 force, enabling the material to hold itself to a
16 metallic surface. The material has these properties
17 whether it is magnetized or not because the properties
18 are built into the material itself.

19 Flexible magnetic strips are essentially the
20 same as sheeting except for being substantially
21 narrower in width and possibly thicker. The strips
22 may be made by cutting sheets into much narrower
23 products, or they may be made by extruding the
24 materials to its final dimension. Thicker strips
25 typically are extruded.

1 Flexible magnet profile shapes are another
2 product of extrusion, except that they are not square
3 or rectangular in cross section like strips, but have
4 some other cross section. An example of these might
5 be flexible magnets with a cross section more or less
6 in the shape of a flat initial C, which when cut into
7 short lengths can be used as label holders on metal
8 shelving. Another example is a profile shape designed
9 to fit in a channel of a shower door frame for the
10 purpose of holding the door shut.

11 Flexible magnets are flexible because they
12 are composed of a flexible binder, generally a polymer
13 such as a synthetic rubber, and a magnetic element.
14 For the most part the magnetic element is a ferrite,
15 typically strontium or barium ferrite.

16 Other magnetic material can be substituted,
17 for example, when significantly higher magnetic energy
18 is desired. However, such high energy generally is
19 not a requirement for the principal uses of flexible
20 magnetic sheeting and strips such as in refrigerator
21 magnets and other advertising specialty and novelty
22 items and magnetic signage of various kinds which you
23 see on the doors of cars.

24 Flexible magnetic sheeting strips and
25 profiles are generally made by mixing manufactured

1 magnetic powders -- as noted, typically ferrite
2 powders -- with polymers and then feeding the mixture
3 into either a calendar or an extruder. A calendar
4 consists of rolls that form a sheet of material very
5 similar to cold-rolling mills used in the steel
6 industry.

7 The extruder, which is basically a big,
8 continuous Playdoh factory, pushes the material out of
9 a die to form a shape or a sheet. A set of rolls can
10 be placed at the end of the die to form wider sheeting
11 from the extruder. More typically, an extruder is
12 used to produce strips or profile shapes.

13 The products of the calendaring and
14 extrusion process may then be cut into narrow widths
15 and various lengths and may have laminates such as
16 adhesives and printable materials applied to them.
17 Coatings may also be applied to the material.

18 Printable laminations such as paper, vinyl
19 and synthetic materials are typically applied for
20 printing applications. Adhesives permit a purchaser
21 to stick a magnet onto something that they want to
22 have stick to metal. Adhesives typically have a
23 release liner which is removed by the end user to
24 adhere the magnet to what they want to have stick to
25 metal.

1 Often adhesive laminated magnetic sheeting
2 is used to stick preprinted material down. The most
3 typical coating application is a backcoating. The
4 backcoating protects the material from sticking to
5 itself when rolled or stacked for storage and
6 shipping, a condition referred to as blocking.

7 Blocking is an inherent problem with
8 flexible magnet. The binders used will block when
9 rolled or stacked on itself for long periods of time
10 or in high temperatures such as would be seen in a
11 truck or warehouse in the summer months. Backcoating
12 is most typically used to prevent this blocking of
13 plain material.

14 Due to the long distance in shipping and
15 conditions seen in containers, almost all sheet
16 material coming from China and Taiwan is backcoated.
17 Some of the product from China may use the backcoating
18 to contain plasticizers that would migrate out and
19 attack the surface they're applied to.

20 An important element of the production
21 process at Magnum's facility is quality control.
22 Magnum has a strong total quality management program
23 that begins with the design and testing of its
24 processes and equipment. Magnum has well kept, modern
25 manufacturing equipment, a significant portion of

1 which was recently purchased and some of which was
2 designed and built by our own engineering department.

3 We are especially careful, for example, to
4 ensure that our calendar rolls are precisely
5 dimensionally correct so that there are no
6 fluctuations in the thickness of our sheeting
7 products. We believe that by controlling our
8 processes and equipment we can achieve exceptional
9 quality, consistency and repeatability during our
10 manufacturing processes, preventing quality issues
11 rather than relying on detecting them.

12 Moreover, every employee is responsible for
13 the quality of their work performed at their
14 respective work centers. Every order that flows
15 through Magnum is checked at every work center to
16 maintain the quality and integrity of the product. If
17 at any time a quality issue is discovered and cannot
18 be corrected with normal equipment adjustments,
19 operators are empowered to shut down production until
20 the problem is resolved.

21 In addition, our lab performs routine
22 testing of all the raw material inputs in our
23 products, including all binders, powders and
24 laminates. Our lab and operators are constantly
25 checking work in process and finished materials.

1 Magnum's quality control laboratory also
2 tests any product that is returned as a result of a
3 customer complaint to determine whether the complaint
4 is warranted and, if so, what steps need to be taken
5 for correction.

6 Magnum regularly receives high quality
7 ratings from its customers. For example, in June this
8 year one big box retail customer audited our quality
9 system and gave us its highest rating. Another large
10 customer who rated us in August of this year gave us a
11 product performance rating of 99.82 percent, which
12 placed us in the company of its top rated vendors.

13 When despite this care complaints are
14 received from customers, Magnum takes them very
15 seriously. If the complaint relates to the product,
16 as contrasted with a delivery or invoicing problem, we
17 try to test the product concerned to determine the
18 cause.

19 It is not uncommon to find the problem arose
20 from improper handling or application of the product.
21 This is especially common in the auto sign market
22 where improper storage of the material can result in
23 bent or curled edges that will stick out when adhered
24 to a car, thus catching the wind and blowing off.

25 It is also important not to put magnetic

1 signage on freshly painted or clearcoated surfaces.
2 Uncured paints and clearcoats can stick the material
3 to the surface of the vehicle, and many times we find
4 people have applied the product over molding and body
5 fillers that do not attract magnets. Our cleaning and
6 care guides give detailed information on all of these
7 and the steps to prevent them.

8 It is also not uncommon to find the material
9 being complained about is not even ours. We recently
10 received a material sample that had "Made in Taiwan"
11 markings on it.

12 When we do find the problem is ours we fix
13 it quickly and try to minimize problems for our
14 customers. In any event, even counting all those
15 instances when it was ultimately determined that the
16 complaint was without merit, all product related
17 complaints received by Magnum to date this year
18 affected less than one-half of one percent of the line
19 items in orders supplied this year.

20 The raw flexible producers in China and
21 Taiwan reportedly use the same production processes
22 and the same kind of raw material as Magnum. Some
23 reportedly use barium ferrite as well or in place of
24 the strontium ferrite that is the standard magnetic
25 powder used in raw flexible magnets produced by the

1 United States manufacturers. U.S. manufacturers avoid
2 barium because of issues regarding its toxicity.

3 The foreign producers may mix in some higher
4 energy powders, perhaps in order to overcome other
5 issues in their powder binder compound. Their
6 products are available in the same ranges of sizes and
7 thicknesses as Magnum's products. They apply the same
8 kinds of laminates, adhesives and coatings as we do.

9 As stated earlier, they backcoat their
10 magnetic sheeting because of the time involved and the
11 conditions of heat and humidity encountered in
12 shipment from the Far East to the U.S. Also as noted
13 earlier, the coating prevents migration of
14 plasticizers and blocking.

15 Although backcoating was adopted by the
16 Chinese producers out of necessity, we make it
17 available for its antiblocking and processing benefits
18 on plain material. In the last two years, we have
19 offered several backcoatings to help prevent blocking
20 of plain material which may be encountered in the
21 United States during the hot summer months. We find
22 it also helps material handling in some of our
23 customers' processes.

24 Although initially it was not uncommon for
25 Chinese and Taiwanese raw material to evidence quality

1 problems, in recent years the quality of their product
2 in general is on a par with that of Magnum and other
3 U.S. producers.

4 These days they compete head-to-head
5 nationwide with our raw flexible magnet with no
6 quality discount being given. The low prices they
7 offer are purely a marketing device used to draw
8 customers away from the U.S. industry and to capture
9 volume and market share.

10 Look at their websites and trade literature
11 and you will find bold statements about China pricing
12 and domination. Today we encounter China pricing at
13 100 percent of our customer accounts. Even at
14 accounts that have never purchased raw flexible magnet
15 from China or Taiwan, the number one concern voiced to
16 me is are my competitors buying Asian material. We
17 need to be competitive with subject import pricing at
18 every account.

19 My brother Tom, vice president of Magnum
20 Magnetics, will pick up the narrative from here
21 beginning with a discussion of the channels through
22 which we sell our product.

23 MR. T. LOVE: Good morning. I'm Tom Love,
24 Vice President of Magnum Magnetics. As Allen stated,
25 I will discuss our experiences in the raw flexible

1 magnet market starting in 2004, the beginning of the
2 period of investigation, and continuing through to
3 today.

4 I will begin with a discussion of the
5 channels into which we sell our raw flexible magnet.
6 We sell to four general classes of producers which may
7 be broadly characterized as printers, original
8 equipment manufacturers, high volume retailers and
9 distributors.

10 Printers, some of which sell a wide variety
11 of advertising specialties such as calendars, caps,
12 desk sets, clock and pens, as well as printed flexible
13 magnets, are the largest segment of the market. They
14 typically buy raw flexible magnet for purposes of
15 printing such items as magnetic business cards,
16 magnetic calendars or sports team schedules bearing
17 advertising and business signage for cars and vans.

18 Printers come in all sizes. Some purchase
19 raw flexible magnet in small lots, while others
20 purchase in large volumes. Magnum typically serves
21 the large lot customers, while flexible magnet
22 distributors typically serve the smaller ones. The
23 preponderance of our sales are to printers, and this
24 is a sector of the market that is being particularly
25 strongly attacked by the imports.

1 Original equipment manufacturers use raw
2 flexible magnet in manufacturing such products as
3 shower doors, toys, games and cabinets.

4 High volume retailers purchase retail
5 packaged raw flexible magnets for sale as craft items
6 and in thin laminated sheets for sale for home, school
7 or small business use in digital printers. This is a
8 market sector we have been seeking to develop and
9 grow. However, just as has happened in the printing
10 and OEM markets, we now find imports in this sector as
11 well.

12 Distributors purchase for stock and resale,
13 as well as for direct drop shipments for customers who
14 typically purchase in smaller lots. They sell our
15 product largely to printers, but also some original
16 equipment manufacturers and retail outlets.

17 The Chinese and Taiwanese imports have
18 significantly disrupted this sector of the market.
19 Under pressure from low-priced, imported raw flexible
20 magnets from China and Taiwan, the always hazy line
21 between higher volume users being served by raw
22 flexible magnet manufacturers such as Magnum and
23 smaller users being served by magnet distributors is
24 becoming less distinct.

25 Their extremely low prices have made it

1 possible for some of the larger distributors to buy
2 the imports and to target the higher volume users that
3 traditionally have purchased predominantly from
4 producers such as Magnum. Some distributors have made
5 it clear that is exactly what they intend to do.

6 In turn, we have looked to see if there are
7 some high volume customers of the distributors
8 concerned that we can efficiently serve directly and
9 thus retain some of the volume that would otherwise be
10 lost because of the distributors switching to Chinese
11 or Taiwanese imports. Obviously there are limits to
12 the extent we can undertake such sales on a cost-
13 effective basis.

14 We compete nationwide directly with Chinese
15 and Taiwanese raw flexible magnet producers and their
16 U.S. sales arms for sales to large and small users in
17 the printing, OEM, distributor and retail markets.
18 That competition has become a fight for survival.

19 Chinese and Taiwanese raw flexible magnet is
20 being sold in the U.S. market at what seem to be ever
21 lower prices, prices that sometimes are below our cost
22 of production, even though we are, we believe, the
23 lowest cost producer in the United States.

24 Several long-time large volume customers of
25 Magnum have deserted to Chinese and Taiwanese

1 suppliers in whole or in large part, and the reason is
2 always the import's prices. We have provided the
3 Commission a list of lost sales, and it is clear from
4 that list that we have lost very significant volumes
5 from former and some continuing customers to Chinese
6 and Taiwanese imports.

7 The erosion of our sales base has taken
8 place over several years and is accelerating. In
9 2004, at the beginning of the Commission's
10 investigation period, we were experiencing our first
11 significant sales growth since the 2000-2001
12 recession.

13 During the recession and intervening period,
14 imports from China and Taiwan had been gaining a
15 foothold in the U.S. raw flexible magnet market, and
16 their low prices were attracting purchasers who were
17 attempting to save costs. It was clear to us that
18 they were becoming a troubling factor in the market.
19 However, we were attempting to fight them off with
20 price and other concessions to some customers.

21 In 2005, we negotiated the purchase of
22 Magnetic Specialty, Inc. or MSI, another U.S. producer
23 also located in Marietta which had been experiencing
24 difficulty competing in the changing competitive
25 conditions brought about by the imports from China and

1 Taiwan.

2 MSI was the high cost domestic producer of
3 raw flexible magnet. Its cost structure was not
4 competitive with prices of subject imports that MSI
5 encountered in the market. For example, one of its
6 largest customers informed MSI that it was switching
7 suppliers of raw flexible magnet from MSI to a lower
8 priced Chinese producer because MSI could not meet the
9 Chinese price.

10 Gary Murphy, the former president of MSI who
11 is sitting here, can answer any questions that you may
12 have about MSI's business.

13 The purchase of MSI closed in April of 2005.
14 We then combined MSI's manufacturing operations with
15 ours in one of our manufacturing facilities, which
16 allowed us to achieve lower operations costs for the
17 combined business.

18 In addition, we purchased additional, more
19 efficient equipment to incorporate into the combined
20 manufacturing operation. In anticipation of merging
21 the businesses, we built up a stockpile to cover
22 anticipated shipments. This consolidation of two
23 competitors caused by the subject imports resulted in
24 short-term production falls.

25 As with any consolidation, there were a

1 series of challenges and external pressures. Some key
2 senior personnel left the company. The layout for the
3 combined production facility was complicated, and new
4 equipment had to be ordered and installed.

5 As a result, our own delivery dates
6 stretched out, and the quality of our product
7 suffered. We had to put our distributors on
8 allocation, although it was an allocation set at 120
9 percent of their previous year's purchases.

10 In October we sent a letter to customers
11 taking responsibility for the problem and advising
12 them of the steps we were taking to address them. It
13 is important to note that in this same period many of
14 our customers were signing supply contracts with us,
15 many of which are still in effect today, because they
16 saw that we were being open about the problems we had
17 encountered and we were solving them.

18 While we took responsibility, the real cause
19 of the problem was the subject imports which forced
20 the consolidation in the industry. By November 2005,
21 our lead times were dropping and our quality was
22 coming back to required levels. By December we were
23 able to take on new business.

24 During this same period in 2005 we
25 experienced large spikes in our raw material costs,

1 many of which are petroleum based or consume
2 significant amounts of energy in their production.
3 Therefore, at the end of 2005 when we were negotiating
4 price and supply arrangements for 2006 we were forced
5 to try to raise our prices, the first general price
6 increase in our company's history.

7 We encountered stiff resistance with many
8 customers threatening us with Chinese and Taiwanese
9 pricing. Overall we were unable to secure the general
10 five percent increase we needed and had to settle for
11 an increase in the two to three percent range.

12 In 2006 our lead times and quality were at
13 acceptable levels. We continued to work on improving
14 our internal systems and efficiency, on product
15 development and staff training in preparation for the
16 busy season in the fall. We were ready, but the busy
17 season never happened.

18 It became apparent that imports,
19 specifically the imports from China and Taiwan that
20 had become ubiquitous in the market, had taken a
21 significantly larger bite out of our market. Overall
22 in 2006 our sales were decidedly off. To top it off,
23 towards the end of 2006 we were made aware that our
24 largest distributor was planning to switch suppliers
25 from Magnum to imports from China.

1 Because raw material prices continued to
2 rise and because we also hoped to give our plant
3 workers a raise, we had hoped to implement a five
4 percent price increase for 2007. However, given the
5 slowness of 2006 and with conversations with customers
6 showing that producers in China and Taiwan and their
7 agents were working hard to take sales away from us,
8 we decided to drop the effort.

9 Indeed, it had become increasingly difficult
10 to hold any price line. More and more customers were
11 coming to us with offers from the Chinese or Taiwanese
12 at prices that were lower even than our costs, and we
13 were being forced to lower our prices even to
14 approximate them.

15 We did experience one success in 2007 when a
16 big box customer of the major distributor mentioned
17 earlier who was switching from us to the subject
18 imports came to us. The customer said that when the
19 distributor told them that it intended to supply them
20 with magnet from China and as a consequence the
21 customer learned that the distributor was in fact not
22 a manufacturer as they had previously been led to
23 believe, the customer decided that it would shop the
24 market itself.

25 The customer stated that if they were going

1 to buy Chinese they would do it directly, but they
2 also would give us a chance to get its business
3 because we were a manufacturer. After long
4 negotiations we were able to secure the business.

5 Despite this, 2007 continued the trend in
6 2006. With sales declining and prices under pressure
7 from the Chinese and Taiwanese imports, in late spring
8 we learned that a major printer was planning to switch
9 from us to the imports.

10 In addition, we learned that another
11 distributor was also planning to import from China, in
12 their words, to get some of the bigger orders they
13 weren't able to get before. In other words, they
14 could compete with us directly.

15 Again, in the fall of 2007 we are not seeing
16 the busy season that was formerly routinely
17 experienced at this time of year. The imports are
18 taking this volume away from us. As a consequence, we
19 are not running several calendaring and extruding
20 lines that normally would be at full production at
21 this time of year. The outlook for this year's and
22 future years' sales volume is ominous.

23 Because numerous U.S. purchasers have turned
24 to Chinese or Taiwanese origin imports as their chief
25 or exclusive supply of raw flexible magnets, the

1 Chinese and Taiwanese imports have rapidly increased
2 their sales volumes in the U.S. and their share of the
3 U.S. domestic consumption.

4 This is apparent from our lost sales reports
5 and the anecdotal experience of our sales force and
6 our market intelligence and also is indicated by the
7 trends apparent in Census Bureau import data and the
8 vessel manifest data available through the PIERS
9 service. In 2005 and 2006, imports of raw flexible
10 magnets from China and Taiwan appeared to increase
11 particularly sharply. As I have mentioned, all the
12 signs are that this increase is continuing in 2007.

13 Chinese and Taiwanese producers, their
14 selling agents and importers offering their products
15 are now highly visible in the U.S. market for raw
16 flexible magnets. A few years ago they started
17 appearing at U.S. trade shows where raw flexible
18 magnets are promoted. The number appearing at the
19 shows has since increased rapidly.

20 Because of the Chinese and Taiwanese imports
21 in the market, the customers we continue to retain
22 regularly hammer us on prices, making clear that they
23 know Chinese and Taiwanese magnet is available at very
24 low prices and pointing out that their competitors are
25 buying Chinese or Taiwanese and that we have to give

1 them prices that will enable them to continue to
2 compete in their markets.

3 As a result, we have been forced time and
4 time again to lower our prices in response to the
5 competition from these imports. The lost revenue
6 listing in our domestic producer's questionnaire
7 response provides details as to many of these
8 instances.

9 When we call customers we have lost to the
10 Chinese or Taiwanese, as we regularly do, in an effort
11 to get them back and we propose prices, the result is
12 often laughter. There can be no doubt that it is
13 price and price alone that is the edge with which the
14 Chinese and Taiwanese producers have cut into and
15 taken over an increasingly large share of the U.S. raw
16 flexible magnet market.

17 This is clear from our experiences in the
18 market and from the offerings of the foreign producers
19 themselves. An example is a solicitation for Polyflex
20 Magnets, Ltd. of Hong Kong whose plant is located in
21 Shenzhen, China. The advertisement trumpets that the
22 magnets sold by Polyflex offer German quality magnetic
23 sheeting at China prices.

24 Note that it is German quality that is
25 advertised, not Chinese quality, and China prices says

1 it all. Everyone in the industry knows that to be
2 shorthand for the lowest prices available.

3 In concluding, I would like to say a few
4 words about the future. There appear to be a
5 significant number of raw flexible magnet producers in
6 China and substantial available production capacity.

7 One of the Chinese producers' raw materials,
8 ferric oxide, is a byproduct of the pickling process
9 used by the Chinese steel industry. That industry has
10 been rapidly growing, and presumably there is pressure
11 to increase consumption of the byproduct as well,
12 which translates into pressure to export flexible
13 magnets.

14 Moreover, the Chinese magnet industry has
15 been identified by the Chinese Government as an
16 industry to be encouraged, and it receives a variety
17 of government subsidies. Chinese producers and their
18 selling agents are establishing distribution networks
19 and facilities in the U.S. The principal Taiwanese
20 exporter for its part has established two distribution
21 facilities in the U.S. and shows every sign of
22 intending to expand its sales here.

23 As reported earlier, the Chinese and
24 Taiwanese producers and U.S. distributors selling
25 their products are seeking to capture our customers

1 across the board. The strategies with which Magnum
2 has met this competition are likely to enjoy
3 diminishing success in the future.

4 Our efforts to squeeze costs out of our
5 system have been successful to date but have reached
6 the point of diminishing returns. Our efforts to move
7 into more value added products have been successful to
8 date in somewhat mitigating the adverse effects of the
9 imports, but we now are finding import competition in
10 those areas as well.

11 One of our big box retail customers recently
12 advised us that for next year its choice for raw
13 flexible magnets was going to be between us and the
14 imports, and the decision would be based on price. It
15 therefore is clear that without effective action in
16 these proceedings we will suffer further substantial
17 injury in the future and with extremely harmful impact
18 on our ability to continue as a viable enterprise.

19 Thank you for your attention.

20 MR. BUTTON: Good morning. I'm Kenneth
21 Button, Senior Vice President of Economic Consulting
22 Services, LLC.

23 I'm appearing at this staff conference on
24 behalf of the domestic industry to assess the economic
25 evidence as to whether the U.S. industry producing raw

1 flexible magnets is injured or threatened with injury
2 by reason of the subject imports from China and
3 Taiwan.

4 I have prepared for the staff's convenience
5 a set of exhibits based on public information which I
6 will reference in my testimony. I ask that the
7 exhibits be accepted for inclusion in the record.

8 I will begin by noting seven conditions of
9 competition that are distinctive to the raw flexible
10 magnets industry and are listed in my Exhibit 1. Do
11 you have the exhibits?

12 MR. CARPENTER: No, I don't believe we do.

13 MR. BUTTON: Pardon me if I pause here.

14 MS. LEVINSON: Mr. Carpenter, Respondents
15 request a copy of these exhibits.

16 MR. CARPENTER: Certainly. Do you have any
17 extra copies for Respondents?

18 MR. BUTTON: Yes, indeed.

19 MR. CARPENTER: Thank you. Please proceed.

20 MR. BUTTON: With apologies, I'll resume
21 here.

22 I will begin by noting seven conditions of
23 competition that are distinctive to the raw flexible
24 magnets industry and are listed in my Exhibit 1.

25 First, the demand for raw flexible magnets

1 and their use in promotional and advertising
2 activities tends to grow in line with the overall U.S.
3 macro economy. Therefore, it is Petitioner's
4 perception that the demand for raw flexible magnets
5 has been increasing over the course of the POI.

6 Second, raw flexible magnets are a commodity
7 product. While the product purchased by a customer
8 may need to conform to that customer's particular
9 specifications, the differences in specifications
10 among buyers tend to lie within a relatively small
11 range and can be met by essentially all U.S. merchant
12 suppliers and import suppliers.

13 Third, U.S. produced raw flexible magnets
14 and the subject import raw flexible magnets are viewed
15 by U.S. purchasers as essentially fungible. There are
16 no commercially meaningful differences between the
17 U.S. product and the subject import product with
18 respect to basic mechanical, chemical or performance
19 characteristics.

20 When the Chinese or Taiwanese producers were
21 starting up production they had to learn to make a
22 quality product. Today, however, as Mr. Love has
23 quoted, the Chinese importer, PolyFlex, brags that
24 with its product you get "German quality at Chinese
25 prices."

1 Two additional factors combine to enhance
2 further the fungibility of domestic and subject import
3 products. First, there are no government or industry
4 standards that apply to raw flexible magnets or the
5 finished downstream flexible magnet products.

6 Additionally, as described below in a
7 moment, most raw flexible magnet material ends up in
8 the production of items essentially given away for
9 promotional purposes. These factors give printers
10 somewhat greater leeway in setting their purchase
11 specifications to accommodate any differences that
12 might exist among competing suppliers whose products
13 are slightly different.

14 The fourth key condition of competition is
15 that given its commodity product nature and the
16 interchangeability of domestic and subject import
17 products, competition among raw flexible magnet
18 suppliers is fundamentally based on price.

19 A relatively unique condition of competition
20 for this product that heightens the customer's focus
21 on price is the fact that most raw flexible magnets
22 are used for promotional and advertising purposes.
23 Indeed, the ultimate customers of finished flexible
24 magnets may actually give them away.

25 The Commission more frequently deals with

1 products that are raw material inputs to a finished
2 good that is ultimately sold. The purchaser must have
3 the input material to make his product to stay in
4 business.

5 With promotional advertising products,
6 however, there is a significant discretionary aspect
7 of their purchase as the customer views them as an
8 expense which only indirectly results in increased
9 revenues. Therefore, price plays an especially
10 important role in customer decisions regarding the
11 purchase of finished flexible magnets from printers,
12 which in turn makes the printers similarly very
13 focused on price when they negotiate their purchase of
14 raw flexible magnet.

15 Fifth, the prevalence of spot sales and
16 requirements contracts between suppliers and
17 purchasers also is a significant condition of
18 competition in the raw flexible magnet market. Fixed
19 long-term contracts are unusual in this industry. The
20 typical arrangements tend to involve either
21 straightforward spot sales in which a price agreement
22 is good only for that single transaction or
23 requirements arrangements.

24 In a requirements contract, the producer and
25 customer agree on a target price or a range and a

1 target volume such as a percentage of the customer's
2 requirements during the coming year. However, there
3 is no guarantee that the customer will actually
4 purchase the target volume.

5 The particular relevance to the Commission's
6 analysis that arises from these purchasing practices
7 is twofold. First, there is very limited contractual
8 security for the U.S. raw flexible magnet producers in
9 their customer relationships.

10 They may beat the competition for a
11 customer's business today, but they're going to have
12 to do it all over again in a new negotiation if they
13 want to keep that business. Therefore, customers have
14 tremendous leverage to pit one supplier against
15 another to get the lowest price.

16 The second impact of these pricing practices
17 is that the frequency of recurrent bidding and
18 negotiations among customers and suppliers makes
19 competitive information spread rapidly across the
20 market.

21 In other words, customers are constantly
22 tuned into market changes. Therefore, knowledge of
23 aggressive pricing by a Taiwanese or a Chinese
24 supplier is very quickly spread among customers and
25 suppliers who will then incorporate that information

1 into their next round of spot or requirements bid and
2 offer decisions.

3 Sixth, as described by Mr. Love, the U.S.
4 market for raw flexible magnets can be viewed as
5 having four segments: Large printers, distributors,
6 high volume retail stores and original equipment
7 manufacturers.

8 The printer segment of the market consists
9 of medium to large printing companies which purchase
10 raw flexible magnets, print advertising logos and
11 messages on them and then resell them to end users
12 such as advertising agencies and other businesses
13 which use the finished products for promotional and
14 advertising purposes. This is by far the largest
15 segment of the market.

16 The distributor segment consists of
17 wholesale distributors which purchase for resale to
18 the many small printers as well as to some original
19 equipment manufacturers and craft stores. However,
20 some distributors that are being supplied by low-
21 priced subject imports are now selling to the large
22 printer segments just mentioned.

23 The high volume retail stores purchase
24 packaged raw flexible magnets for resale for craft
25 items and in thin laminated sheet form for sale for

1 home or small business use in digital printers.

2 Finally, the OEMs purchase raw flexible
3 magnets for use in such products as refrigerator door
4 gaskets, cabinet closures, automotive applications and
5 toys. The OEM segment tends to be somewhat more
6 demanding in its technical specifications and somewhat
7 higher priced.

8 Finally, a condition of competition is that
9 the subject import suppliers such as Polyflex and
10 Magone have now established sales offices, warehouses
11 and distribution networks that permit them to sell
12 effectively to customers throughout the United States.
13 However, the standardized nature of the product
14 nonetheless makes it relatively easy to sell flexible
15 magnets by telephone or over the internet.

16 The primary cause of the domestic industry's
17 injury is the fact that the volume of subject imports
18 has increased greatly over the period of investigation
19 as shown in my Exhibit 2. In the petition, the
20 magnitude of the increase was estimated based on
21 Census Bureau data for the two relevant HTS
22 categories.

23 As described in the petition, there is
24 reason to believe that additional volumes of imports
25 have been misclassified and entered into other HTS

1 numbers. Because the relevant HTS categories do not
2 report volume in meaningful units of measure,
3 Petitioners have based their estimates of import
4 growth on the import value figures.

5 As shown in Exhibit 2, the CIF duty paid
6 value of the subject imports from China increased from
7 \$7.9 million in 2004 to \$20.9 million in 2006, which
8 is a growth of 163 percent. Imports from China
9 increased further in the January to June 2007 period
10 by an additional six percent compared to part year
11 '06.

12 Similarly, imports from Taiwan rose from
13 \$1.9 million in 2004 to \$2.6 million in 2006, an
14 increase of 39 percent. They rose further in part
15 year 2007 by a more modest three percent.

16 In aggregate, the subject imports increased
17 from \$9.8 million in 2004 to \$23.5 million in 2006, a
18 growth of 140 percent, with additional growth of five
19 percent in part year 2007. This is clearly a
20 significant volume that has risen significantly during
21 the period of investigation.

22 As noted in Exhibit 3, considered in terms
23 of U.S. market share and in relation to U.S. industry
24 production the industry's import growth has also been
25 very large. Indeed, Petitioner estimates that the

1 subject import market share has at least doubled over
2 the POI.

3 Petitioners are aware of the possibility
4 that some of the imports in these HTS categories may
5 be misclassified nonsubject product, such as printed
6 magnets. However, even allowing for such a volume the
7 subject import growth nonetheless remains large.

8 The subject imports have entered the U.S.
9 market at very low prices. As described in the
10 petition, the subject imports were offered to
11 Petitioner's customers at prices that were very low
12 and undersold the Petitioner's prices by large margins
13 of underselling. Indeed, some of the subject imports
14 were offered at prices below Magnum's cost of
15 production.

16 The result for the domestic industry has
17 been lost sales and lost revenues. The petition
18 details numerous instances of head-to-head competition
19 between U.S. producers and the subject imports that
20 have resulted in lost sales volume for the U.S.
21 industry that has consequently caused the industry to
22 lose production, employment, market share and
23 financial return.

24 Similarly, in the face of the Chinese and
25 Taiwanese competition U.S. producers have been forced

1 to cut prices in order to persuade customers not to
2 switch their volume requirements to the subject import
3 material. Magnum's price reductions have been
4 substantial.

5 The price competition in the U.S. market is
6 all the more intensive because of the dramatic
7 increase in the number of companies set up in China to
8 produce flexible magnets. Many of these new companies
9 are believed to have benefitted from Chinese
10 Government subsidies.

11 These Chinese companies are now vying among
12 themselves for a share of the U.S. market. As a
13 result, U.S. producers are additionally the victims of
14 price competition among the Chinese exporters
15 themselves, all seeking an outlet for their growth in
16 production volume.

17 The effect of the large increase in subject
18 import volume offered at low prices predictably has
19 been to cause severe material injury to the domestic
20 industry. The indicia of the industry reported in the
21 petition were necessarily based on Magnum Magnetics'
22 own data and that of Magnetic Specialty's which it
23 acquired. However, Petitioners believe that the
24 impact of subject imports was likely injurious with
25 respect to the other U.S. producers as well.

1 As you will note in Exhibit 4, as previously
2 described by Mr. Love, Magnum faced certain
3 consolidation problems with production modernization
4 and its integration of Magnetic Specialty during the
5 period from July to December 2005. Importantly,
6 however, these problems were confined to this period
7 and were resolved as Magnum moved into 2006.

8 Therefore, Magnum believes that the
9 Commission can have confidence that declines in the
10 indicia during 2006 and January to June 2007 can be
11 linked directly to the continuing subject import
12 volume growth and underselling.

13 For Magnum, as reflected in the petition and
14 its U.S. producer's questionnaire, essentially all of
15 the domestic industry's performance indicia
16 demonstrate that it is suffering current material
17 injury. These indicia are listed in my Exhibit 5. As
18 the details are confidential I can only note the
19 general trends in this public forum.

20 First, production volume fell sharply from
21 2004 to 2006, and it fell again in part year 2007. As
22 a result, capacity utilization declined significantly
23 across the whole POI. With declining production,
24 Magnum's workforce suffered as well with a number of
25 production and related workers dropping significantly,

1 especially in the recent part year period and with
2 counterpart reductions in the total hours worked by
3 the workforce.

4 The clear impact of the subject import
5 underselling was to make the subject import prices
6 irresistible to many U.S. customers. As a result,
7 Magnum's commercial shipments volume dropped severely
8 by 2006 and continued to fall in part year 2007.

9 Not only did Magnum suffer lost sales that
10 reduced shipment volume; Magnum's efforts to increase
11 its prices to offset its rising raw material input
12 costs were thwarted. In fact, Magnum actually endured
13 lost revenues and faced price declines.

14 As a result, Magnum suffered deterioration
15 in its financial performance and for the first time
16 began to suffer operating income losses. Indeed,
17 Magnum's questionnaire data show that in 2004, prior
18 to the subject import surge, Magnum had significant
19 positive financial performance. As the subject import
20 volume grew, the financial deterioration progressively
21 worsened.

22 The situation had been made still worse,
23 however, by the fact that in order to finance its
24 production modernization and the acquisition of
25 Magnetic Specialty, Magnum had to take on debt which

1 Magnum had ample reason to believe it could service
2 comfortably when it made the borrowing.

3 Unfortunately, with the sudden increase in
4 low-priced subject imports and their severe impact on
5 Magnum's sales volume and prices, Magnum additionally
6 began to suffer losses at the net income level. This
7 represents a case in which the Commission should
8 recognize reductions in the U.S. industry's net income
9 performance as a significant indicia of material
10 injury.

11 As to threat, absent import relief the
12 threat of further injury to the domestic industry is
13 real and imminent. Based on a catalog of injury
14 indicia that I've just summarized, there is clear
15 reason to believe that the domestic industry is highly
16 vulnerable to the continuing volume and price impact
17 of the subject imports.

18 The subject producers benefit from a variety
19 of import government subsidies that effectively lower
20 their cost for their exports and encourage export
21 production.

22 The Chinese and Taiwanese industries are
23 highly export oriented. Their domestic markets for
24 promotional giveaway items such as these is relatively
25 small and currently is very small compared to the U.S.

1 market. Nonetheless, the subject producers
2 collectively appear to have very large excess capacity
3 which is focusing on the United States.

4 Thus, the factual basis is solid for the
5 Commission to make both a current injury determination
6 and a threat of further future injury determination.

7 Thank you. I'm available to answer your
8 questions.

9 MR. THOMAS: Thank you, Dr. Button.

10 Mr. Carpenter, can you tell me how much more
11 time we have?

12 MR. CARPENTER: You have six minutes
13 remaining.

14 MR. THOMAS: Thank you very much. I will
15 conclude our presentation by covering a few somewhat
16 technical points.

17 First, the domestic like product with
18 respect to the subject imports in this proceeding is
19 raw flexible magnet manufactured by Magnum and other
20 domestic producers listed in the petition. This
21 product is essentially identical to the subject
22 imported merchandise.

23 Applying the factors customarily considered
24 by the Commission in making the domestic like product
25 determination, it is clear that there are no

1 additional domestic products that are like the
2 imported product for purposes of the determination.

3 Specifically for reasons listed in the
4 petition, printed flexible magnets and hard ceramic
5 button magnets are not like products. The relevant
6 domestic industry in turn consists of Magnum and the
7 other U.S. producers of raw flexible magnet identified
8 in the petition.

9 There are a few firms that convert imported
10 and some domestic raw flexible magnet into cut sheets
11 and strips in the United States. We believe that
12 these operations are not likely to be of significant
13 magnitude to have a significant impact on the domestic
14 industry data.

15 In any event, we do not think they should be
16 considered members of the domestic raw flexible magnet
17 industry because their operations involve relatively
18 little capital outlay. They account for relatively
19 little employment.

20 They do nothing more than make smaller
21 pieces out of products that already possess the
22 defining characteristics of the subject imports and
23 the domestic like product, and they are in a radically
24 different position than Magnum and other domestically
25 integrated producers as it regards their vulnerability

1 to import competition.

2 A final point on the subject of the domestic
3 industry is that it includes one firm, Holm
4 Industries, that reportedly is largely a producer for
5 captive use in making downstream products such as
6 refrigerator and freezer gaskets.

7 We are aware that the Commission's general
8 practice is to include captive producers and their
9 production in the domestic industry. However, the
10 Tariff Act requires the Commission if certain
11 conditions are met to focus primarily on the merchant
12 market for the domestic product in determining market
13 share and factors affecting financial performance of
14 the domestic industry.

15 We do not have the information regarding
16 Holm's operations necessary to enable us to determine
17 whether this mandatory provision applies. From what
18 non-APO information is available, it seems clear that
19 Conditions 1 and 3 of Section 771(c)(4) are satisfied.

20 We have no facts that would enable us to
21 evaluate the applicability of Condition 2, which is
22 whether the domestic like product is the predominant
23 material input in the production of the downstream
24 article.

25 In any event, even if the mandatory

1 provision were not to apply we would ask the
2 Commission to exercise its discretionary powers to
3 recognize that captive producers may be largely
4 insulated from the adverse impact of subject imports
5 on merchant market producers and to assess overall
6 industry data in that light.

7 Finally, this is a case where it is
8 appropriate to cumulate the imports from China and
9 Taiwan for the purposes of the Commission's injury
10 analysis. As has been demonstrated in the preceding
11 testimony: 1) There is a high degree of fungibility
12 between the imports from China and from Taiwan and
13 between the imports of the domestic like product;

14 2) Sales and offers to sell imports of raw
15 flexible magnet from China and from Taiwan are made
16 nationwide in the U.S. as our sales and offers to sell
17 the domestic like product;

18 3) Subject imports from both countries are
19 sold and offered through the same channels of
20 distribution as are the subject imports of the
21 domestic like product; and

22 4) The imports are simultaneously present in
23 the U.S. raw flexible magnet market.

24 That concludes Magnum's presentation. We
25 will be happy to address such questions as the staff

1 may have. Thank you for your attention.

2 MR. CARPENTER: Thank you, gentlemen, for
3 that excellent testimony.

4 We will accept for the record the two
5 exhibits of Petitioners, the sales literature of
6 Polyflex Magnets, Ltd. and the exhibits to the
7 testimony of Dr. Button. We will attach those
8 documents as exhibits to the transcript.

9 At this point we'll begin the staff
10 questions with Ms. Hand, the investigator.

11 MS. HAND: Thank you for your testimony. It
12 was very informative. I'd like to begin the questions
13 about product issues.

14 We found from importer questionnaires that
15 we have a variety of products included in the scope of
16 your petition, and we're wondering what your view is
17 of how we should treat the data collected. For
18 instance, we have several importers who are importing
19 magnetic photo pockets. They're included in your
20 scope, but quite a lot of the value of the product is
21 not a flexible magnet.

22 They're fairly large importers as far as the
23 magnitude of such importers go because most of the
24 importers of this product are fairly small, in the
25 range of \$500,000 to \$1 million a year, and we're

1 wondering what your view is of how we should treat the
2 data.

3 In addition, there are other imports coming
4 in where the flexible magnet is a much smaller part of
5 the item such as tool holders where there's a magnetic
6 strip, as an example. These items have not been
7 excluded from your scope.

8 MR. THOMAS: I would like to answer that in
9 more detail with the postconference brief, but I would
10 say in general that it is our intention to cover raw
11 flexible magnets and composite items which are
12 predominantly composed of that.

13 With respect to magnetic photo pockets, I
14 don't happen to know what the relative value breakout
15 would be. We certainly did not intend to include
16 wooden cabinets with magnetic latches on them or other
17 things of that sort.

18 As I say, we can respond more completely in
19 the postconference brief.

20 MS. HAND: Another question I have is I've
21 asked for additional data on the percentage of
22 production involved in calendaring and extruding, and
23 I do have information on percentages of the imports
24 involved in sheets, strips and profile shapes.

25 I'm just wondering what your experience has

1 been in the competition from China and Taiwan in the
2 extruding business, if there is much competition in
3 extrusions from Chinese imports?

4 MR. T. LOVE: Well, I can attempt to answer
5 that. The extrusion is a smaller part of our
6 business, and it's a bigger part of our competitors'
7 business.

8 We do know that we have faced some
9 competition, but we have seen I would say more so in
10 the sheeting. Perhaps our competitors have seen more
11 in the extrusions. We really don't know that.

12 MR. THOMAS: Just to clarify, by competitors
13 are you referring to domestic competitors?

14 MR. T. LOVE: Flexmag. Yes. Flexmag is our
15 main U.S. competitor.

16 MS. HAND: So I hear you saying that the
17 Chinese are actually sending in products in the
18 extruded category in your experience and that you are
19 quoting against them?

20 MR. T. LOVE: I do not have a specific
21 quote. I can look for one and present it in the
22 postconference brief, but that's the best I can give
23 you right now.

24 MS. HAND: Okay. Sure. I guess one
25 question I have I'd like you to address is I believe

1 in Ms. Levinson's opening statement she made some
2 reference to the MSI acquisition and that in her view
3 there was an issue. Her view was that that was the
4 cause of some of the problems in terms of quality and
5 debt instead of the imported product.

6 I think you've made a statement here that
7 you believe that the MSI acquisition caused some very
8 brief problems just in the year of the acquisition, in
9 2005, and that the problem was over by 2006. I was
10 wondering if you could just elaborate on your reasons
11 for acquiring the high cost producer in 2005 in the
12 industry, what you had expected to achieve by it.

13 It sounded like from your description things
14 might not have gone as well as you anticipated. Just
15 a little more elaboration on that incident in your
16 history.

17 MR. A. LOVE: Well, we saw an opportunity to
18 take a volume of business that looked like it was
19 going to die and rather than see it go and potentially
20 go overseas, we thought that at that time with
21 synergies and by putting the two together, we could
22 have a little stronger ship, so to say, to fight off
23 the foreign competition that we'd both seen, and we
24 were then a significantly lower cost manufacturer than
25 them, and we felt like combining we could make a lot

1 of what they did more profitable.

2 Some of the stuff they were doing was
3 actually losing money, and we thought we could turn
4 all that around and it looked like a good opportunity
5 for us at the time.

6 MS HAND: Okay. At the very end of your
7 testimony, Mr. Thomas, you made some mention of
8 converters, and how you do not believe that they
9 should be included in the industry because they are
10 providing a very different type of production, they
11 are not adding much value, there is not much capital
12 investment in the operations. I'm wondering if you
13 could elaborate, Mr. Love, on how much value-added you
14 think the converting operations add, because you have
15 significant operations in your own facility. Both Mr.
16 Loves.

17 MR. T. LOVE: It can vary, but I think one
18 of the typical things that's done is they would take
19 the material and cut it into sheets. It could be as
20 easy as sending it through a sheeter, and you program
21 the sheeter that I need 12 inches and then you just
22 send it through, and it's a fairly low-cost thing to
23 do. In fact, in our operation, we don't charge for
24 sheeting.

25 If you want it in a roll or in the sheets,

1 it's the same, in some cases even less because the
2 packaging is cheaper when you sheet it. Then in other
3 cases, if they are perhaps doing something that would
4 require a very expensive laminate, there are all
5 different types of laminates that a person could use,
6 and usually the more expensive laminate, the less it's
7 used, because of the cost, but it's usually the
8 cheapest ones that people use, and that could also add
9 some value.

10 As far as percentage? I see you still have
11 a question on your face, so --

12 MS. HAND: Yes, I'm not getting any sense at
13 all of how much value-added is coming out of the
14 conversion operations. Say your product is \$.80 a
15 pound if it's in a large roll.

16 MR. T. LOVE: Yes.

17 MS. HAND: What kind of value-added would
18 happen if you -- slitting and scoring and laminating?

19 MR. THOMAS: I think we may want to do some
20 calculations and give you a number with the post-
21 conference brief.

22 MR. T. LOVE: We could give some examples,
23 yes.

24 MR. THOMAS: That would be the best way to
25 respond.

1 MS. HAND: Sure, that sounds really good.
2 The other, maybe my last question has to do with
3 blocking, which has come up here. You've mentioned
4 that you used backcoating for the blocking, that
5 that's common in the Chinese and Taiwanese material
6 coming in, and I was just wondering when you started
7 using it routinely in your operations. It sounded as
8 if it almost coincided with maybe your acquisition of
9 MSI, then after that period of consolidating and
10 working out the kinks of your operations?

11 MR. A. LOVE: Well, that's kind of
12 interesting. Prior to acquiring MSI, we never really
13 had much problem with blocking. Our customer base
14 that we supplied really knew the inherent problems
15 with blocking, and they knew how to handle it. MSI
16 had one particular customer, however, that did not,
17 and I won't say we never had a problem, but it was
18 never a real prevalent problem.

19 And when we took on MSI customers, their
20 customer base, we had one in particular that had
21 problems. A lot of them were material handling. When
22 we, knowing what other people do to handle the
23 material, and knowing what they did to handle the
24 material, we knew that there were issues, but the
25 backcoating, we found, helped that, and as a

1 consequence, we offered it to others that we had
2 supplied plain material for without blocking, and we
3 only use it on plain material. We're not backcoating
4 everything. It's just plain material.

5 We found that it gave them some processing
6 advantages also, so it's kind of become more or less a
7 standard that we try to get people to take if they are
8 getting a plain material. Did I answer it?

9 MS. HAND: Yes, so it sounds like since 2005
10 you've been using --

11 MR. A. LOVE: Yes, since around 2006, mid-
12 '06, we -- 2005 we started looking at the -- how do we
13 help this one particular customer.

14 MS. HAND: Well, that's very helpful. Thank
15 you. I have no more questions.

16 MR. CARPENTER: Just a comment with respect
17 to Ms. Hand's request about value-added. It might be
18 a good idea to list various types of value-added steps
19 and the approximate percentage value added for each
20 and then maybe give us some idea of how common that it
21 is to perform those additional processing steps before
22 the product is finally sold to the end user, and any
23 other parameters that you would like to add to that.
24 Thank you.

25 Mr. Rees, the attorney/advisor?

1 MR. REES: Thank you, Mr. Carpenter.

2 Good morning, gentlemen, and thank you for
3 your testimony. As Mr. Thomas pointed out, we're
4 dealing with a new product, new industry, for the
5 Commission's purposes, and so I first have just some
6 very general questions. It might sound rather mundane
7 or prosaic, but I just am trying to get a better
8 handle on the nature of this product, and the first is
9 just in terms of the uses for this product.

10 Approximately what percentage of flexible
11 magnets, raw flexible magnets -- I'll call them
12 flexible magnets for short -- is ultimately used for
13 refrigerator magnets or display on other metal
14 appliances?

15 MR. T. LOVE: Well, from Magnum's
16 experience, that would be 60 to 70 percent of what we
17 produce, and that would either be on refrigerators or
18 cars, some could be used to hold a label on a shelf,
19 for example.

20 MR. REES: Okay, so that would include the
21 signage for automobiles?

22 MR. T. LOVE: Yes.

23 MR. REES: 60 to 70 percent. And then what
24 percentage would be the product used for gaskets or
25 inserts for gaskets?

1 MR. T. LOVE: For us, it's very small. It
2 is primarily the business of Holm Industries. It's
3 what they're doing. But for us, I would have to say
4 it's less than 5 percent, maybe even less than 2.

5 MR. REES: Any idea, any estimate of what it
6 would be in the entire marketplace, or don't you feel
7 qualified to speak to that?

8 MR. THOMAS: I think we could try to run
9 some numbers on it. I think if you know what Holm
10 Industries produces, it's probably a very large part
11 of that is what you are talking about. Our guess here
12 at the table right now is maybe 10 percent, but we'd
13 like to perhaps refrain that with the post-conference
14 brief.

15 MR. REES: Of course, of course. And then
16 in terms of other commercial or industrial uses for
17 these flexible magnets?

18 MR. T. LOVE: Well, again, it's what we're
19 aware of. We don't sell into the same technical
20 markets that, for example, Flexmag might sell to.
21 They are an ISO company and they have an engineering
22 staff that sells all kinds of magnets to the
23 automotive industry, which we really don't, and that
24 more technical business, we're just unfamiliar with.
25 But from our experience, I would say it's less than 10

1 percent of what we do.

2 MR. REES: Okay, and just for the lay person
3 -- I'm speaking of me -- what do you mean by the
4 'technical business'? What are we talking about?
5 What are they used for, if you can describe it?

6 MR. T. LOVE: It could be used in, say, an
7 airbag switch, or in a motor, fractional horsepower
8 motor, but we traditionally don't work with those
9 customers, as we don't have the engineering staff that
10 traditionally Arnold Engineering has always had.

11 MR. THOMAS: We should perhaps clarify that
12 Flexmag is a part of Arnold Engineering or Arnold
13 Industries, which is a much larger magnet producer, or
14 seller, I should say -- they produce in China -- that
15 sells a variety of magnet types including the hard
16 sintered magnets, injection molded magnets, etc. So
17 they have a much broader range than flexible magnets
18 and sell into those markets.

19 MR. T. LOVE: Yes, it should be noted too
20 that that type of market, when you've worked with an
21 engineer at an automotive company, you kind of get to
22 write yourself into the spec, so it gives them a
23 little protection, where the markets that Magnum
24 openly competes with Flexmag, they are wide open.

25 MR. REES: Okay, and for those technical,

1 that so-called technical business, you are suggesting
2 that that's a very small part of the market.

3 Obviously it's about --

4 MR. T. LOVE: It is for Magnum.

5 MR. THOMAS: I think he's just saying it is
6 for Magnum. They don't know how big it may be
7 otherwise because they are not in it.

8 MR. REES: Okay. All right, if you are able
9 to elaborate on what you learned from the data
10 submitted, that would be helpful to the investigation.

11 MR. THOMAS: We will happily do so, yes.

12 MR. REES: Okay. And then in terms of the
13 bulk of this product, the refrigerator magnets, I'll
14 call them, are used for attaching and display, how are
15 those different, if at all, from your perspective,
16 from, say, the raw flexible magnets used in gaskets?
17 Or are they not different? Are they all the same?

18 MR. T. LOVE: Yes, they are produced by the
19 same methods, and -- well, as far as the refrigerator
20 gasketing goes, again, that is primarily Holm's
21 business, and it's not one that we participate a lot
22 in. We have, I think, one customer that does some
23 gasketing, and it's a little bit thicker, and they
24 require tight tolerances on it, and we produce that
25 for them.

1 As far as the -- you are saying comparing
2 that to like a business card magnet on a refrigerator?

3 MR. REES: Yes, yes.

4 MR. T. LOVE: Yes, well, the requirements on
5 the refrigerator are different. Certainly, somebody
6 producing an engineered product, they demand that it
7 have certain performance requirements specifically
8 measured, and usually, somebody putting it on the
9 refrigerator, in most cases, the ultimate user, they
10 just want it to hold up a note in many cases. We test
11 that too and we regulate it, and we have minimum
12 standards on all of it, but usually, an engineered
13 product has a much tighter range of performance than,
14 say, somebody putting it on a refrigerator.

15 MR. REES: And by performance, you're
16 referring to -- is it really the strength, the power?
17 I'm not even sure of the term of art in this business.
18 The energy?

19 MR. T. LOVE: Yes, strength is one
20 measurement, sure. Strength is one measurement,
21 shrinkage could be another one. Susceptibility to
22 heat might be an additional one.

23 MR. REES: How about the actual energy of
24 the magnet, the magnetic power? When you referred to
25 it as strength, I'm sorry. I probably confused --

1 MR. T. LOVE: Yes and no. A more technical
2 customer might actually be interested in the actual
3 strength. Somebody putting it on a refrigerator, they
4 really don't. They just care, does it hold up my
5 note? They don't get into the actual strength of the
6 magnet, the energy of the product. They usually
7 ignore it.

8 MR. REES: Okay. Mr. Allen Love, I'll have
9 to refer to you guys by your first names so as not to
10 confuse people. You mentioned, you started to explain
11 this difference between the calendaring process and
12 the extrusion process. I'm wondering if you could
13 elaborate a bit more. I'm trying to understand the
14 difference. I understand that you attempted to
15 explain it perhaps to me with the Play-Doh analogy,
16 but could you explain that a bit further?

17 Just in general, the difference in terms of
18 the production processes between these --

19 MR. A. LOVE: Did you have a Play-Doh
20 factory?

21 MR. REES: Yes, I know Play-Doh, yes, and
22 I've got a couple of kids who like Play-Doh.

23 MR. A. LOVE: Basically, the extruder has a
24 big bank of material behind it and it feeds into a
25 screw, which pushes the material down the screw, and

1 there's a barrel, and you have to keep proper heat and
2 proper pressure, and then you put a die on the end,
3 and it can be whatever shape you want, a little heart
4 or star or whatever you want, and it will come out in
5 that shape, and it runs continuous until you stop
6 feeding it.

7 And in a calendar, it's a set of rolls that
8 you feed the stock into, and the rolls actually pinch
9 the material to a dimension, and I don't want to give
10 away any of the proprietary things, but basically
11 their pressure, time and friction, you form a sheet of
12 the right dimension.

13 MR. REES: Okay, and do I understand it that
14 you were suggesting that the employees are the same
15 who conduct these two processes?

16 MR. A. LOVE: They could be, if they are
17 cross-trained.

18 MR. REES: And it's done in the same
19 facilities, to your knowledge?

20 MR. A. LOVE: Right next to each other, in
21 our facility, and they are cross-trained. Same basic
22 raw material. You can actually make sheeting out of
23 the extruder. However, you can't make extrusion out
24 of the calendar, because you'd put a die in the shape
25 of a sheet and it'll push it out. And you can make

1 strips out of both.

2 MR. REES: You can make strips out of both?

3 MR. A. LOVE: Oh, yes. You could take and
4 extrude an extrusion like that, and then you can slit
5 it, or you could take a sheet and slit it, and
6 depending on the thickness and the volume and post-
7 processing determines which way we make it. We make
8 it the way that is the least expensive, so really
9 everything we -- when the customer has an order, we
10 have to look at what's the most economic way to make
11 the product, and we interchange sometimes.

12 MR. REES: Okay, that's helpful.

13 Mr. Thomas, I think in your post-conference
14 brief, if you could identify what percentage of the
15 total production of flexible magnets is made by
16 producers who make magnets using both processes, if we
17 have the information and you are able to identify
18 that?

19 MR. THOMAS: I think we can do that.

20 MR. REES: Okay. In what percentage of this
21 market is the finishing work performed by the actual
22 ultimate end user? Is there any that's ultimately
23 performed by the ultimate end user, or is that -- ?

24 MR. THOMAS: Let me start and then I'll hand
25 it off to these gentlemen. I think first we need to

1 clarify what you mean by finishing work. For example,
2 if you are talking about printed magnets, I would
3 think that the finishing work is the printing, and
4 that certainly is not done by the raw flexible magnet
5 producers. Is there something else you have in mind?

6 MR. REES: Would there be circumstances in
7 which the printing would actually be performed by the
8 ultimate consumer?

9 MR. THOMAS: Again, it depends on what you
10 mean by the ultimate consumer. The printing is
11 generally done, for example, by printing firms, and
12 they are printing, let's say, business card magnets
13 for somebody, or they are printing a sign for a
14 business that it's going to apply to the plumbing van,
15 or what have you, and so the ultimate consumer of
16 those products may be, A, in the case of automobile
17 signage, whoever it is that's using the signage on the
18 van.

19 B, in the case of a business card, you have
20 the person who -- the real estate agent who buys the
21 stuff and then they hand it out to somebody and it's
22 you or me who stick it up on their refrigerator who I
23 guess is truly the ultimate consumer. So I'm giving
24 you a very complicated answer, I know. If I could be
25 helped here a little bit, that would be nice.

1 MR. REES: What percentage of the market, if
2 any, might be made up of raw material magnets that can
3 be purchased by, say, a consumer at a big box outlet?

4 MR. THOMAS: Well, these gentlemen can
5 answer that. I think we're talking then about craft
6 magnets.

7 MR. A. LOVE: I think that's something we'd
8 like to put in a brief at the end because the answer
9 to that is proprietary.

10 MR. REES: Okay, so Mr. Thomas, I'd ask you
11 -- I suppose it's a softball question. I appreciate
12 you are saying there is a single domestic like product
13 here that corresponds with the scope, and I'd
14 appreciate your development of that issue in your
15 post-conference brief, including, if we hear any
16 argument from Respondents, and I don't know that we
17 will, but if we do, a rebuttal of any points they wish
18 to make if they disagree with that position.

19 MR. THOMAS: We certainly will address that
20 question. Thank you.

21 MR. REES: Now, with respect to the domestic
22 industry, and defining that, obviously Mr. Carpenter
23 and Ms. Hand had made this point about this converting
24 issue, and I'd simply ask, just reiterate that to the
25 extent there are any converters in this area, that you

1 identify or include in analysis in your post-
2 conference brief of whether you think they should be
3 included in the domestic industry, and typically that
4 test is -- obviously value added is significant, but
5 there are other factors as well.

6 MR. THOMAS: Yes, we are aware of the five
7 or six-factor test, and we will be happy to address it
8 in the post-conference brief.

9 MR. REES: Thank you, and also on that
10 point, related parties. There has been some
11 discussion already about magnet technology, and
12 insofar as they import subject merchandise, there has
13 been some discussion about Flexmag and its
14 relationship to its parent company and where its
15 parent company does business. Is it the Petitioners'
16 position, or I guess this is really directed to
17 counsel, that these are related parties that the
18 Commission should exclude for purposes of the domestic
19 industry?

20 MR. THOMAS: Again, we will address that in
21 the post-conference brief. I would say with respect
22 to Flexmag, and I want to be sure there is no
23 misunderstanding here, Flexmag's parent Arnold has
24 manufacturing facilities in China where it
25 manufactures merchandise which, to the best of our

1 knowledge, as yet is non-subject merchandise. And we
2 are not aware -- well, I'm going to stop.

3 MR. REES: Absolutely. No --

4 MR. THOMAS: We'll address it in the brief.

5 MR. REES: And I didn't mean to imply a
6 result or an argument you may wish to make, but simply
7 you are identifying whether you think the particular
8 company, and it may be others as well, whether they
9 satisfy the -- first of all, whether the provision
10 applies, and if so, whether you think there are
11 circumstances that would warrant their exclusion from
12 the industry.

13 MR. THOMAS: That would involve APO
14 information and we will do so in the brief.

15 MR. REES: Similarly, with respect to
16 cumulation, I know you were very efficient in your
17 remarks at the end of the affirmative presentation,
18 but on cumulation, and I won't even belabor it here
19 because I'll be interested to hear from Respondents if
20 that's an issue they are actually raising in this
21 stage of the investigation, but obviously we would
22 expect some development of that in your post-
23 conference brief.

24 And I do have one question, and it's because
25 it's purely public information, but I noticed that in

1 the data you compiled, the Commerce data, Exhibit A to
2 your petition, which is publicly available data
3 regarding imports, US imports for consumption, that
4 the import AUV data for Taiwan seems to be different
5 than for the other countries, and so I would invite
6 you -- if you care to comment now, that's fine, but I
7 would invite you in your brief to perhaps include
8 mention of that and your position on it or your
9 explanation of it, or even whether you think that's
10 material at all. Perhaps import AUVs are immaterial,
11 but that would be useful to have.

12 MR. THOMAS: We will certainly do that, but
13 I can tell you now that there are really two points.
14 One of them is that the quantity information in the
15 Census Bureau import data relates to 'units.' A unit
16 can be anything from a pallet of sheets to a roll of
17 magnetic material. There's no consistency in the
18 units. Therefore, the AUV numbers are, in our view,
19 meaningless.

20 Also, as we have said, as we have
21 acknowledged, there is some non-subject merchandise in
22 the Harmonized Tariff Code numbers that are used
23 there, so we certainly are looking forward to the
24 import data that the Commission is going to be
25 developing. I think our only question there would be

1 completeness of responses, but we know that the staff
2 has been working extremely hard to get responses, and
3 we really appreciate that very much.

4 So we will have to respond on the basis of
5 those data, I think.

6 MR. REES: Fair enough. Actually, on that
7 point, then, so in terms of the reliance, if there
8 were any reliance on public data, the view of
9 Petitioners is the emphasis ought to be placed on the
10 value data as opposed to the quantity data?

11 MR. THOMAS: That is correct.

12 MR. REES: And again, just very briefly, the
13 basis for that?

14 MR. THOMAS: The basis is that the quantity
15 data reflect numbers of something called units, which
16 are wholly inconsistent, so there's no -- we don't
17 know what the unit mix is. It presumably varies from
18 time to time, and so in our view it is meaningless.
19 The Commission has seen cases like this before, and
20 when it has seen them, it has relied on value data.

21 MR. REES: Okay. Thank you, and in terms of
22 the public data, I think the Respondents have already
23 jumped on this issue about -- and you have
24 affirmatively represented that there are issues
25 regarding the scope of that data, and perhaps its

1 overstatement of information, or rather its
2 overinclusiveness, and other defects I think you've
3 suggested, that there are things that are perhaps not
4 even captured by those two particular HTSUS numbers,
5 and in Table 1-2 of your petition, you include a third
6 number.

7 But how would you respond to -- or we'll see
8 what the data shows and how the importer data, how
9 good that set of data is, but if there were any
10 reliance on the public data, aside from saying however
11 imperfect it is, or it's just so large that even if
12 you adjust it somehow, it would show certain
13 conclusions that Mr. Button has articulated regarding,
14 say, volume and injury, could you be more specific, or
15 perhaps it's better in a post-conference brief --

16 MR. THOMAS: We'll address that.

17 MR. REES: Specific -- okay. In terms of,
18 if you are suggesting that adjustments need to be
19 made, and it would appear that you are, what
20 specifically would you be recommending in terms of
21 adjustments, beyond simply general statements
22 regarding imperfections or the like?

23 MR. THOMAS: We will address that in the
24 post-conference brief. We believe that there is going
25 to be some APO information --

1 MR. REES: Of course.

2 MR. THOMAS: -- that will help us do that.
3 Thank you.

4 MR. REES: Is it -- and this is probably
5 again to counsel. I apologize for directing so many -
6 - it's a legalistic question.

7 MR. THOMAS: Well, we do enjoy this, don't
8 we?

9 MR. REES: Not this next one. Captive
10 production. Do I understand Petitioners' position
11 that the captive production provision of the statute
12 applies here, or you are saying you don't know yet
13 yourselves, you are waiting to see the data?

14 MR. THOMAS: That's correct.

15 MR. REES: Okay, and I won't ask you very
16 specifically about it, beyond just reiterating, in the
17 post-conference brief, you are setting forth the
18 analysis, first of all, the threshold criterion,
19 obviously. I mean, we need significant domestic
20 production of the domestic like product that's
21 internally transferred, and we need significant
22 production that's sold in the merchant market, and as
23 you consider that, and I'm sure as you already know,
24 in terms of the entire industry, so this isn't a
25 producer-specific question.

1 MR. THOMAS: We understand.

2 MR. REES: And I understand -- okay. And
3 then the three criteria, the three, and you've
4 identified, you suggest you think maybe two are
5 already satisfied. I don't know if that's the case,
6 but even on those two that you think may be satisfied,
7 articulating the basis for that, and when you see the
8 data and have the information, the third criterion as
9 well.

10 MR. THOMAS: We will do so.

11 MR. REES: And having said all of that, I
12 don't understand your position to be that the -- if it
13 applies, the captive production provision, it's not
14 your position that Holm, for example, which has been
15 publicly discussed, is not a member of the domestic
16 industry. That's not your position, is it?

17 MR. THOMAS: No, the statute is pretty clear
18 that they are included as in the domestic industry.
19 As you know, the captive production provision
20 suggests, however, that when it applies, their
21 financials will be looked at in a little different way
22 and perhaps not included. The Commission can do a
23 separate analysis of merchant market producers and
24 look at the impact of imports on them.

25 MR. REES: Exactly, and that would be

1 helpful, if in your discussion, that you, in addition
2 to identifying the merchant market and the impact in
3 that area, that for thoroughness, that you also
4 address this captively consumed market, and also the
5 industry as a whole. If you would include a
6 discussion of all of those permutations, that would be
7 very useful to the Commission.

8 MR. THOMAS: We will.

9 MR. REES: And then finally, in terms of the
10 non-subject imports in this market, I guess I'd ask,
11 do you think that the Bratsk Aluminum Smelter v.
12 United States case applies here in terms of
13 consideration of non-subject imports in the US market?
14 And that may be a question that's best handled --

15 MR. THOMAS: Again, we'll address that in
16 the post-conference brief, but my answer would be no,
17 based on what we've seen, but again, I think we need
18 to go through the APO information so that we can give
19 you more precise arguments on that point, but
20 certainly from what we have seen in the public data,
21 is that there seems to be no such growth of non-
22 subject imports, of them being flat across the POI as
23 compared with China and Taiwan, China particularly
24 having exploded exponentially.

25 As we've already said, the AUV data are not

1 particularly useful, so I can't comment on that. We
2 simply need to look at the APO information to respond
3 appropriately to that question.

4 MR. REES: I understand, and I also
5 understand Mr. Button's testimony that the view from
6 your side is that this is a commodity product, and so
7 it automatically -- we need to think about Bratsk, and
8 obviously you would include it in your brief, and we'd
9 look forward to your discussion and enlightenment of
10 the Commission on that issue, and that's all I have.

11 MR. THOMAS: Thank you.

12 MR. CARPENTER: Ioana Mic, the economist?

13 MS. MIC: Thank you, Mr. Carpenter. My name
14 is Ioana Mic and I am the economist. I have a couple
15 of questions regarding some pricing and market-related
16 issues. First of all, could you tell me, what is your
17 normal level of your inventory, and what are your
18 normal lead times?

19 MR. THOMAS: I'd have to ask this, would you
20 regard that as confidential information? That may be
21 something we have to respond to with the post-
22 conference brief. Definitely, yes. We will have to
23 do that with the brief.

24 MS. MIC: All right. Here's another
25 question, if you choose to respond to this as well in

1 the post-conference brief. I understand there was a
2 demand spike during 2005. Is this correct?

3 MR. A. LOVE: Yes, there was a demand spike
4 in 2005.

5 MS. MIC: Could you tell me what was the
6 cause of this spike and is this --

7 MR. A. LOVE: One very unusual job that hit
8 the US market and left.

9 MS. MIC: All right, and did this have any
10 effect on your lead times?

11 MR. A. LOVE: It did shortly, but we opted
12 to not supply any material to that particular job. So
13 for a short period of time, we did supply material,
14 and then we completely stopped supplying material for
15 it because we knew that it would not be there long-
16 term. I'll tell you what the job was. You probably
17 got one in the mail. It was a Capital One magnet.
18 They did a mailing of a magnitude that's never been
19 seen in the United States before. I mean, it was like
20 500 million pieces, which is unheard of and probably
21 will never be heard of again.

22 MS. MIC: And for how long did you supply
23 Capital One?

24 MR. A. LOVE: I'll have to look that up.
25 I'm not sure. It was for just like a brief period, a

1 few months. The job went on for, I think, a year,
2 year and a half. They may still be doing some, but
3 the big job lasted quite a while, and in the fall of
4 '05, I believe, is when we said we just can't supply
5 this, because we were having a lot of other equipment
6 issues where we just didn't have capacity.

7 MS. MIC: Are you aware who supplied them
8 afterwards?

9 MR. A. LOVE: Well, I would suspect it's
10 somebody other than us, of course, but I would say
11 Flexmag or foreign suppliers.

12 MS. MIC: Okay, that was my question.

13 MR. A. LOVE: I do not know the answer.

14 MS. MIC: Okay. That's fine. In our
15 questionnaires, we've asked data on three pricing
16 products with two levels of energy, standard and high.
17 How representative are these three pricing products
18 for which we currently are collecting data?

19 MR. T. LOVE: Well, those three would be
20 very representative of what Magnum typically sells, as
21 we primarily do a lot of sheeting, and we felt that
22 that also affected the biggest part of the market,
23 being that almost all of the sheet is for either car
24 signage or it's going to end up on somebody's
25 refrigerator.

1 MS. MIC: And why was it necessary to
2 differentiate between the two energy levels?

3 MR. THOMAS: Essentially because the
4 Commission staff asked us to. There are different
5 energy levels, and for some products, it's understood
6 that the prices of higher energy products may be
7 higher. On the other hand, I believe that Magnum had
8 understood that it was not an unusual practice for
9 Chinese suppliers to supply higher energy products at
10 the same price as regular energy products, so whether
11 or not there was a real need to make that
12 differentiation, frankly, in our view, was not clear.

13 MS. MIC: And do you produce both standard
14 and high?

15 MR. T. LOVE: Yes, we do.

16 MS. MIC: And are you aware of the imports?
17 Are they coming, like you said, mainly high, or are
18 they coming both energies?

19 MR. T. LOVE: We have seen both.

20 MS. MIC: Both?

21 MR. T. LOVE: Over the years, yes.

22 MS. MIC: Okay. Are there other products,
23 other than the two products described in the petition,
24 that would provide a better coverage?

25 MR. THOMAS: The answer would be that in

1 Magnum's view, no, so far as its products are
2 concerned, certainly, and where they understood
3 significant volumes of imports to be entering. So,
4 no. We believe this to be as representative a sample
5 of products as we could identify.

6 MS. MIC: All right. Thank you very much
7 for that answer. Ms. Levinson noted in her opening
8 that your main competitor is Flexmag, and not so much
9 the imports because there is a different level of
10 trade. I just want to give you an opportunity to
11 answer.

12 MR. THOMAS: Frankly, I didn't understand
13 her to be saying that, but is the suggestion there's a
14 different level of trade between what and what?

15 MS. MIC: Between -- she said in her opening
16 that the imports are adding value to the product and
17 then selling it, while you are selling raw flexible
18 magnets.

19 MR. BUTTON: This is Ken Button. To the
20 extent that she was making reference to a printer that
21 may in the past have been buying a domestic product,
22 printing it and selling that, switched to importing
23 directly, printing it and selling it, first, that
24 would be considered a lost sale, and it would be
25 considered part of import market share. And that

1 falls into the printer area segment of the market.

2 There additionally, of course, are
3 distributors that sell to printers, especially to
4 smaller printers, and that distributor can receive,
5 buy product, either from the domestic industry or from
6 an import source. They'd sell that to the printer and
7 that printer then sells it downstream. We believe
8 that there is head-to-head competition in all aspects
9 of the market like this.

10 MR. THOMAS: And let me add that, with
11 respect to the four importers that she represents,
12 they are all buying raw flexible magnet material from
13 China. They were, every one of them at some point,
14 customers of Magnum. Magnum was selling to them. So
15 in the case of a couple of those entities, granted, it
16 was years ago. So there isn't any level of trade
17 issue here.

18 I mean, the competition is at the level at
19 which they choose to buy magnet from China, and Magnum
20 would love to sell that product to them. I think
21 she's referring to resales that they make, and to the
22 extent they are reselling or trying to resell to let's
23 say large retailers or other users such as OEMs, yes,
24 they are also in their resales competing with Magnum
25 to some extent. But I suppose that means that there's

1 competition at both the level at which they purchase
2 and the level at which they sell.

3 MS. MIC: All right. Thank you very much
4 for that answer. Those are my only questions.

5 MR. CARPENTER: Charles Yost.

6 MR. YOST: Thank you, Mr. Carpenter.
7 Charles Yost, Office of Investigation.

8 Thank you very much for your testimony, I
9 found it very enlightening. Let me begin the
10 questioning with Mr. Button.

11 What is the business cycle in this industry
12 other than the 2005 spike?

13 MR. BUTTON: It's my understanding that in
14 general the cycle would be the macroeconomic cycle,
15 affected very much by trends and in advertising
16 expenditures. There's something of a seasonality to
17 it as well, for example, calendars tend to be a second
18 half of the year item which there so you'll find some
19 more on that side of the year. But as an overall
20 matter it's my understanding this follows the broad
21 economic cycle.

22 MR. YOST: So the end of the year is what
23 you refer to as the busy season, I think as you stated
24 earlier, calendars for 2008 for example now being
25 printed?

1 MR. BUTTON: Let me ask Mr. Love to comment
2 on that.

3 MR. TOM LOVE: Yes, we usually see a little
4 bump from March. There's a lot of baseball schedules.
5 Then in the fall is the busiest time when people are
6 exhausting their advertising budgets as well as
7 getting calendars for the next year, magnetic
8 calendars for the next year. So those tend to be the
9 two busiest times.

10 We usually see in the first half of the year
11 around 40 percent of our sales and then the last half
12 we see 60 percent.

13 MR. YOST: Okay. But generally I mean other
14 than the seasonality you generally expect to see
15 rising sales throughout this 3-year period or no?

16 MR. TOM LOVE: Well, our understanding is
17 that the market is growing and the advertising
18 specialty market, our main market, has been growing as
19 studies within that market have shown. And we can
20 cite that. We can show that. I know we have it.

21 MR. YOST: Okay. Let me turn to the
22 acquisition of MSI. And, Mr. Murphy, you've been very
23 quiet this morning. I do appreciate your presence
24 here to answer the several questions that I might
25 have.

1 The first thing is do you agree with the
2 characterization that MSI was the high cost producer
3 prior to the acquisition in 2005?

4 MR. MURPHY: Yes, I do.

5 MR. YOST: Was the acquisition friendly or
6 hostile?

7 MR. MURPHY: It was a friendly acquisition.

8 MR. YOST: What was the reason, what was the
9 rationale that MSI had to sell?

10 MR. MURPHY: Well, I had several reasons.
11 But one of the main ones was the fact that we were
12 threatened by the foreign imports and the pricing
13 deterioration in that market. And I thought that if
14 we could combine with Magnum Magnetics, as Allen
15 stated earlier, we could combine our resources and
16 reduce our costs.

17 MR. YOST: Was your product line different
18 or did it differ from Magnum?

19 MR. MURPHY: In some ways we did. We had
20 basically we competed. Had specialty markets but we
21 had more retail products, retail packaged products.

22 MR. YOST: And by that you mean the big box
23 retail store repackaging for crafts --

24 MR. MURPHY: That's correct.

25 MR. YOST: -- that kind of thing?

1 MR. MURPHY: That's correct.

2 MR. YOST: Let me turn to Messrs. Love and
3 ask them what was the effect of the acquisition? What
4 happened during this consolidation phase that you've
5 referred to in the second half of 2005? For example,
6 was the equipment continued in operation, were the
7 same production-related workers retained or what
8 happened generally?

9 MR. TOM LOVE: Well, the acquisition took
10 place during the slow time of the year. And Magnum
11 had available capacity to handle the business of both
12 enterprises during that time period. And then we
13 began transferring and combining the operations
14 together. So we were taking the equipment from MSI
15 and transferring it into Magnum's facility.

16 MR. YOST: So physically moving it from one
17 facility to the other?

18 MR. TOM LOVE: Physically moving it. Yes,
19 physically moving it.

20 As well as we saw opportunities to go to the
21 next generation of equipment. And we bought some
22 significant pieces of equipment that were going to,
23 once in place they were going to reduce some of our
24 overhead. And during that process we ran into a
25 number of obstacles and but we kept fighting and

1 swinging through it. And eventually by the end of the
2 year we got it completed.

3 MR. YOST: When you say "a number of
4 obstacles" I assume you mean bottlenecks I mean in
5 relation to physical production problems, perhaps
6 higher or even much higher costs? I don't mean to put
7 words in your mouth but if you could characterize?

8 MR. TOM LOVE: We had a couple key people
9 leave. Our production manager had a heart attack and
10 had to have open heart surgery in the middle of all of
11 this and he was out for a few weeks. Some of the
12 equipment that we ordered was late getting in and it
13 really stretched all of our resources.

14 MR. YOST: What was the effect on costs of
15 the acquisition, production costs in terms of moving
16 equipment, your factory overhead, etc., etc.? So to
17 the extent that you can comment now in a non-
18 confidential way.

19 MR. THOMAS: Yes, I think we'll have to
20 address that in the post-conference brief. That would
21 be confidential.

22 MR. YOST: Okay. Was any of the equipment
23 considered to be impaired in an accounting sense and
24 written off? Again to the extent that you can comment
25 now in open session.

1 MR. THOMAS: I think we better respond to
2 that in the post-conference brief.

3 MR. YOST: In the post-conference brief then
4 would you please comment with regard to increased
5 costs or changes in costs, particularly factory
6 overhead, depreciation, impairments, the effect on the
7 costs generally of the consolidation. What I'm trying
8 to get at, and I don't mean to paraphrase Ms. Levinson
9 unfairly, but I think the argument's being made that
10 Magnum in effect shot itself in the foot, and whatever
11 injury is caused was caused by the acquisition and not
12 by subject imports.

13 MR. THOMAS: We'll be happy to do that. I
14 would point out that this is 2007 and that was 2005.

15 MR. YOST: Okay. Yes, I agree with,
16 certainly agree with you.

17 Then if you could spell out a little bit
18 more, are you making a price cost squeeze argument in
19 terms of injury or is it something that's more, say,
20 bound up not only with the price squeeze but also
21 price and volume suppression?

22 MR. BUTTON: Well, we make arguments
23 obviously certainly in the context of Magnum but you
24 will be interested in whether or not that applies
25 across the industry as a whole. And we certainly can

1 recognize that the cost of raw materials have gone up
2 substantially during the period of investigation.
3 We'll be commenting on that.

4 MR. YOST: Okay. And my final question and
5 I believe Mr. Allen Love mentioned that strontium
6 ferrite is used as the U.S. input. Is that more
7 expensive than the Chinese input, the barium ferrite?
8 Does that have an impact, for example, on the
9 production costs?

10 MR. ALLEN LOVE: I don't know. I would say
11 probably not. My understanding that barium is just a
12 little less expensive. I mean, I don't know if
13 anybody is even making barium in the U.S. anymore.

14 MR. THOMAS: We simply don't know the answer
15 to that question.

16 MR. YOST: Okay. I thought I heard you, Mr.
17 Love, you mention that barium ferrite is a by-product
18 of steel production?

19 MR. ALLEN LOVE: No. The ferric oxide is.

20 MR. YOST: Okay. So therefore it would
21 presumably have little or no cost to a producer of raw
22 --

23 MR. ALLEN LOVE: I wish that were true. No,
24 it's actually something that is sold by the people
25 that process it in the steel industry. They sell the

1 ferric oxide and then there's additives put to it. It
2 goes through a fairly elaborate process to form a
3 magnetic crystal. It's ground and sized and
4 classified to a certain size and particle size shape
5 as well as particle size distribution.

6 Ferric oxide is not something that we buy.
7 We buy the ferrite, which ferric oxide is one of the
8 components of ferrite. Does that make sense?

9 MR. YOST: Yes.

10 MR. ALLEN LOVE: Okay.

11 MR. YOST: Having been an analyst in the
12 steel industry for a number of years I'm somewhat
13 familiar with that. Thank you.

14 That completes my questions. Thank you.

15 MR. CARPENTER: Ruben Mata, Industry
16 Analyst.

17 MR. MATA: Thank you, Mr. Carpenter.

18 I have one full question, and this is for
19 Mr. Tom Love. And this is a follow-up question that
20 Mr. Mark Rees had earlier. And that is regarding
21 refrigerator gaskets are these refrigerator gaskets
22 that you produce do they go into particular types of
23 refrigerators like for, say, commercial use?

24 MR. ALLEN LOVE: Yes. I mean, I know the
25 answer because I just saw the product the other day.

1 We need to say in the post-brief, because I don't want
2 to create competition for myself.

3 MR. MATA: Okay. And that's all the
4 questions I have. Thank you.

5 MR. CARPENTER: Mr. Corkran.

6 MR. CORKRAN: Thank you and thank you to all
7 of the panelists who have testified today. It's been
8 very, very helpful testimony indeed. And we've
9 already touched on a number of the issues. I'll just
10 follow-up on a few.

11 Just at the outset I'd like to say that in
12 the questions that I'm asking you quite possibly have
13 already touched on either in the petition or in your
14 filings in some instances, I'm just trying to
15 elaborate some additional information and in some
16 instances I'm just trying to see what more we can put
17 on the public record as opposed to the confidential
18 record.

19 The first question I have I would like to
20 continue on a question that Mr. Mata had but hopefully
21 I will ask one that's general enough that maybe you
22 can answer. I understand that we are now focused on a
23 product that is relatively small and that you
24 indicated may only be for a single customer but I'll
25 throw the question out anyway.

1 For your sales of product that go toward
2 refrigerator gaskets is that product typically an
3 extruded product or a calendared product?

4 MR. ALLEN LOVE: Typically extruded product.
5 But I would like to point out that we do not supply a
6 refrigerator gasket, we supply magnets which is a
7 component of the refrigerator gasket.

8 MR. CORKRAN: Thank you. I appreciate that
9 clarification.

10 I was very interested in the discussion that
11 has come up and has been repeated both in the opening
12 statement and Mr. Love, Mr. Thomas Love mentioned as
13 well. Competition, the blurring of the channels of
14 distribution and the change in the nature of, perhaps
15 of the companies with which you're competing, you
16 spoke a little bit about retail packaging for sale by
17 big box or office supply outlets. You also mentioned
18 that in your petition. I was wondering if you could
19 expand a little bit on the competition that you see
20 there and whether that was largely part of your
21 acquisition of MSI that brought that out or whether
22 that was independent? And also whether you have any
23 other internal operations that lead you to compete
24 with your customers?

25 MR. ALLEN LOVE: I think we understand your

1 question but we would like to put it in the brief. I
2 think it's a little sensitive.

3 MR. THOMAS: Just to add, I think the
4 response is going to involve a discussion of
5 particular customers and so we cannot answer your
6 question appropriately in this context here.

7 MR. CORKRAN: Certainly. I understand. I
8 certainly don't want to tread too heavily on sensitive
9 information.

10 Let me next follow up on some of the
11 questions regarding MSI, the acquisition of MSI. One
12 question was already asked, if the products were
13 different. Let me ask something a little bit
14 different.

15 Did MSI sell to somewhat different regions
16 of the country than Magnum or did it have a somewhat
17 different customer base? I'm not asking so much for
18 specifics but if you can characterize the nature of
19 the areas where MSI concentrated and compare and
20 contrast that with Magnum prior to the acquisition?

21 MR. MURPHY: For the most part we were head-
22 on distributors all over the United States. But our
23 big differentiation was the fact that we handled what
24 I called a retail line that we sold to the major
25 retailers and the craft line.

1 MR. CORKRAN: Thank you. That's helpful.

2 And let me kind of turn that question around
3 from the Magnum perspective. Was that your view as
4 well in terms of where you might differentiate
5 yourself from MSI?

6 MR. TOM LOVE: Yes. Yes, that was the big
7 difference. Yes.

8 MR. CORKRAN: I'd like to ask a question
9 kind of shifting gears here, competition from sources,
10 from import sources other than China and Taiwan. I
11 ask this because I'm kind of departing a little bit
12 from the official import statistics and just thinking
13 a little bit more about what responses have been so
14 far to the questionnaire. I'd just like to ask, I
15 mean, what do you see direct import competition from
16 countries other than China and Taiwan in your day to
17 day business? And I'd ask that either for the former
18 MSI operations or the current joint operations.

19 MR. ALLEN LOVE: No, don't really see it.
20 We see it from China and Taiwan almost every day. I
21 mean, they even faxed us literature trying to sell to
22 us.

23 MR. CORKRAN: Was that the experience of MSI
24 as well?

25 MR. MURPHY: Yes. Yes, sir.

1 MR. CORKRAN: Okay. I was interested in
2 this handout that made reference to, this makes
3 reference to German technology, though the cover sheet
4 makes reference to German quality. Bottom line is I'm
5 wondering has anybody seen German magnets in the
6 United States? I mean, I guess that's a follow-up to
7 the question I asked, just being more specific. But
8 are you actually seeing German magnets?

9 MR. TOM LOVE: No. In fact, I don't think
10 we've ever encountered German magnets in the U.S. And
11 I think the reference to German quality, and having
12 myself visited China a couple times and talking to
13 people there they're very proud over there if they
14 have German equipment. And I know that one of the
15 principals of Polyflex is in fact German. And I
16 believe the equipment comes from Germany, therefore
17 they purport German quality.

18 MR. CORKRAN: You had mentioned in your
19 brief that you believe the U.S. market to be the
20 largest market in the world for this particular
21 product, for the raw flexible magnets that we're
22 discussing today. I'm not asking for numbers but I do
23 wonder what would be the other markets even if they
24 are not as large as the United States? What would be
25 the other primary markets that you're aware of? And

1 do you in fact through exports sell to any other
2 markets?

3 MR. ALLEN LOVE: We used to. Australia has
4 got a strong market. Europe has somewhat of a market.
5 Even South America has a pretty good market,
6 Argentina, Brazil. We can't get in there because of
7 tariffs and other practices which we can mention in
8 the brief also.

9 MR. CORKRAN: Okay. To your knowledge
10 though is it, setting aside any tariff or non-tariff
11 trade barriers, to the best of your knowledge are
12 these markets largely being supplied by their own home
13 market producers or are they actual export markets for
14 other countries?

15 MR. THOMAS: One of the Chinese producers on
16 its website has a statement that it dominates each of
17 those markets.

18 MR. CORKRAN: Okay, thank you. I'm trying
19 to get a sense for what other major producing areas
20 there might be in the world as well as consuming
21 areas. And not to paraphrase let me ask you the
22 question. Do you see any other large producers,
23 producing regions or producing countries in the world
24 other than China, Taiwan, the United States?

25 MR. ALLEN LOVE: No.

1 MR. CORKRAN: Okay. This question again
2 goes to moving past the official import statistics and
3 kind of looking at as best we can tell what's actually
4 coming into the United States. You've spoken in terms
5 of competition with the raw flexible magnets coming
6 from China, coming from Taiwan. What I'm wondering is
7 in your sales are you seeing any reduction in sales as
8 a result of increased imports of finished products?
9 And by "finished" in this sense, I mean printed
10 material, preprinted magnets that are already coming
11 into the United States ready for sale?

12 MR. TOM LOVE: It's not something that we'd
13 be aware of and we haven't heard that from our
14 customers.

15 MR. CORKRAN: I think actually it was the
16 latter I was going for. I understand that that's not
17 a -- that really that you're not looking at that from
18 a head-to-head competition standpoint but I wondered
19 if any of your customers were relaying to you that any
20 reduced volumes that they had was as a result of
21 competition with imported printed magnets?

22 MR. TOM LOVE: No, we haven't heard that.

23 MR. CORKRAN: I wonder if you could
24 elaborate on a statement that appears in the petition.
25 The statement is basically "capacity could be expanded

1 or added easily and cheaply within a matter of
2 months." The statement is actually in reference to
3 operations in China or Taiwan but I assume it's more
4 of a general statement. And in fact I believe you
5 indicated that you added some equipment yourselves.
6 Can you discuss a little bit the relative ease of
7 adding capacity in this industry?

8 MR. ALLEN LOVE: Well, if you have the money
9 and you have the equipment it really isn't that hard.
10 Of course everything's easy once you know how to do
11 it.

12 MR. CORKRAN: Point taken. When you
13 referred to capacity that can be -- is the reference
14 then that the equipment that you need to expand
15 capacity is not equipment that it's not expensive,
16 that it's not technologically complex? Is that the
17 framework that you have?

18 MR. ALLEN LOVE: No. The equipment is very
19 expensive.

20 MR. CORKRAN: Okay. Well, that statement I
21 would just lead someone to think --

22 MR. THOMAS: I would think that what that
23 meant was that if you have a flexible magnet
24 manufacturing facility and you have the technology and
25 know-how for manufacturing it and you can purchase a

1 new set of calendars or an extrusion machine or
2 something like that it's not that complicated to
3 install that additional capacity and it can be done
4 relatively quickly depending on equipment
5 availability.

6 MR. CORKRAN: Okay, thank you. I appreciate
7 that.

8 Does that stand true both for the equipment
9 that's used for the initial extrusions or the initial
10 calendaring as well as equipment that's used for other
11 operations such as slitting or operations like that?

12 MR. ALLEN LOVE: Yes. The other operations
13 it's even easier.

14 MR. TOM LOVE: Yes. I'd point out too that
15 it would be easier to do over there than here because
16 we have to put safeguards on the equipment, we have to
17 abide by a lot of safety procedures that I'm assuming
18 that isn't stressed so much over there.

19 MR. CORKRAN: Thank you. That's helpful.
20 And it leads me to another question I have which is in
21 looking over the overall production operations that
22 you have can you give me a sense of what the training
23 needs are? What's the sort of knowledge base that you
24 need to begin first with the general production
25 through the process of generating, say, rolls and then

1 any additional processing such as slitting or, well,
2 slitting or providing any sort of coated needed,
3 lamination, excuse me.

4 MR. THOMAS: I think they'd prefer to
5 respond to that in the post-conference brief.

6 MR. CORKRAN: Fair enough.

7 This is an issue that was touched on earlier
8 and the indications were that multi-year contracts, if
9 I recall the testimony correctly, true multi-year
10 contracts, those that would bind quantity and value,
11 are not common in this particular industry or at least
12 in Magnum's experience. Is this an avenue that you
13 pursue? Is it a movement towards these contracts?
14 Has there been an attempt to increase the use of these
15 contracts? Or is that simply a form of business that
16 has just not proven successful?

17 MR. TOM LOVE: Well, we attempted to do some
18 requirements contracts where it was kind of open-ended
19 as to how much they were going to buy. And it hasn't
20 proven to be effective. Well, meaning that we've lost
21 business with some customers that had those contracts
22 who actually went to the Chinese.

23 MR. CORKRAN: A question about regional
24 sales. And by that I'm actually kind of focusing on
25 your sales outside of the northeastern United States

1 because we're talking about one company now, formerly
2 two companies, that located right in one town, one
3 major merchant market competitor that is located in
4 the same location. How do you go about supplying the
5 continental United States?

6 MR. TOM LOVE: We have a warehouse both in
7 the Minneapolis area and in Las Vegas. Oh yes, we
8 supply nationally. We will ship truckloads and store
9 them in those places. And most of the east coast is a
10 one-day truck lane from our facility so it pretty
11 effectively covers everyone. Anybody that's a
12 significant user we will store it in one of the
13 warehouses closest to where they are.

14 MR. CORKRAN: Now you probably, I'm sure you
15 have addressed this in your questionnaire, but I hope
16 this is a general enough question that you feel
17 comfortable addressing it in public session. Do you
18 view your market as extending to the west coast?

19 MR. TOM LOVE: Absolutely, yes.

20 MR. ALLEN LOVE: We have a full-time
21 salesperson that works all of the west coast and
22 resides in California.

23 MR. CORKRAN: I just have two more
24 questions. Mr. Love, Mr. Thomas Love, you had
25 mentioned that fall was the busy season and later

1 testimony was that there was a little bit of -- that
2 there was some seasonality but a 40/60 split in terms
3 of sales mostly of the type used for calendars and
4 items like that. To the extent that you're selling
5 other products, and I will come back to the product
6 that eventually ends up as a refrigerator gasket, but
7 there were others as well that you sell, just
8 generally do you see the same -- do you see any sort
9 of seasonality pattern with those sales or do they
10 tend to be more steady over the course of a year?

11 MR. TOM LOVE: They do tend to be more
12 steady, those particular items. And they might follow
13 the economy more routinely.

14 MR. CORKRAN: Okay. I believe my last
15 question deals with raw materials. Basically in going
16 over your own, your own planning and dealing with
17 costs are there any public sources that you use to
18 track the trends in your primary raw materials A) just
19 for your own internal use or/and B) do you explicitly
20 reference any of those in your own contracts and see,
21 and I know that formal contracts may be less
22 prevalent, but are any contracts explicitly tied to
23 those, to published prices for raw materials?

24 MR. TOM LOVE: We do keep track of what's
25 going on in our supply lines. We subscribe to various

1 e-mail newsletters that let us know what's going on.
2 We're a member of different organizations that have to
3 do with plastics and rubber. And we pay attention to
4 what's going on with the steel industry and our
5 ferrite suppliers. So, yes, we're in communication
6 with them as well as to what's happening. If we see a
7 problem we try to stockpile for it.

8 As far as referencing in any of our
9 contracts we might have a pass-through clause but it's
10 not tied to any kind of, oh, consumer price index or
11 any other kind of index.

12 MR. CORKRAN: Can you tell me explicitly if
13 there is a sort of benchmark that you follow? And I
14 know you mentioned individual newsletters dealing with
15 the plastics and rubber industry. But, I mean, is
16 there in some other industries you might, you can
17 point to explicit benchmarks that are published and
18 that they, that the industry as a whole tends to
19 follow in considering costs and prices. Is there a
20 benchmark price that's published?

21 MR. TOM LOVE: I'm not aware of one. I
22 think you could make a generalization if you wanted to
23 with oil. If you just wanted to make a big
24 generalization if oil is going up in cost eventually
25 it's going to get to us one way or the other because

1 some of the products oil is a significant component
2 of, and another, energy, is a big cost in producing
3 it. So as oil goes to a degree so does our raw
4 materials.

5 MR. CORKRAN: Thank you. I'd like to thank
6 all the panelists. It's been very informative. And I
7 have no further questions. Thank you.

8 MR. CARPENTER: Are there any other staff
9 questions? Mr. Yost?

10 MR. YOST: Thank you very much. Charles
11 Yost, Office of Investigations.

12 Just as a follow-up, I know we asked for the
13 breakout of raw materials in the questionnaire. And I
14 do appreciate the data that we got on that particular
15 line. Would you also in your post-conference brief
16 break out energy costs for us for each of the periods
17 for which the data were gathered, and energy costs and
18 advise us where those energy costs are classified in
19 your income statement, in other words, are they
20 considered to be part of raw materials or other
21 factory costs?

22 MR. THOMAS: Yes, we will do so.

23 MR. YOST: Okay, thank you very much. I
24 have no further questions.

25 MR. CARPENTER: Again thank you very much,

1 panel, for your very thorough responses to our
2 questions and also for the additional information that
3 you have agreed to provide in your brief, we really
4 appreciate it.

5 At this point we will take a break of about
6 ten minutes or so to allow parties to switch sides.
7 Thank you.

8 (Whereupon, a short recess was taken.)

9 MR. CARPENTER: Could we resume the
10 conference at this point, please.

11 Please begin whenever you are ready.

12 MR. DONOHUE: Thank you, Mr. Chairman, and
13 good afternoon. And good afternoon, ladies and
14 gentlemen of the staff.

15 Once again my name is John Donohue. I
16 appear as counsel for Magnet Technology, Incorporated,
17 of Lebanon, Ohio. I have already given for the record
18 my opening comments. I would like at this point
19 simply to introduce those who are appearing this
20 afternoon with me.

21 To my left is Theresa Lanzdorf. Ms.
22 Lanzdorf is an associate in my firm in Philadelphia.

23 And to my right is Mr. Larry Mosteller. He
24 is the CEO of Magnet Technology who appears today in
25 opposition to the petition. He is both a domestic

1 producer and an importer. And in that respect I
2 suspect that his comments will be of particular
3 interest and importance to this committee.

4 I will not take up any further time on that
5 and I will at this point turn the microphone over to
6 Mr. Mosteller.

7 MR. MOSTELLER: Well, since the morning's
8 past I have to change my whole thing. It's good
9 afternoon now. My name is Larry Mosteller and I am
10 the CEO of Magnet Technology, Incorporated, of
11 Lebanon, Ohio, and I am here today for several
12 reasons.

13 Can everybody hear me well?

14 (Affirmative responses.)

15 MR. MOSTELLER: Good, good.

16 First and foremost I am here to voice my
17 opposition to the petition of Magnum Magnetics
18 Corporation requesting the imposition of antidumping
19 duties. But secondly, and more to the point, I am
20 here to fight for the very survival of a small
21 American company.

22 Third, I am here to give you my
23 understanding of the state of the industry as I see it
24 and why I believe we are suffering the decline in
25 sales that most of us are experiencing.

1 My company produces in the United States and
2 imports from China extrudable flexible magnets known
3 as profile shapes which are used in the production of
4 commercial products such as refrigerator doors, shower
5 doors and merchandise exhibits. And in this respect
6 the product that I both make here in the U.S. and
7 import from China is different from magnetic sheets.
8 Less than 1 percent of our sales are attributable to
9 flexible magnet in sheet form which forms the bulk of
10 the attention of the Petitioners.

11 I sell my product to industrial users who
12 are manufacturers of shower doors, copy machines,
13 certain tools, and similar articles, mainly consumer
14 durables. I make this point because, as I will
15 demonstrate below, if the producers of these articles
16 determine that it is in their interest to move
17 production to Mexico, Central America or Asia I will
18 lose the ability to supply my flexible shapes to them
19 as a result of that commercial decision which, of
20 course, has nothing to do with the loss of market
21 share by reason of less-than-fair value selling.

22 Flexible magnet in sheet form as opposed to
23 profile shapes is used as low cost advertising
24 vehicles and novelty items for calendars and similar
25 uses, and this market has grown in recent years.

1 However, the very nature of these products requires
2 fairly fast turnaround time from the time of placing
3 the order until the time of delivery which
4 functionally precludes reliance on foreign sources as
5 a principal source, especially those places as remote
6 as the PRC. Thus, the uses to which the flexible
7 magnet in sheet form is put virtually guarantees that
8 the product will always be predominantly manufactured
9 in the United States.

10 Let me be clear about this. If I believed
11 that the decline in profitability that my company has
12 experienced were in any way related to increased
13 imports of unfairly priced flexible magnets I would
14 say so. I would state it clearly and I would join the
15 Petitioners. But I cannot say that the distress that
16 I and some of us feel is related to imports and I,
17 therefore, will not place the blame where it should
18 not lie.

19 My company has teetered on the verge of loss
20 for the last three years. And with margins of
21 profitability as narrow as they are the one thing that
22 I do not need is to incur the significant legal and
23 business expense and drain on my time that a case like
24 this will require to defend my American business. My
25 company is having difficulties but it has not been

1 because of the imports from China. There have been
2 several factors, some that relate to the industry as a
3 whole and others that relate to my company in
4 particular.

5 Taking them in reverse order, first, I can
6 tell you that my company which is substantially
7 smaller in terms of sales volume than Magnum or
8 FlexMag, the other leader, must follow the leaders in
9 terms of product pricing. My company is simply too
10 small to be a price leader. And so while the market
11 leaders can set competitive prices based on larger
12 volumes, larger market share, more efficient processes
13 and an ability to buy raw materials in great bulk
14 quantities, I cannot. So to meet the lower prices
15 occasioned by their larger size I must reduce my
16 prices and lower my profit margin. Thus, my costs
17 have appreciated and my pricing has remained
18 competitive and I am now operating at a modest loss
19 and have been for the last three years.

20 But I repeat my earlier point: if this
21 circumstance were attributable to dumping I would say
22 so. In all honesty I must tell you it is not.

23 Second, in considering the business as a
24 whole, I have not been as adversely affected by the
25 cost of low priced imports as flexible magnetics as I

1 have by the transfer offshore of those downstream
2 products made with the use of flexible magnets.

3 Here's the dynamic of how these sales are
4 lost. Producers of articles using magnet shapes such
5 as refrigerators, for example, used to produce in the
6 U.S. for sale to Sears and Wal-Mart. Those buyers
7 traditionally pushed the price of the goods to a point
8 where these products could only be met at the buyers
9 price demands if they moved production overseas. I
10 competed with Magnum for these customers even though
11 Magnum was substantially larger than I am and was in a
12 better position to compete than I was. But when the
13 production was moved offshore and the factories closed
14 we both lost the customers, but for reasons wholly
15 unrelated to dumping.

16 But there is a second dimension to the
17 development of this movement offshore of the
18 downstream product, and that is in the area of magnet
19 in sheet form. Historically our industry would either
20 produce locally or import flexible magnet in sheet
21 form and would produce the finished product here. So,
22 for example, we would produce magnetic sheet, sell it
23 to the graphic designers who would use the goods to
24 produce calendars. But as the lower cost countries
25 evolved and they were able to produce the calendars

1 overseas, thus not only depriving us of the graphic
2 design work here but of the market in the flexible
3 magnetic sheeting as well.

4 And this leads me to my next point, the
5 Petitioners' use of statistics. In my view the
6 statistics that the Petitioners advance more directly
7 support this latter point than it does to advance the
8 notion that flexible magnets are injuring. The
9 petition states that magnets are classifiable under
10 HTSUS subheadings 8505.19.1000 and 8505.19.2000, and
11 that imports from China under those provisions in the
12 last two years increased appreciably.

13 The petition also carefully states that it
14 does not include within the scope of the petition
15 those graphic design type articles made with the use
16 of flexible magnets. However, when we checked the
17 database of the U.S. Bureau of Customs and Border
18 Protection to identify the class of these goods
19 classifiable under those HTSUS provisions called in
20 the petition virtually all the rulings were issued to
21 importers of the downstream product and not on the
22 flexible magnet themselves. Hence, the lesson we
23 learn from your inquiry is that the large majority of
24 the goods imported under the provisions cited in the
25 petition were in fact excluded from the investigation

1 by the Petitioners themselves. Thus the statistics
2 cited by the Petitioners do not much advance the case
3 that flexible magnet has increased as they do the
4 proposition that articles made from the flexible
5 magnets have increased. That is certainly the case
6 and more directly affects the nature of our business
7 than it does the increase in imports of the magnets
8 themselves for the reasons I have already articulated.

9 I estimate that of the 20 million in product
10 alleged in the petition to be imported from China
11 under the two relevant Chapter 85 provisions of the
12 HTSUS probably 80 to 90 percent of that figure is
13 downstream flexible magnets identified as being
14 outside the scope of this investigation. The
15 importers and the producers' questionnaires will far
16 better be able to give this Commission the dimensions
17 of this case than will the Bureau of Census
18 statistics. But in my view the value of product the
19 entry of which the Petitioners attempt to block by
20 antidumping duties is more like 2 million. In
21 antidumping terms this is virtually a small claims
22 case, and yet we will be forced hire attorneys and
23 economists to defend our very small businesses in one
24 of the most technical and complicated proceedings in
25 American jurisprudence.

1 In my view if the Petitioners in this case
2 had spent their money on quality improvements instead
3 of attorneys and economists we would have been much
4 better off. And to ask the government to invest the
5 literally hundreds of hours that will be required if
6 this case goes forward for a single supplier who lacks
7 the support of the industry is a wasteful demand on
8 government resources.

9 Third, let me speak for the reputation
10 generally of the Petitioners in this industry.
11 Several years ago Magnum decided that it would compete
12 in the production of the downstream products made for
13 the use of flexible magnets. In effect, it chose to
14 go into competition with its own customers. It is not
15 my position here to pass on the wisdom of another
16 company's decision to enter certain new markets or to
17 develop other products, that is for the company and
18 the company alone to decide. What I can say, however,
19 to put it delicately, is that the Petitioner is not
20 set on the manner in which it told its own customers
21 that they would compete. What I have been told by the
22 Magnum customers themselves is that the Petitioner
23 simply told their own customers that if the customers
24 did not continue to buy the raw flexible sheet from
25 them they would soon find their supplier as a

1 competitor. Several companies refused to give in and
2 withdrew their business from Magnum which in one case
3 was substantial. The business was lost but was
4 largely lost to other domestic producers.

5 Most people would consider it risky for an
6 upstream producer of material to enter into
7 competition with the producer of the downstream
8 product. In this case the costs to Magnum of doing so
9 have been severe. In the beginning of this
10 presentation I told this Commission that I appear not
11 only to oppose the petition but to fight for the
12 survival of my own company. In view of all market
13 force changes that I have described above and that
14 have created so much difficulty for my company and
15 others like mine, I have invested five years
16 developing a business plan that would allow for the
17 continuation of my company and to return to
18 profitability. A critical ingredient in that plan is
19 my ability to buy some of my inventory from China.
20 Part of my plan is to be able to produce a high
21 quality magnet at a modest price so I can compete with
22 the low costs of domestic producers such as Magnum.
23 If an antidumping duty order were to be imposed my
24 entire plan for competing with the other larger
25 suppliers would be destroyed, and in my view for no

1 countervailing benefit.

2 Let me make one final point. My
3 recollection is that the Commerce Department trade
4 statistics indicate that there are 17 countries which
5 exported flexible magnets to the United States during
6 the period which will be covered by this
7 investigation. In this industry the technology is not
8 terribly sophisticated and the employee training is
9 not terribly complex. With 17 potential sources of
10 foreign supply and with a fairly easy ability to move
11 equipment and train people, it is more likely than not
12 that even if an order were put in place then the
13 countries not encumbered with that order will be able
14 to fill the gap created by the order against China and
15 nothing substantive will have changed. But before we
16 invoke the incredibly time-consuming and expensive
17 mechanisms of government to address this issue I hope
18 these larger questions will be considered. I urge
19 that this Commission determine that an industry is not
20 being injured by importable flexible magnets from
21 China.

22 Thank you.

23 MS. LEVINSON: Good afternoon. For the
24 record again I am Lizbeth Levinson with Garvey,
25 Schubert, Barer. To my far right is my colleague Ron

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1 Wisla. And to my immediate right is my client Scott
2 Lewis who is the president of Adams Magnetic Products,
3 Inc. Mr. Lewis has some important testimony to share
4 with you today.

5 MR. LEWIS: Good afternoon. My name is
6 Scott Lewis and I am and have been the president of
7 Adams Magnetic since 1999.

8 Adams is a distributor fabricator of
9 magnetic material. Examples of our products include
10 magnetic assemblies, hard magnets for motors and
11 speakers, and flexible magnets that our customers use
12 for a variety of different applications. At Adams we
13 deal with the whole range of magnet materials such as
14 ceramic, alnico, rare earth, and flexible magnets.

15 Adams purchases roles of flexible sheets and
16 strips that we fabricate into a myriad of products for
17 a variety of customers. Adams Magnetic own two other
18 companies, Dowling Magnetics and Magnetic Attractions.
19 Dowling Magnets primarily manufacturers toys and games
20 for the retail and education markets. At this time
21 Dowling does not purchase or sell the subject
22 merchandise.

23 Our other company Magnetic Attractions is a
24 producer of magnetic promotional items. These are the
25 flexible magnets that many of us have attached to our

1 refrigerator. Such magnets have become increasingly
2 popular over the last decade for advertising
3 specialties.

4 Prior to 2007 both Adams and Magnetic
5 Attractions purchased virtually all of their raw
6 flexible magnets exclusively from domestic sources.
7 Our primary supplier since 2000 has been MSI, a
8 company that was acquired by Magnum in 2005. Prior to
9 the acquisition we were extremely happy with MSI
10 products and with the services the company provided.
11 We relied upon them for approximately 95 percent of
12 our supply needs.

13 The story changed dramatically, however,
14 after Magnum acquired MSI in 2005. The acquisition
15 process was fraught with difficulty as Magnum closed
16 MSI's production facility and moved its best equipment
17 to a new facility in Caldwell, Ohio. Even though
18 there were promises by our contacts at MSI that the
19 transition would be seamless, it in fact turned out to
20 be nothing close. Stated simply, the quality of
21 merchandise and customer service was never the same at
22 MSI after the company was acquired by Magnum.

23 In 2005, at the same time that Magnum was
24 struggling with the demands of the acquisition of MSI,
25 Capital One, the credit card company, sponsored a

1 promotional magnet campaign that significantly
2 increased the demand for flexible magnets. This
3 increase in demand coming at a time when Magnum was
4 grappling with the MSI acquisition created a
5 significant shortage in supply. Many customers were
6 put on allocation. Although we were not put on
7 allocation because of the large quantity of our
8 purchases, we were negatively affected as our lead
9 times expanded from about 10 days to about three to
10 four weeks.

11 More importantly, however, we began to
12 experience quality problems such as blocking, which is
13 when magnet roll sticks to itself, and bricking, a
14 similar problem when magnets cannot pass through
15 tipping equipment because they're sticking together as
16 well. We tried to work with Magnum MSI to solve these
17 problems but the company did not follow through as MSI
18 had in the past. We began to feel significant
19 pressure from our customers who threatened that if we
20 could not resolve our quality problems that they would
21 take their business elsewhere.

22 During this period we incurred over \$100,000
23 in customer credits due to complaints about the
24 quality of our magnets. We had not experienced
25 quality problems of this magnitude with MSI before the

1 acquisition. Despite these difficulties we continued
2 to try and work with Magnum MSI for approximately two
3 years. Unfortunately, due to the lack of progress we
4 had no choice but to begin to consider other sourcing
5 alternatives.

6 We had visited China in August of 2006 and,
7 frankly, we were not impressed with the production
8 facilities maintained by most of the suppliers there.
9 Many of the facilities in China were antiquated and
10 primitive. We did meet one supplier, however, whom we
11 felt we could consider purchasing from in the future
12 but we were still skeptical and preferred to continue
13 to source domestic supply. Nevertheless, as the
14 problems continued we gave this one supplier who
15 impressed us the opportunity to export a trial
16 shipment. We received two containers of material in
17 February of 2007. Despite our skepticism, we were
18 very satisfied with the quality and decided to place
19 more orders.

20 In July of 2007 as relations with Magnum MSI
21 deteriorated further we also turned to the other
22 domestic supplier, FlexMag, whose reputation for
23 quality products we respected. At the end of 2007 we
24 decided to terminate our long-term relationship with
25 Magnum MSI and shifted all of our domestic purchases

1 to FlexMag. We have had no bricking, blocking or
2 other quality problems with FlexMag or the Chinese
3 supplier. We also have not had one customer complaint
4 since our transition to FlexMag and the one Chinese
5 supplier.

6 As I have described above, the reason for
7 our switching from Magnum to a combination of FlexMag
8 and Chinese magnets was not based upon price but based
9 upon the ongoing quality issues. Our other non-price
10 reason that reinforced our decision to source part of
11 our requirements from China were, first, sourcing part
12 of our requirements from China is essential in order
13 to maintain an alternative source of supply. As we no
14 longer purchase from Magnum MSI we do not want to be
15 in a position where FlexMag is our sole source for
16 flexible magnets.

17 Another concern of ours is that Magnum MSI
18 has alienated its customer base. They have attempted
19 to strong arm the customers into signing exclusivity
20 contracts which many have refused to sign. Many
21 Magnum customers are also upset about the filing of
22 this petition.

23 In the past Magnum has attempted to make
24 inroads into my business by selling directly to my
25 customers. I fear that they will continue this trend

1 because their own customer base has eroded due to
2 their heavy-handed tactics. Obviously it does not
3 make business sense for me to purchase my raw material
4 supplies from my competitor. I believe that any
5 financial hardship that Magnum may be suffering is not
6 due to the imports from China, their difficulties are
7 self-inflicted, the result of Magnum's own
8 mismanagement and bad investment decisions. In
9 addition to acquiring MSI Magnum, they purchased a new
10 facility in Caldwell and new equipment, incurring
11 significant debt that they unrealistically expected to
12 recoup from significantly increased sales which never
13 materialized.

14 I do not believe that Magnum has lost the
15 majority of its business to the Chinese. I believe
16 the majority of Magnum's business has been lost to the
17 domestic competitor FlexMag. I can speak to my own
18 company's experience. Approximately 60 to 70 percent
19 of the business that we had formerly given to Magnum
20 has now been transferred to FlexMag. In addition,
21 many of the importers that I spoke to over the last
22 two weeks as we grappled with this petition had
23 indicated that they had expressed their displeasure
24 with Magnum and, if they haven't already switched
25 their business to FlexMag, are considering to do so.

1 It's my opinion that a very large percentage of
2 Magnum's business has shifted to FlexMag, not China.

3 I thank you for this opportunity to appear
4 before you today and welcome any questions.

5 MS. LEVINSON: That concludes Respondent's
6 testimony.

7 MR. CARPENTER: Thank you very much, panel,
8 for your testimony, it's very helpful. Again we'll
9 begin the questions with Olympia Hand, the
10 investigator.

11 MS. HAND: Thank you for that testimony,
12 that was very informative.

13 Mr. Lewis, I wonder if you could explain to
14 me whether there is something about FlexMag's
15 operations that may not have led you to turn to them
16 first when you had problems with Magnum MSI after the
17 acquisition because it sounds like what happened with
18 you was your first thought was to turn to China, not
19 FlexMag? And it sounded like you were fine with
20 sourcing 95 percent of your requirements from a single
21 supplier MSI for all those years and then all of a
22 sudden it sounded like you thought of going to China,
23 then having a second source because you wanted dual
24 sourcing and you didn't want to source everything from
25 FlexMag. But your first thought was to go overseas.

1 So I'm just wondering if there is something about
2 FlexMag's operations that you didn't want to go to
3 them first?

4 MR. LEWIS: No, no. There's a little
5 history there. And going to China in August was not
6 the first time we had been there. A lot of our
7 business for the hard magnets and magnetic assemblies
8 we currently buy from China at this time. So we had
9 been to China on several occasions.

10 Probably in the last two visits we had
11 started to look at flexible facilities over there and,
12 as I mentioned, were not very impressed with them. So
13 China was not just an immediate thought when we were
14 making that decision.

15 Stepping back a little bit, we had in our
16 own business model we had prior to, in and around the
17 2000, 2001 time frame Adams was contemplating putting
18 our flexible magnet business with one of the domestic
19 suppliers. And then we didn't treat FlexMag very well
20 in that transition and they weren't real happy with
21 us. So prior to making this decision we thought we
22 would investigate the Chinese as a source and we were
23 going to keep some of the domestic supply that we knew
24 we have to have, there is no question there will
25 always be a percentage of our business that will have

1 to be produced here domestically, we felt that we
2 would keep that with Magnum MSI and work through those
3 problems.

4 Quite frankly, the only reason why we put up
5 with Magnum and MSI for as long as we had was the
6 relationship that we had with Gary Murphy. It's that
7 simple. Now that's maybe not a good way to run the
8 business but that's why we put up with it.

9 So we thought that we would give Magnum MSI
10 another shot at maintaining at least a level
11 percentage of our business and looked offshore.

12 MS. HAND: I just have one more question to
13 follow up with that, not the end of my questions but
14 with that. Did you perceive a difference between
15 Magnum's business and FlexMag's business or did you
16 see them as fairly similar companies or?

17 MR. LEWIS: Well, and again the domestic
18 producers all had a uniqueness to their operations.
19 Quite frankly, MSI always had the best customer
20 service. Magnum was always considered the low cost
21 producer but people were a little bit wary of their
22 business practice. And FlexMag had awful customer
23 service but had probably the best products. That was
24 our view and I think it was shared by a lot of other
25 companies in the industry. So if there was a

1 differentiation that's where it would come.

2 MS. HAND: Okay.

3 MS. LEVINSON: Ms. Hand, I think the latter
4 part of your question asking why suddenly Mr. Lewis
5 feels he needs dual sources of supply when he lived so
6 long with just one source of supply is well taken.
7 And I would like to ask Mr. Lewis to respond
8 specifically to that.

9 MR. LEWIS: I'm sorry?

10 MS. LEVINSON: The question is you lived
11 with a single source of supply MSI for many, many
12 years and now you're saying you need alternate sources
13 of supply. Perhaps you can explain that?

14 MR. LEWIS: Right. Well, in light of what's
15 going on now one of the concerns that I have is as
16 let's just assume for the moment that Magnum is
17 successful in this petition and there's all of a
18 sudden no alternatives for us outside of the United
19 States my concern becomes that FlexMag will be the
20 domestic source of choice and as they continue to get
21 more business their prices are going to increase, just
22 supply and demand, and we will not be able to pass on
23 a lot of that to our existing customers.
24 Consequently, the concern that we have is that a
25 company like Magnum as their customer base has eroded

1 they will be moving into our customer base and taking
2 business from us.

3 So we feel it's very important at this point
4 in time to be able to have another source of supply.

5 MS. HAND: So how do you see them competing
6 with you? You mentioned that they go directly to your
7 customers and compete with you. Is that on the level
8 of trade of the laminated strip product; is that what
9 you're referring to?

10 MR. LEWIS: Sure. Yes, we have very similar
11 equipment outside of the production area. They also
12 have downstream value-added capabilities at their
13 facilities where they can cut the strip, put adhesive
14 on the strip, cut the sheets into various sizes. So
15 in some ways they can compete very effectively with
16 us. Obviously also because they produce the magnets
17 so we're at a disadvantage. We need to buy that from
18 them.

19 In a perfect distributor/manufacturer
20 relationship the manufacturers stay out of what is
21 "distributor" type business, they don't want to be
22 burdened with smaller customers and a lot of little
23 orders. And to be fair, there is certainly a
24 percentage of our business that probably they would
25 welcome tomorrow. But I have a hunch if we looked at

1 their customer list there would be customers in there
2 that we would consider distributors. So it's never
3 been a true distribution relationship, or at least
4 it's never been our experience that that relationship
5 existed between the distributor/fabricators and the
6 manufacturers.

7 So it would be very easy for them to move
8 downstream and get into our business.

9 MS. HAND: It sounds like they have. They
10 have two different types of lines of business. They
11 sell the magnets plain in rolls and they also sell
12 them slit and laminated.

13 MR. LEWIS: Right. But the differentiation
14 becomes where a customer might call us up and want
15 10,000 feet of a certain strip product cut every one
16 inch and rolled up on 100 foot rolls. They normally
17 wouldn't provide that type of service to a customer.
18 They want to be able to provide bulk rolls of sheet
19 and strip to distributor fabricators or end user
20 printer type people and they would do the processing
21 of that type of business.

22 What I'm saying is that they could easily go
23 beyond just the providing of the rolls, the strip and
24 sheet in roll form and start doing some of that, the
25 more downstream cutting and scoring and slitting and

1 providing adhesive on a variety of different products.

2 MS. HAND: Right, they could.

3 Mr. Mosteller, I think that you testified
4 this morning that Magnum was getting into competing
5 with your customers also and competing with you and
6 your customers. Was that something that you had said?

7 MR. MOSTELLER: Olympia, what I specifically
8 stated was is that they went into competition in terms
9 of some of the customers they had that were in the
10 printing industry. And Scott is speaking here of I
11 want to differentiate between further fabricating a
12 roll by slitting it or laminating it to making a
13 finished product such as printing and actually
14 producing an advertising novelty.

15 MS. HAND: That was confusing. So you were
16 saying that they went into something different. They
17 testified here that they have a laminating and
18 slitting operation and so forth, so what are you
19 talking about?

20 MR. MOSTELLER: I'm talking about printing
21 actually like Scott's one division Magnetic
22 Attractions, they actually make a printed product and
23 sell it to a customer. And Magnum is doing that same
24 thing. Some of the other companies like Magnet LLC
25 which was maybe one of the largest buyers of flexible

1 magnetic sheet, they do advertising novelties which is
2 printing on this, everything from a pharmaceutical
3 magnet, advertising some particular drug, you've
4 probably seen them in your doctor's office, to
5 whatever, sports calendars. You name it, all the type
6 things you see. A Pizza Hut number that you keep on
7 your refrigerator so that when you're ready to order
8 the pizza, you just look over there and it makes you
9 think of that and you call them. They entered into
10 that business and that's what I meant by
11 downstreaming.

12 And so you're the manufacturer, you enter
13 into that then you start competing with your customer
14 base. Those customers don't like that. They feel
15 threatened. It alienates them. So they have the
16 opportunity to move their business different places.

17 To answer your previous question a little
18 bit there were three sources originally: MSI, Magnum
19 and FlexMag. When the acquisition occurred we went to
20 two sources. And that may not sound like a lot but
21 that's an industry dynamic change. You had three
22 distinct manufacturing centers and you went to two.
23 And as Scott pointed out, each one had its own
24 personality and its own way they produced products.
25 And each one had a certain advantage and reason that

1 people did business with them or didn't do business
2 with them. But there was a certain interchangeability
3 among them regardless of the reasons people use, like
4 salespeople, certain types of packaging and all those
5 things. But those things are common, Olympia, they're
6 just people get used to something. And humans by
7 nature they don't like to change.

8 I run into this all the time. You ship them
9 the same thing they're getting, but it's a little bit
10 different, and the production people squawk because,
11 oh, we have to open the box different or we handle it
12 different in our facility. And it's minute things but
13 those are things that separate suppliers and how
14 people feel about them. So that changed, you had two
15 people then. And that's a little bit what Scott's
16 kind of saying, if you're not going to buy from the
17 other source he has one source now because he's not
18 going to buy from the other source, they've alienated
19 him. He feels uncomfortable with that and wants to
20 have another source. And that is going to be a
21 dynamic that takes place now. So that makes China an
22 interesting place to look for other source.

23 There's also things that the Chinese do in
24 terms of the products they make. Their polymers are a
25 little different. Some of their energy products are a

1 little bit different. They also make a meter-wide
2 material, sheeting.

3 And I'll maybe touch on something else here
4 a little bit. Earlier on it looked like you were
5 struggling with the difference between these products.
6 And the extruded is simply a small shape basically.
7 And that use of that product is fundamentally quite
8 different from the magnetic sheeting. Picture the
9 sheeting as something that's in a roll like this, 24
10 inches wide the most common thing in this country, and
11 so it like this paper sheet here 8 1/2 by 11, it's a
12 nice surface to print on, you can print multiple ups
13 of an image, run it through another process and die
14 cut it out. And if you're making tens of thousands of
15 things that works rather well.

16 If you were to extrude that in a narrow web
17 then you can just kind of punch one little part out of
18 it. So it's a totally different product. And the
19 extrusion is, the application is totally different.
20 It's not really an advertising novelty. It's
21 basically never printed on. It's used as a holding
22 magnet. Where the magnetic sheeting is a holding
23 magnet but all it's doing is holding itself up. You
24 heard it mentioned there's not a lot of specifications
25 on it. The person just cares that it has enough

1 strength to hold onto the refrigerator.

2 In the products I'm making they are holding
3 something that may have some weight and you need to
4 know that it's going to have that strength, so much
5 pound pull per square inch of material. So there is
6 some specifications that are important to them so that
7 it will function in their end use. They are also very
8 concerned about the adhesive that may be on there.
9 That part's a little bit more of an engineered product
10 because of the customer may have let's say high
11 temperature requirements and want to know that in 150
12 degree heat that the adhesive will not soften and fall
13 off. So there's other engineering put into it.

14 The magnetic sheeting is just adhesive
15 holding the coating on, doesn't really matter. It's
16 inexpensive, the item is a throw-away. It's life, oh,
17 maybe a year or two on your refrigerator. I guess we
18 as manufacturers would all hope it would be ten
19 minutes, then you'd need another one.

20 Did that help with some of those things you
21 were struggling with?

22 MS. HAND: Yes, that's very informative.

23 So you mentioned that you were in the
24 extrusion business, your magnets go into refrigerator
25 gaskets and shower doors. It sounds like you might be

1 possibly in competition with Holm Industries mentioned
2 earlier. Are you? Do you feel as if you are in
3 competition with them?

4 MR. MOSTELLER: We occasionally butt heads
5 with them. Their product, Olympia, to help you
6 understand that is that to finish off their product,
7 like I might put an adhesive on my product, they just
8 put it in a gasket and sell it in that gasket as a
9 finished form and have concentrated on that industry.
10 And none of the other magnet producers that we're
11 talking about extrude PVC gasket material. So this
12 company sort of specialized in that. And by its
13 nature it's a little bit of a different industry.

14 When you're working with, say, a Whirlpool
15 Corporation or a Frigidaire the volume of these
16 materials is such that if you don't supply that just
17 picture what happens for a minute, their whole line
18 shuts down. They're not a little bit disturbed about
19 it, they're really disturbed about it. So those
20 factories are tended to locate close to the actual
21 manufacturers of these appliances. They will actually
22 put a factory right in there and supply them because
23 the volume of product is large and it's easily
24 transported down the street and they can give them
25 what they need right for that day or that hour. The

1 trucks just keep pulling in so there's a steady of
2 stream of product coming there.

3 Holm Industries also sells extruded magnets
4 without a gasket and they do it for some other uses
5 but they have concentrated in that particular area. I
6 think there is probably some fear among FlexMag maybe
7 that that company might expand into other things and
8 get out of that -- not get out of that field but
9 expand in some other fields. But these things by
10 nature are people pick segments of markets and sort of
11 stick to it. They get good at that. It may sound
12 funny but these markets are subtle in terms of some of
13 the changes and you become an expert at that
14 particular thing, you get a reputation for that, you
15 get used to how that market works so you become
16 comfortable in that market, if that makes any sense,
17 and you service it.

18 MS. HAND: Just following along that line
19 you said that your business is declining because of
20 the offshore production of refrigerators? Is that
21 what I heard you to say?

22 MR. MOSTELLER: Well, not so much that but
23 let's take a product that I sell magnet for, a
24 magnetic level. This is just a level that you would
25 use in your house. Has a strip of magnet down the

1 side. And you can take that and put that on any metal
2 surface. Say you were an electrician putting conduit
3 up on a wall and you wanted to keep the conduit nice
4 and square so it looks nice when you're done. You can
5 attach the magnet or the level with the magnet to the
6 conduit and have both hands free now to move it around
7 and fasten it with a drill. Just a simple product.
8 But that's why the magnet is on it, if you're catching
9 what I'm saying. Any metal surface you could attach
10 it to.

11 Well, that level is no longer made here.
12 They make it in China. While it's over there in China
13 it gets a Chinese magnet put on it. So if there is
14 any dumping duties or anything it's not going to
15 change that. And that's what I was trying to say,
16 fundamentally these products are, the manufacturers
17 are moving. And a Wal-Mart likes its suppliers to go
18 to China to get the lowest cost. If that particular
19 product uses a flexible magnet on it then it affects
20 our industry. That forever leaves the United States,
21 it's not going to come back.

22 MS. HAND: So which industries besides the
23 levels have left the United States that you've seen
24 decline in your production?

25 MR. MOSTELLER: Well, Holm Industries would

1 tell you, Olympia, that they feel the difference. And
2 you've got LG and people like that that are producing.
3 And that does --

4 MS. HAND: The refrigerator?

5 MR. MOSTELLER: Right. That does take some
6 business away.

7 But there's a myriad of small products,
8 things like portable displays even that I deal in. I
9 have customers that I would supply the magnet to and
10 they started off buying some of the extruded aluminum
11 framework and some of the small parts. And that
12 industry right now probably almost all the little
13 fittings and hinges and hardware are from China. That
14 would be probably among every single U.S. manufacturer
15 of the displays. And then bigger parts started being
16 made. And then now whole displays are made there.
17 Well, once the display is in China the magnet goes on
18 it and I no longer have the opportunity of supplying
19 them that magnet. So it's a variety of things.

20 MS. HAND: And I think you also made the
21 allegation here that you think the increase in the
22 business of entire printed sheets magnets being
23 imported from China is also a reason for some kind of
24 decline in the business; is that what you said?

25 MR. MOSTELLER: I believe it affects it.

1 It, well, a product you've probably seen, a lot of
2 these ribbons, "Support Our Troops" and things, a
3 great deal of those are manufactured, printed,
4 everything, and imported in here. By definition if
5 they weren't from there it might have been made with
6 Magnum's material or FlexMag's material and made by a
7 U.S. person, the graphic design, all those things I
8 mentioned. Now some of that work is done completely
9 finished and it's out of here, it isn't going to
10 matter if you put dumping charges on it, that's not
11 going to change it. If it's in a finished form, in
12 that form, it's been excluded from this petition.

13 And so it's just occurring on a multitude of
14 levels. The manufacturing is changing, where the
15 manufacturing is being done. As a country we're
16 manufacturing less and less in the United States, I
17 mean of everything. All these things are moving.
18 And, of course, for us at this table the only thing
19 we're talking about is things that have a flexible
20 magnet on them. But a great deal of a number of
21 tools, screwdrivers, wrenches, all that sort of thing
22 has moved, they are no longer manufactured in this
23 country, they're manufactured in lower labor places
24 around the world.

25 MS. HAND: All right. Mr. Lewis, do you see

1 any decline in Magnetic Attractions' business where
2 they print magnets? Have they lost any business to
3 magnets coming from China?

4 MR. LEWIS: Sure. Sure. And to put a value
5 on it would be very difficult, even as a percentage it
6 would be very difficult. But we have customers who
7 would buy similar product time after time after time.
8 Well, those are perfect candidates to be moved
9 offshore.

10 What we look for, and I keep talking about
11 trying to Chinaproof our business, we look for short
12 lead time. The Chinese can't deal in short lead times
13 obviously for finished product. So we had a customer,
14 Disney was one of our customers. And they had a
15 magnetic bumper sticker that they knew exactly what
16 their requirements were for that particular item well
17 in advance so they were able to move those products to
18 China and bring them in complete.

19 Again, I can't comment on what percentage of
20 business we've lost but it does occur, and not only at
21 Magnetic Attractions but it also occurs at Adams as
22 well. We will sell hard magnets, and again, that's
23 not necessarily for this particular forum, but as
24 Larry said, a screwdriver or where you would be able
25 to change the head of a screwdriver from a Phillips to

1 a straight, there's a magnet in there that holds that.
2 Well, when the tool gets brought offshore and built
3 offshore, that magnet gets put in there offshore. So
4 that is a definite, definitely part of the loss in
5 business as well.

6 MS. HAND: Well, do you think Adams is
7 losing any business in the flexible magnet category
8 because of some kind of downstream increase in
9 possibly printed magnets?

10 MR. LEWIS: That one is more difficult to
11 put a finger on. From a flexible perspective, we do
12 sell to people, who make point-of-purchase displays,
13 store displays, and if that store display happens to
14 be built in China, then, yes, the flexible magnet that
15 would accompany it would be applied there and the
16 product would be brought in finished. Again, to put a
17 finger on it, I couldn't tell you right off the top of
18 my head what percentage of our business has been
19 effected that way. But, it has; it has. It's not
20 traumatic, but it has.

21 MS. HAND: This is another question for you.
22 Do you see your businesses increasing in the flexible
23 magnet import business?

24 MR. LEWIS: Import business? Do you think
25 we're going to bring in more?

1 MS. HAND: Well, let's say -- I guess you're
2 a big purchaser. Do you see the market increasing or
3 decreasing of flexible magnets?

4 MR. LEWIS: The market, in general?

5 MS. HAND: Yes.

6 MR. LEWIS: Yes. There's always going to be
7 different applications for flexible magnet. People
8 come up with --- there's a new thing now that we get a
9 lot of inquiries, a 'save the date' magnet. People
10 are going to get married. An invitation is no longer
11 good enough. They want to send a magnet a year in
12 advance that says 'save the date' and they put that up
13 on the refrigerator. So, marketers are constantly
14 coming up with different uses for this magnet and it's
15 gotten to be just a widely accepted medium of
16 advertising. You walk by your refrigerator however
17 many times a day, and people are starting to realize
18 that what's on there is important real estate. So,
19 yes, it is a growing market.

20 The other thing that happens, and there's no
21 way to predict it, but going back to after the events
22 of September 11th, it became -- magnetic flags became
23 very popular and that created a huge demand for
24 flexible magnet. After that, it was support the troop
25 ribbons and that became a huge spike. And as we

1 talked earlier, in 2005, Capital One came up with this
2 promotion and that -- and the market is small enough
3 that those types of things really set it on its ear.
4 So there's always those opportunities out there.
5 There's a next ribbon or flag that's just waiting out
6 there to be marketed to I guess. So there's always
7 those opportunities as well.

8 MS. LEVINSON: Ms. Hand, if I could just
9 interject for one moment. I wanted to return to one
10 of your former points, because I think it's an
11 important point and I think it needs some
12 clarification, and that is you were asking Mr. Lewis
13 about whether the Petitioners now are competing with
14 him and you mentioned, for example, that they
15 testified that they have a lamination capacity and so
16 does Mr. Lewis. But, Mr. Lewis has explained to me,
17 and I'm going to ask him to explain to the staff, that
18 the term 'lamination' means several different things
19 and they're not -- what the Petitioners do and what he
20 does are not identical.

21 MR. LEWIS: Yes. And I can't speak -- I'm
22 not terribly familiar with the manufacturing process;
23 but, really, the lamination that the manufacturers
24 talk about, they'll take -- magnetic sheet comes in
25 many different forms. It can come in plain, it can

1 come with adhesive, and it can come with some vinyls
2 that are applied to the top of the magnet. So when
3 they talk about laminating, they're laminating either
4 the adhesive to the raw sheets of magnet, okay, or
5 they'll apply a vinyl to the raw sheets of magnet as
6 they're producing these materials. And then those
7 vinyls -- those sheets are then cut into 100-foot
8 length and those become stock items that we put on our
9 shelf and sell in small quantities.

10 The lamination that I'm referring to really
11 is where I would take a strip magnet and put adhesive
12 on it in a different type of capacity. It's not in
13 the bulk volume that the manufacturers would be doing
14 this in. It's in smaller kind of custom --- we have
15 many different adhesives that we will put on the
16 magnet for a specific customer requirements.

17 We, also, when we talk about lamination from
18 a magnetic attraction's perspective, we print on a
19 paper sub-straight and will laminate that to the
20 magnet when we make our advertising specialities.
21 Again, that's different types of lamination than what
22 we're -- the process is very similar, but it's an
23 altogether different result. And what I'm concerned
24 with is it would be a fairly easy move for them to get
25 into what we are doing. So, that's the difference in

1 the lamination.

2 MS. HAND: It sounds like they're not into
3 that right now.

4 MR. LEWIS: Currently, not to our knowledge.
5 I mean, there's rumor and all the rest that flies
6 around our small little industry. But, they
7 vehemently deny it.

8 MS. HAND: Okay. Thank you, very much. I
9 don't have any further questions.

10 MR. CARPENTER: Mr. Rees?

11 MR. REES: Thank you, Mr. Carpenter. Thank
12 you panelists, especially the industry witnesses. We
13 appreciate your coming here and presenting your
14 testimony. And Mr. Mosteller, your point about the
15 import statistics and what they really show is
16 dramatically different from what we heard this
17 morning, obviously, and we won't be able to resolve
18 that in this -- right here today. Someone's got it
19 wrong and I think we'll work out --we've got data sets
20 that we can work from. So, I'm not -- we can't really
21 get to the bottom of that. But, it was very
22 interesting and it will be interesting to see what the
23 data actually shows.

24 I think you mentioned, even in your direct,
25 that there's something like 17 countries that produce

1 these magnets or were identified in one database,
2 public database. And so I'd ask both of you
3 gentlemen, Mr. Lewis and Mr. Mosteller, if there are
4 these other supplies out there, why China, where you
5 both obviously do business with, with China or import
6 from China? Why China?

7 MR. LEWIS: I can answer that. I'm not
8 familiar with any of these 17 other countries that
9 might be bringing in flexible magnet. China became a
10 relatively easy step for us, because, as I mentioned
11 before, we are currently purchasing a lot of our hard
12 magnets and magnetic assemblies from China. So, as we
13 make trips over there to visit with the suppliers --
14 we just started to add the potential suppliers of
15 flexible magnet and would go visit their facilities to
16 see if, in fact, we would consider doing business with
17 them. As you, I'm sure, are aware, a lot of people
18 will say they make this stuff, but at the end of the
19 day, they're maybe just brokering the products. So,
20 we want to make sure that the people, who say they're
21 actually doing this stuff, are actually doing it.

22 Again, from our small business perspective,
23 too, I really don't have a lot of interest in going to
24 wherever these other countries might be located. I
25 always say if this thing is going to transition to

1 another country, I hope I'm retired at that point and
2 not have to go down that path. So, it's more --
3 China, for us, was more of an act of convenience
4 really, because we are already over there on a pretty
5 much a yearly basis meeting with suppliers.

6 MR. REES: Okay. I don't know if Mr.
7 Mosteller, you had anything to add or submit?

8 MR. MOSTELLER: Well, I think in terms of
9 when these people are listed as manufacturers in these
10 17 countries, I think you'll find that most of those
11 are extruded and they are not actually making magnet
12 sheet. This is starting to move across though now.
13 Vietnam is a production point for flexible magnetic
14 sheeting and extruded product. India is next in line.
15 I have material from there. And as these things
16 progress across, there's a learning curve in a period
17 of time to when the product becomes a certain quality
18 standard of what you're used to or market acceptable.
19 China, when they started out, the product was
20 completely usable in their market, but was less
21 quality than here. And now, they've evolved to where
22 their quality is higher than what's made here. And it
23 happens over a period of a few years. Like I said,
24 those two countries, Vietnam and India, are next.
25 There's no question.

1 It's quite a bit of extruded product done in
2 Mexico. That's primarily for this refrigeration
3 gasket business. And the other countries are more
4 probably marked just extruded. That's a little
5 simpler to get going and is more of a typical
6 industrial type application for appliance, et cetera,
7 and that's their interest, where the advertising
8 novelty is -- really, the two industries are the same,
9 but different, in the sense of the customer base for
10 the sheeting is a totally different customer than what
11 the extruded would be. The extruded is more of
12 something for an OEM manufacturer. And there's a big
13 difference between an advertising novelty item and a
14 manufactured product, if that makes sense.

15 MR. REES: Yes. I'll just ask a couple more
16 questions about China and then I would like to get to
17 that briefly. But on this China business, we heard
18 some discussion this morning from Petitioners and they
19 even have an exhibit here. There's this expression
20 'China prices.' Have either of you ever heard the
21 term 'China prices,' as used regarding raw material or
22 raw flexible magnets?

23 MR. LEWIS: Sure.

24 MR. REES: What is it referring to?

25 MR. LEWIS: Well, I think, it's -- when we

1 started going to China initially for our hard magnet
2 requirements, this is back in 1990 -- I think we
3 started purchasing from China in 1997 -- when we had
4 made our customers aware that we were buying from
5 China, they thought that it should be free. I mean,
6 that was just kind of the mind set that our customers
7 had regarding China. So, I think when this China
8 pricing thing is thrown about like that, it's
9 obviously a poor way to advertise, but there's a
10 mindset that you're going to save money. So, I'm sure
11 that's what they're referring to.

12 MR. REES: Okay. I don't know, Mr.
13 Mosteller, if you had anything to add to that or --

14 MR. MOSTELLER: Not really.

15 MR. REES: -- any experience with that?

16 MR. MOSTELLER: I haven't really paid
17 attention to those advertisements actually. But, I
18 think what Scott says is probably pretty accurate. I
19 never really heard the term 'China price' before,
20 actually, but --

21 MR. REES: Okay. Their economist had
22 testified to certain conditions of competition. I
23 just have a question about that. One of the things he
24 said was, in this market for raw flexible magnets in
25 the United States, that the product is really sold

1 primarily on the basis of price. And I'm wondering if
2 you gentlemen disagree with that or agree with that or
3 had a perspective on that or a response to his earlier
4 testimony?

5 MR. MOSTELLER: Well, I think price is a
6 very important consideration. We're living in a world
7 where I think in the last 10 years, it gets
8 disheartening sometimes, I used to say we can
9 magnetize is this way, we can put this adhesive on it
10 for you, we'll solve some other issues for you, and I
11 still have niche markets that that's important in.
12 It's always rewarding to have somebody tell you that
13 what you do makes a difference on how their product
14 turns out or that you've sold a production problem
15 they had. But, as you deal more and more in a
16 commodity type thing and this world becomes an
17 international marketplace, it's kind of like the old
18 joke about real estate, there's three things that
19 matter, location, location, location. And in the
20 magnets, there's three things that matter, price,
21 price, and price. It's just there. I think that's a
22 mentality we're headed to, along with the mentality,
23 if the customer says, if I wanted it tomorrow, I would
24 order it tomorrow. FedEx has created this -- we have
25 this need to have everything done immediately. It's

1 funny.

2 MR. LEWIS: And our business is a little bit
3 different, in that from a magnetic attraction's
4 perspective, yes, price is very important. People
5 don't want to spend a lot of money for something
6 that's going to go possibly in the garbage can, these
7 little advertising specialty things. But, from an
8 Adam's perspective, where we're more of a custom job
9 shop, build to order, lead time is a huge part of our
10 business. So, it really depends on who your customers
11 -- who you're servicing, as far as your customers are
12 concerned. Obviously, price is always going to be an
13 important component to these things; but, when you --
14 again, when I talk about trying to sometimes China-
15 proof our business, that's where you want to be able
16 to find niches where lead time is more of a factor.
17 So, we can't kid ourselves that price -- at some
18 point, price is always going to be -- that question is
19 going to be asked. But, there are instances where
20 it's not the determining factor.

21 MS. LEVINSON: Mr. Rees, Mr. Lewis hasn't
22 said this right now, but perhaps he can confirm that
23 he did say to me that he is currently very happy with
24 his supplier in China and that regardless of what the
25 prices were for China, perhaps within certain

1 limitations obviously, he would like to continue
2 purchasing from that Chinese supplier.

3 MR. LEWIS: As I mentioned in my testimony
4 here, we have not had one problem since we've started
5 bringing in the Chinese material, not one, and not one
6 customer complaint. So, from our perspective, and
7 obviously, we have to see how this thing plays out,
8 but if there's some kind of a tariff duty, whatever,
9 and we're -- we would, at that point, have to make a
10 determination, obviously. But, if all things were
11 equal and we would incur -- buying from China is not
12 just going over there and -- I mean, there's a lot of
13 logistics that that's involved. Our inventories have
14 to change significantly. Our business model changes.
15 So, this isn't just as easy as picking up the phone
16 and saying, hey, send me a container and everything is
17 right with the world. There's some gymnastics that we
18 have to drop through. Again, depending on where this
19 all goes, if there was even a slight premium to what
20 we would have to pay for Chinese material, we would
21 consider that and most likely continue to purchase,
22 because they're quality for what we're doing right now
23 has been very impressive.

24 MR. REES: Mr. Mosteller, I didn't know
25 whether you had anything you wanted to add.

1 MR. MOSTELLER: Well, you were just talking
2 about the logistics, he was, of things and we talked
3 about it earlier. And the Capitol One business that
4 was spoken about, that was what they called
5 fulfillment company. They would actually do the whole
6 work. They would do the printing matter that came
7 with this. They made the card attached to the letter.
8 You opened it up and you got all of that stuff out of
9 there. They did everything, including the mailing of
10 it. And they would process millions of those in a
11 week. So, that material was not really ever going to
12 come from China. The turnaround on this stuff was
13 incredible. It's always going to remain domestic.
14 And there are other portions of this, as I mentioned
15 before, that are always going to be domestic. As
16 Scott mentioned, a lot of these advertisers and stuff,
17 they have a program going, they have other
18 advertising, giving away the magnet is coordinated
19 with. And they don't plan these things a year ahead
20 or the three months it takes for a container to get
21 here. They move on a different schedule based on
22 their needs. And that's always going to remain here.
23 There's always certain portions of that market that
24 are going to be acceptable to that time lag and
25 everything else.

1 And there's a great deal of customization
2 that goes on in. The magnetic sheet of the slitting.
3 The flexibility of it and other things. And FlexMag
4 customizes these things for people's printing presses
5 and their operations. There are subtle differences,
6 but it makes a difference. And those are things that
7 you really only can do here, not only for time reason,
8 it gets too complicated, as Scott is talking about,
9 tweak this compound a little bit, so the magnet has a
10 little stiffer feel or a little more flexible feel and
11 all that. The Chinese stuff is going to be plain
12 vanilla, you know what I mean? And that's great, if
13 you want plain vanilla ice cream. But, tweaking it
14 and changing it and all this is stuff to do when
15 you're bringing things over in a container. So,
16 there's always going to be two separate industries and
17 no one place is every going to squish the other
18 totally.

19 MR. REES: Okay.

20 MR. MOSTELLER: I think FlexMag's view is
21 that they are very competitive and they have quick
22 delivery and customization. I don't think they're
23 scared of them.

24 MR. REES: In terms of the products,
25 themselves, I was interested to hear you describe --

1 perhaps you more so, Mr. Mosteller, but you might join
2 it, Mr. Lewis, that you think of these products as --
3 this product as really several different kinds of
4 products. You see certain significant differences
5 within the scope, as the Petitioners have presented
6 it. And I want to try to understand that a little
7 better. Would you draw a line -- and I must say, some
8 of this -- the ultimate conclusions that are drawn are
9 ultimately -- it's a legal question. It's opined
10 facts. And so, I'm trying to understand from the
11 industry witnesses some of the facts. But, the
12 lawyers are certain welcome to jump in and I would
13 hope they would address it, if they think it's an
14 issue here, in the post-conference briefs.

15 But, I was going to ask just Mr. Mosteller
16 first, is it -- you would see -- we tend to look for
17 brighter lines. We're not into -- you've been talking
18 some about subtlety and you bring a sophistry to this
19 that is appreciated and it helps us understand the
20 product and the industry. Ultimately, the law says,
21 or as it's been applied, well, are we dealing with
22 bright lines. And so, I would ask you, do you see a
23 bright line difference between the profile shapes
24 versus the sheets or not?

25 MR. MOSTELLER: Are you speaking of where

1 they're manufactured or how --

2 MR. REES: That's an excellent question. In
3 terms of, for instance, physical characteristics and
4 uses.

5 MR. MOSTELLER: Absolutely, absolutely. If
6 you noticed, I told you sheet sales for me are less
7 than one percent. It's a totally different animal.
8 The extruded is more of an engineered product.
9 Someone wants a particular size, a certain
10 magnetization, and some other things, because it's
11 being used as part of an article in a manufacturer of
12 something, a piece on a portable display, the closure
13 in the shower door. Where the magnetic sheet is a
14 complete product in itself. You print some paper,
15 Scott said, you laminate that paper to it or you can
16 print directly on the sheet. I mean, that's a point
17 he didn't make clear. Some people print on paper,
18 because it goes through the presses very easily.
19 Printing on magnet is a little tougher to handle. It
20 wants to stick to the rollers and different things,
21 sometimes even shipped unmagnetized and would be
22 magnetized on site with a permanent magnetization
23 fixture and magnetized at the end. But, the point is,
24 is that that product with that printed image, be it
25 Donald Duck or some pill for the pharmaceutical

1 industry, that is the finished product. It's not
2 incorporated into anything else.

3 The other products, appliance and the shower
4 door, those are things where the magnetic is a
5 component of it. Is it important? Yes. But, in
6 terms of the total cost of the shower, the magnetic is
7 probably -- they've got a dollar in it, and the rest
8 of it is glass and aluminum extrusion. So, it's just
9 one part of 100 parts.

10 MR. REES: So is the difference you would
11 draw between the sheets and the shapes? Or is it
12 really that process that they undergo, the extrusion
13 versus the calendar manufactured?

14 MR. MOSTELLER: Well --

15 MR. REES: I am just trying to understand
16 what your sense is of how they're different.

17 MR. MOSTELLER: Well, the process is
18 different, but that really doesn't matter to me.
19 They're very, very similar. It's just that the end
20 use of the product and the customer that you would
21 sell to for magnetic sheet is a totally different
22 customer than you would sell the extruded product to.
23 I'm not saying that you might never have a customer
24 use magnetic sheet that bought some extruded for some
25 certain portion of something, but that's very rare.

1 Generally, they're buying the magnetic sheet. It's in
2 a wide form. It's a sub-straight to print on or to
3 attach to something that needs that large format. The
4 extruded magnetic is much smaller. Normally, it's
5 profile, an inch is fairly wide, in terms of most of
6 the stuff. The shower door things, we're talking
7 something here like an eighth of an inch by three-
8 eighths of an inch, sometimes even smaller. So, it's
9 a totally different look. It's a narrow little piece
10 of material that has a shape and it fits down in that
11 channel in an aluminum extrusion so that it stays in
12 that shower door when you open and close it. That's
13 what they want. They want that shape tightly
14 controlled and that magnetization to be within a
15 certain range. You don't want your shower door not
16 having enough pull, but you don't want it to have too
17 much pull or that becomes undesirable, too. And the
18 sheet, it doesn't matter. It just has to have enough
19 holding for us to hold that little novelty up on the
20 refrigerator. So, it's totally different, totally
21 different use. Am I making sense?

22 MR. REES: No, I understand your point.

23 MR. DONOHUE: Mr. Rees?

24 MR. REES: Yes, sir, Mr. Donohue.

25 MR. DONOHUE: If I may put just a little

1 finer point on that, because I might say, I'm
2 extremely impressed by the questions and the grasp
3 this committee so quickly has had of this industry and
4 particular to your questions, Mr. Rees, because I
5 think when you talk about ultimately the legal
6 conclusion that would be reached, I suspect that one
7 of the issues you're grappling with is whether or not
8 we may be dealing with two industries here. I came
9 into this hearing without having formed a firm view on
10 whether or not the flexible sheet and extruded product
11 may, in effect, constitute two industries. I
12 genuinely walked into this hearing this morning
13 without a conclusion on that.

14 In the course, however, I just made some
15 notes and look what the testimony, as it has evolved,
16 has said. There is a different customer base. There
17 are different machines. There are different
18 employees. These products serve totally different
19 levels of industry; that is, Mr. Mosteller talks about
20 a totally different customer base than Mr. Lewis does
21 and they're served from different facilities. Mr.
22 Mosteller does not make sheet in his facilities.
23 That's beginning to sound like we may, in effect, have
24 two industries. Even at this point, I would say all I
25 would like to do is reserve the point of briefing it.

1 But, I think you've raised a very intelligent analysis
2 of this that I, with your permission, I'd like to
3 pursue a little bit more.

4 MR. REES: Yes. And I think that would be
5 the appropriate place. If you decide to pursue this
6 line, I request that counsel brief that to the best of
7 their ability with the information they have. I
8 wonder if Mr. Lewis has any comment just before you,
9 Ms. Levinson, just do you agree or disagree?

10 MR. LEWIS: Well, yes.

11 MR. REES: I mean, conceptually, you're
12 talking about a rather big point, as Mr. Donahue put
13 it. He's saying --

14 MR. LEWIS: Right.

15 MR. REES: -- or do you think of this as
16 being one industry or two industries? It's rather
17 dramatic.

18 MR. LEWIS: Initially, I was maybe a little
19 bit disappointed that the importers were not here
20 representing our cause I guess. But, I think if we
21 would have had that, we'd be here for three or four
22 days, because, really, everybody has a little niche
23 business that they intend to and a lot of it is
24 defined by different product. Adam's business is
25 completely different than Magnetic Attractions

1 business. I mean, that's part of the reason why we
2 made the acquisition, was to kind of diversity
3 ourselves a bit, as is Larry's business.

4 So, some people rely heavily on magnetic
5 extrusions. I can tell you, I think we buy three
6 shapes, and they're all flat and they're three inches
7 wide. And that's all we buy, basically. We don't buy
8 any kind of customized -- we get a little C profile
9 now and then, but that's probably less than once
10 percent of our business. So, everybody kind of has a
11 little niche that maybe they've kind of carved out and
12 would have their own feelings about how that's being
13 affected. So, it is difficult to put a handle on it,
14 but there's a wide chasm between sheet and strip and
15 extruded shape. There's a big difference between all
16 of those materials, even though it's made from
17 probably the same compositions or very similar
18 compositions.

19 MR. REES: Okay. Ms. Levinson, I think you
20 --

21 MS. LEVINSON: I'd like to --

22 MR. REES: Yes?

23 MS. LEVINSON: I think the witnesses have
24 made excellent points and Mr. Donahue has made an
25 excellent point regarding essentially a like-product

1 argument. However, my approach to a preliminary
2 investigation is to try to be a little more practical.
3 I would note that -- I'm not saying my research is
4 exhaustive, but in the research I've done over the
5 years, I think there's only been one or two cases, in
6 which Respondents have prevailed at a preliminary, in
7 part, because of the like-product argument.

8 So, typically, making a like-product
9 argument at the preliminary stage is an invitation to
10 the Commission to continue the investigation to the
11 final stage for further investigation. And with that
12 in mind, I would like to make our position perfectly
13 clear, that we are accepting the Petitioners'
14 definition of like product for purposes of this
15 preliminary investigation. However, we do reserve the
16 right to discuss this further should it go to a final
17 investigation.

18 MR. REES: Okay. How about on the question,
19 then, of the -- excuse me, other aspects of defining
20 the domestic industry. This might perhaps go more to
21 the lawyers, but this question of related parties. I
22 guess we haven't fully heard and we'll collect the
23 data. But, maybe the appropriate point at this
24 juncture is simply to request, Ms. Levinson and Mr.
25 Donahue, that if you are going to take a position on

1 related parties, that you put it in your brief
2 following the statutory framework.

3 MR. DONOHUE: Mr. Rees?

4 MR. REES: Yes, sir.

5 MR. DONOHUE: As you probably know, I raised
6 a challenged for the Commerce Department as to whether
7 or not the Petitioners met the standing, the 25
8 percent standing. And I, in fact, discussed a bit the
9 related parties issue. So, I probably will follow up
10 with that --

11 MR. REES: That would be very helpful.

12 MR. DONOHUE: -- in the brief.

13 MS. LEVINSON: I have a question for you,
14 Mr. Rees, as the attorney.

15 MR. REES: Yes?

16 MS. LEVINSON: Today is initiation day at
17 the Department of Commerce. Have you publicly heard
18 what they have done on this case? They've announced
19 it at noon.

20 MR. REES: The best person to ask might be -
21 - well, the colleagues to my right, I don't know if we
22 know yet. We're curious, as well.

23 MR. CARPENTER: I have not heard anything
24 definite, but my understanding is that they were
25 planning to initiate.

1 MS. LEVINSON: Okay, thank you.

2 MR. CARPENTER: Mr. Thomas, do you have any
3 additional information on that?

4 MR. THOMAS: Commerce has initiated.

5 MR. CARPENTER: Okay, thank you.

6 MR. REES: That means the standing argument,
7 I think, has been preserved.

8 MR. DONOHUE: Thank you. Thank you, Mr.
9 Rees.

10 MR. REES: But, also, in terms of
11 converters, if you were taking a position. But,
12 perhaps, Ms. Levinson, anticipating it, perhaps you're
13 going to say you'll agree with whatever definition of
14 domestic industry the Petitioners are putting forward.
15 But, I don't know. Obviously, you do have an
16 opportunity here and the Commission can find facts
17 even at the preliminary phase.

18 MS. LEVINSON: Sure.

19 MR. REES: And, also, on cumulation, we've
20 heard some discussion. Again, gentlemen, this is more
21 legalistic, legal nature. But, cumulation, I don't
22 know whether either of these Respondents are going to
23 take a position that differs from the Petitioners on
24 that point for purposes of the preliminary phase.

25 MS. LEVINSON: We are not.

1 MR. DONOHUE: I think we will not either,
2 Mr. Rees.

3 MR. REES: Okay. And then we have the
4 captive production issue, as well, and I know there's
5 been some discussion in correspondence back and forth.
6 If you think -- what I would ask you is -- you've
7 developed it. I think one of the points made in Mr.
8 Donohue's letter was that there are criteria that have
9 to be met and certain facts that have to be found.
10 And so any way you can elucidate or suggest to the
11 Commission how you think it ought to think about the
12 issue and the result it should reach, if you would put
13 that in your brief, that would be helpful.

14 MR. DONOHUE: That's fine. I note that that
15 statutory provision not only requires what I said in
16 my letter was, as a practical matter, findings of
17 fact. But, I think I might differ from the position
18 that the Petitioners took in this stage, that when you
19 get to the core of the statute, the statute is not
20 mandatory on that point. It simply says that if the -
21 - I think there were frankly four facts that had to be
22 found. But, the effect of even a finding of each of
23 those four facts was that it changes the focus of the
24 Commission and was not a mandatory direction by the
25 Commission, for example, to exclude my client's

1 domestic production in any calculation of industry.
2 The statutory term is 'shall focus on' and it does not
3 direct the Commission to exclude.

4 MR. REES: And it may turn out that there
5 isn't much of a difference of opinion ultimately on
6 that. But, there may be. And so, if -- thank you for
7 those comments and reducing them to writing, as well,
8 in your brief is helpful.

9 And then lastly this question about Bratsk
10 and non-subject imports, the interesting thing I heard
11 from Mr. Mosteller and Mr. Lewis and even the
12 Petitioners, though, is that nobody is talking much
13 about non-subject imports. I don't know whether for
14 the Federal Circuit there's certain criteria met here
15 that means we have to be thinking about it and there
16 are big issues, and you certainly have the right to
17 argue those issues. If a gentleman raised a question
18 of causation, would non-subjects come into the
19 marketplace under certain criteria and cause no
20 benefit to the industry and effectively supplant that
21 subject imports. So, I just put it to you, it would
22 be useful. We have the Federal Circuit opinion. We
23 have to think about these issues. So, any light you
24 can shed on that issue would be invited and would be
25 welcomed.

1 MS. LEVINSON: Sure. Mr. Rees, I think one
2 of the components of Bratsk is that the product under
3 investigation needs to be a commodity product and I
4 think we do have that here. What we haven't been able
5 to explore adequately is the potential for other
6 countries to fill a need in the United States. But,
7 we will address that in our post-hearing.

8 MR. REES: Thank you. I have no further
9 questions.

10 MR. CARPENTER: Ms. Mic?

11 MS. MIC: Thank you, Mr. Carpenter. My name
12 is Ioana Mic. I'm from the Office of Economics.
13 Thank you all for coming here today. I have the same
14 couple of questions that I asked this morning about
15 the products. In our questionnaires, we asked data on
16 three pricing products with two energy levels,
17 standard, and height. How representative do you think
18 that these three products are of the imports from
19 China and Taiwan?

20 MS. LEVINSON: On the case of my client, he
21 had no experience with any of the products. And this,
22 again, goes to the issue that he's selling a
23 downstream product and not the product that's being
24 imported, so that the products that were requested in
25 the pricing data were not part of his offerings.

1 MS. MIC: Could you develop on that just a
2 little bit more?

3 MS. LEVINSON: Sure. When my client -- when
4 Mr. Lewis went to complete the questionnaire, the
5 pricing data, he basically doesn't have any pricing
6 data, because he doesn't sell any of those products.
7 Those are products that are sold by the Petitioner.
8 And this was the line I was trying to draw before,
9 between what the Petitioners are selling and what some
10 of the importers are selling. Do you have anything
11 more to say?

12 MR. LEWIS: Yes. See, we take the raw
13 materials and then we cut them into a variety of sizes
14 and then maybe add adhesive. And so, it's very
15 difficult for us to be able to identify -- when we get
16 a roll of strip in, that roll of strip could be used
17 for a hundred different customers, in a variety of
18 different sizes and shapes. So, it's very difficult
19 for us to pinpoint a particular price for those items.
20 We don't bring in these items and just resell them.
21 We bring them in and value add to them.

22 MS. MIC: Okay. So, you do bring those
23 three products in?

24 MS. LEVINSON: Do you remember the three
25 products?

1 MR. LEWIS: What are the three again?

2 MS. MIC: The 12, the 15, and the 30.

3 MR. LEWIS: No, no, no.

4 MS. MIC: You don't?

5 MR. LEWIS: Those are sheet products?

6 MS. MIC: Two of them are sheets. The 30
7 mil is roll.

8 MR. LEWIS: Is a roll --

9 MS. MIC: Yes.

10 MR. LEWIS: Right. Right now, we're
11 bringing in, I think it's 13 mil sheet and that's the
12 extent of what we've brought in so far. So, it's -- I
13 mean, it's a like material. It's just a little
14 thicker than the 12 mil, a little less thick than the
15 15 mil.

16 MS. MIC: Okay, because we just sent out
17 some supplemental questions about the purchasing
18 prices. But, since you do not bring those three, then
19 it wouldn't be relevant for you.

20 MR. LEWIS: Right.

21 MS. MIC: All right. So, you would say the
22 12 that you're bringing -- the 13 you're bringing in.
23 That would be -- would this be a product that would
24 offer a better coverage for the market, just for your
25 purposes?

1 MR. LEWIS: For our particular requirements,
2 yes.

3 MS. MIC: Okay. Do you import the products
4 at both energy levels? Do you distinguish? Is there
5 a price difference?

6 MR. LEWIS: No. At this point, it's just
7 the low energy.

8 MS. MIC: The standard?

9 MR. LEWIS: The standard energy.

10 MS. MIC: All right. That was all of my
11 questions. Thank you, very much.

12 MR. CARPENTER: Mr. Yost?

13 MR. YOST: Thank you, Mr. Carpenter.

14 Charles Yost, Office of Investigations. Mr.
15 Mosteller, I have a couple of questions for you. The
16 first one is similar to the one I asked Petitioners at
17 the end of the morning session and would you, please,
18 provide a breakout of your energy costs for domestic
19 production and indicate the value of energy consumed
20 in the production of the subject product and indicate
21 where those costs are classified in your P&L
22 statement?

23 MR. MOSTELLER: Okay.

24 MR. YOST: And, please, provide that in the
25 post-conference brief, if you would. And the second

1 question I have is are you importing the same products
2 as you produce domestically? Is the product mix the
3 same?

4 MR. MOSTELLER: The composition of the
5 material would be, but the sizes or shapes are
6 different.

7 MR. YOST: I mean, if you're basically
8 producing sheet, are you importing sheet, as well,
9 whether there's a difference in sizes?

10 MR. MOSTELLER: I do not manufacture
11 magnetic sheet. I manufacture only extruded.

12 MR. YOST: Okay. So, you're importing
13 extruded products or sheet?

14 MR. MOSTELLER: Yes. I'm importing extruded
15 product and I have brought in a little bit of sheeting
16 just kind of for fun really. As I told you, less than
17 one percent of my sales are that and I just did it to
18 kind of see what the stuff looked like.

19 MR. YOST: Okay. I'm just trying to get a
20 feeling for whether you're importing the same product
21 as you're producing domestically. I think your answer
22 is yes.

23 MR. MOSTELLER: That's correct.

24 MR. YOST: Okay.

25 MR. DONOHUE: Mr. Yost, if I might just

1 clarify one point. The levels of sheet that my client
2 brought in are probably what in your area of inquiry,
3 you identify as test levelers -- test samples.

4 MR. YOST: Okay, thank you. That's very
5 helpful. And then my last question is you have a
6 certain relationship with the foreign producer,
7 correct?

8 MR. MOSTELLER: I'm not sure what you --

9 MR. YOST: In other words, you import from a
10 company in China or Taiwan?

11 MR. MOSTELLER: Nothing from Taiwan.

12 MR. YOST: Okay. But what is the degree of
13 control that you have over the foreign producer?

14 MR. MOSTELLER: In terms of specifying
15 product?

16 MR. YOST: In terms of either ownership,
17 equity control, ownership?

18 MR. MOSTELLER: Nothing.

19 MR. YOST: Nothing, okay. Completely
20 independent relationship?

21 MR. MOSTELLER: Absolutely.

22 MR. YOST: Okay. All right, thank you.

23 Then, Mr. Lewis, I had just a clarification I would
24 ask of you, please. Perhaps I misheard, but when did
25 you shift all of your purchases from Magnum to FlexMag

1 in imports?

2 MR. LEWIS: Our first container from China
3 was ordered in December of 2006 and arrived in
4 February. That was our first test container in 2007.

5 MR. YOST: Okay.

6 MR. LEWIS: So, the container arrived in
7 2007, okay, and that was in February. In July of 2007
8 is when we shifted -- when we no longer decided to
9 purchase from Magnum MSI and we shifted our business
10 to FlexMag. So, at that point in time, in July, it
11 was the Chinese source and FlexMag.

12 MR. YOST: Okay. Thank you, very much. I
13 have no further questions.

14 MR. CARPENTER: Mr. Mata?

15 MR. MATA: Thank you, Mr. Carpenter. I have
16 one question for Mr. Lewis and that is you indicated
17 that there was different types of lamination. Are
18 there also different types of scoring? Is that a term
19 that's familiar to you?

20 MR. LEWIS: We might be getting in over my
21 skis here, but, yes, you can cut through the magnet
22 and leave the -- when you score the material, you
23 leave it, so that it would just break off the release
24 line or the adhesive. There are different methods of
25 scoring, but I couldn't explain those to you, really.

1 I would need my production manager here. But, there
2 are, yes.

3 MR. MATA: Thank you. That concludes my
4 questions.

5 MR. CARPENTER: Mr. Corkran?

6 MR. CORKRAN: Thank you and thank you, very
7 much, to all the witnesses. This has been a very
8 enlightening afternoon. I had only a few questions,
9 because you've already head extensive questions from
10 this panel, one that I would like to turn to right
11 now. I wanted to follow up with Mr. Lewis on some of
12 the timing that was discussed in the two previous
13 questions. The first was that you indicated that you
14 really didn't shift your supply sourcing until July of
15 2007. I wanted to try to ask if that is the -- you
16 responded to an earlier question that you didn't --
17 you neither sold nor purchased the product that was
18 collected -- for which pricing data was collected by
19 the Commission during the period for which data was
20 collected. Does that similarly hold true with the
21 volumes that you are shipping to China now, at this
22 point?

23 MR. LEWIS: I'm not following. Can you
24 repeat?

25 MS. LEVINSON: Mr. Corkran, perhaps you can

1 tell him which product you are referring to.

2 MR. CORKRAN: I'm sorry. The products for
3 which the questionnaire requested pricing were plain
4 sheets in 12 mil thickness, plain sheets in 15 mil
5 thickness, and sheets in 30 mil thickness that were
6 sold in rolls with final lamination. And I would note
7 that specifically the instructions indicated in
8 reporting price data, allow for tones and thickness
9 measurement of plus .5 mil or minus one mil. So, I
10 mean, they did cover a fairly broad --

11 MR. LEWIS: Correct.

12 MR. CORKRAN: -- range of product.

13 MR. LEWIS: So, no, those -- and, again, as
14 I mentioned before, we brought in 13 mil sheet, so it
15 fell out of that range, but it was within the
16 category. But, it's -- because we don't bring that in
17 and sell that, it's difficult for us -- it's
18 impossible for us to come up with price information,
19 because we just don't take that material and sell it
20 to somebody. We take that material, laminate a print
21 to it -- we print on paper, laminate that to the 13
22 mil plain magnet, and then cut that up to -- or bi-cut
23 it into a variety of shapes and sizes for a myriad of
24 customers. So for us to be able to identify what our
25 sell price is for those things would be impossible.

1 MR. CORKRAN: I definitely understand that.
2 That was one of the reasons, as Mc. Mic alluded to,
3 that the Commission sends out a second requests that
4 actually asks for purchase prices, as well as sales
5 prices, of the product, because we were hitting a
6 number of companies similarly situated with what
7 you've described, that they were not technically
8 selling as product.

9 MR. LEWIS: Right.

10 MR. CORKRAN: We definitely are trying to
11 obtain information on pricing for purchases, as well.

12 MS. LEVINSON: Mr. Corkran, we have not seen
13 that supplemental questionnaire.

14 MR. CORKRAN: Could it have gone to Magnetic
15 Attractions directly?

16 MS. MIC: It was not sent to everybody. So,
17 we had a sample of who it was sent it.

18 MS. LEVINSON: Like I said, my clients, none
19 of them received it.

20 MS. MIC: It can definitely be submitted to
21 your clients.

22 MS. LEVINSON: Okay. We'll be happy to.

23 MR. LEWIS: Yes, we would be happy to.

24 MS. MIC: Today? By the end of business
25 day?

1 MS. LEVINSON: Today?

2 (Laughter.)

3 MS. MIC: I'll send it to you. No, no, I'll
4 send it to you today.

5 MS. LEVINSON: Yes, if you could e-mail it
6 over to me, that would be great.

7 MS. MIC: Okay, that's great. Thank you.

8 MS. LEVINSON: We were going drinking; but,
9 now, you've changed our plans.

10 MS. MIC: I was going drinking, too, but not
11 anymore.

12 (Laughter.)

13 MR. CORKRAN: Well, having gotten that
14 initially straightened out. Mr. Lewis, for the time
15 being, I would like to stick with you. You described
16 yourself as a distributor fabricator. I wonder if you
17 could go a little bit more into the fabricator side of
18 how you view your operations? And I'm particularly
19 interested in -- some of the questions I asked the
20 Petitioners this morning about, for example, just the
21 training, the technical expertise involved in some of
22 the fabricating operations, as you described.

23 MR. LEWIS: Okay. Our fabrication is
24 primarily limited to Adams Magnetic, the fabrication I
25 think you're referring to, anyway. Magnetic

1 Attractions, they're really not considered a
2 fabricator. They're a promotional company and they do
3 do die cutting, but it's somewhat a different animal.

4 From Adams perspective, we will take
5 magnetic strip and we will currently buy it in three-
6 inch wide by maybe 1,500 feet rolls. And we will slit
7 that to a specific width, whether it's one inch or a
8 half inch. And then, we will -- well, prior to that,
9 we will apply an adhesive, slit it, and then we will
10 cut that material into various lengths or score it, so
11 that it will stay on a roll. So, there are a variety
12 of different methods that would be part of what we
13 would consider fabrication, okay.

14 Similarly, we would take magnetic sheet --
15 it can either be plain. It can have adhesive on it
16 already, or it will have a vinyl on it that we
17 purchase from the manufacturers, and these will be in
18 master rolls, and we might have a customer, who wants
19 these sheets cut into four-by-fours or eight-by-ten or
20 various sizes, and we have a piece of equipment that
21 we can run that magnetic sheet through and it will cut
22 and slit that material accordingly.

23 So, the equipment that we have, a lot of it
24 was homemade, a lot of it has been somewhat
25 customized. It certainly isn't rocket science; but

1 from a technical perspective, it probably takes two to
2 three weeks for somebody to really fully understand
3 what we're trying to accomplish. And maybe, depending
4 on the piece of equipment that they're working on,
5 learn where to kick it and where to kind of adjust
6 some things to get what we're trying to get
7 accomplished.

8 MR. CORKRAN: I'll ask this only because --
9 well, I'll throw it out, but I'll open the door right
10 away toward if you feel this is confidential
11 information. I would fully respect that and just ask
12 that you provide it in a post-conference brief. But,
13 in terms of your purchases of sheet, magnetic sheet
14 and strip, about what proportion are you further
15 fabricating? That's the first question. And then I
16 guess, secondly, about -- I mean, how many people are
17 involved in your fabrication efforts, roughly, the
18 number of employees that are working to do the
19 fabrication?

20 MR. LEWIS: Probably 75 percent of our
21 flexible business, we value add to it, we fabricate,
22 and there are probably seven people, who are
23 intimately involved in our production department.
24 Now, that's from an Adams Magnetic perspective. The
25 sheet from Magnetic Attractions, all of that gets

1 fabricated or put into promotional products. So, it's
2 virtually 100 percent.

3 MR. CORKRAN: And the product that you're
4 selling, though, for Adams Magnetic, though, that
5 really remains within the scope of the product that
6 we're discussing, correct, opposed to Magnetic
7 Attractions? Is that a product that eventually is
8 printed on -- that you are printing on?

9 MR. LEWIS: Yes.

10 MR. CORKRAN: Okay. So when you talk about
11 value-added operations in the context of Magnetic
12 Attractions, that's to create a product that when
13 finally sold, is outside the scope of what we're --

14 MR. LEWIS: Correct, correct.

15 MR. CORKRAN: Okay, thank you. I
16 appreciate --

17 MR. LEWIS: And just to further
18 differentiate, the 25 percent that we don't fabricate,
19 we call ourselves a distributor. So there's products
20 that we buy from the manufacturers that we buy in
21 large quantities and we just set them on the shelf.
22 And when a customer calls for one roll of a sheet or a
23 roll of strip, we sell those, and that would make up
24 the 25 percent of the remaining business that is still
25 considered flexible, would fall under the realm of

1 this material.

2 MR. CORKRAN: And that's the reason for you
3 characterizing yourself as a fabricator/distributor?

4 MR. LEWIS: Right.

5 MR. CORKRAN: That's the two --

6 MR. LEWIS: Correct.

7 MR. CORKRAN: Okay. Thank you. That is
8 very helpful.

9 Mr. Mosteller, I wanted to go down just a
10 little bit further down from some of the questions
11 that have already been asked. And you've established
12 in some of your testimony that the extruded product
13 that you're importing is of a similar nature or
14 perhaps even very similar to the product that you're
15 producing. Can you explain a little bit why you're
16 importing the product? Does it have to do with your
17 own capacity constraints? Are there any more subtle
18 product differences that may lead you to import a
19 portion of your needs and product a portion of your
20 needs?

21 MR. MOSTELLER: There are several issues
22 that come into there. Capacity is one of them. The
23 mechanical characteristics of the compound and, also,
24 the magnetic characteristics of the ferrite. All
25 those issue come in there, along with pricing.

1 MR. CORKRAN: Should I be gathering from
2 that, that there are performance differences based on
3 the chemical composition of the product you import
4 versus that which you produce here in the United
5 States?

6 MR. MOSTELLER: Yes. There are certain
7 customers that like some of the characteristics of it.
8 It's advantageous for their particular application.
9 That same advantage in other applications is a
10 disadvantage though. That's the fickle part of it.

11 MR. CORKRAN: Thank you. That's very
12 helpful. Page 34 of the petition in this case states
13 the belief that the United States is the largest
14 market for this product in the world. That belief was
15 reiterated this morning. To the extent that you have
16 any knowledge of it, do you tend to agree with that
17 view or tend to disagree with that view?

18 MR. MOSTELLER: I'm going to ask you are you
19 talking about as a use of magnetic sheet or the
20 extruded?

21 MR. CORKRAN: I'm talking about the subject
22 merchandise, which would include both forms.

23 MR. MOSTELLER: Okay. Well, the EU is a
24 larger economic power than us, at this point. I think
25 that the Asian suppliers made their inroads there

1 first, probably because of physical locale. I would
2 think that would be a pretty large market. I would
3 think it would be very comparable to this market.
4 But, I do not have actual data on that, but that would
5 be my feeling. The Europeans are similar type
6 countries and do similar things with the product. And
7 you just look at the population there and the
8 population here, that sort of what determines what
9 goes on with it.

10 MR. CORKRAN: A sort of correlated question I
11 had was are you aware of other producers in other
12 countries besides that one that we're focused on
13 today, the United States, China, and Taiwan, I think
14 that's related to a question that was posed to you,
15 Mr. Lewis, because one of the questions was why did
16 you go to China, as opposed to any other potential
17 country. And I think you responded that there were
18 two reasons: one, China was the country you were
19 aware of as a supplier to you. You have previous --
20 you had relationship through different products with
21 China.

22 MR. LEWIS: That's correct. I'm not
23 familiar with any other company. I've obviously heard
24 of the Gerriman Group in Germany, but we've never ever
25 had any contact with them. So, I'm not familiar with

1 any other producers.

2 MR. CORKRAN: Mr. Mosteller, I believe your
3 views were a little bit different, that you actually
4 were aware of some other -- of production in certain
5 other countries and regions.

6 MR. MOSTELLER: That is correct.

7 MR. CORKRAN: To the extent that you're
8 familiar with the Chinese operations, do you agree or
9 disagree with the statement made in the petition that
10 capacity could be expanded or added easily and cheaply
11 within a matter of months to expand sales to the
12 United States? Actually, I want to sever the last bit
13 of that question. I am not trying to get into whether
14 or not it would be used to sell to a particular
15 market. But, do you agree with the proposition that
16 capacity can be -- for this product can be added or
17 expanded easily or cheaply?

18 MR. LEWIS: Not really being involved in
19 manufacturing, it's a little bit of a leap for me.
20 But, I probably would agree with Allen in that if you
21 know what you're doing and you're familiar with the
22 types of equipment that are required, I mean, they
23 would be readily accessible. So, I would agree with
24 Allen Love, that you could probably expand your
25 capacity relatively easy, yes.

1 MR. MOSTELLER: I don't think it's any
2 different for any country than it is for any other.
3 At the same time, you heard the Petitioners say that
4 they attempted to do so. They consider themselves
5 experts and had a lot of trouble. So, stuff happens.
6 There's a bumper sticker that covers that.

7 (Laughter.)

8 MR. CORKRAN: A statement that also appears
9 in the petition, which I -- just if you have knowledge
10 of this, I would like you to comment on. Do you agree
11 or disagree with the statement in the petition that
12 there is no known production of this product in Hong
13 Kong?

14 MR. LEWIS: It would be a jump. I'm not
15 familiar with anybody, who is in Hong Kong, producing
16 the product.

17 MR. MOSTELLER: There is no Hong Kong
18 producer. I think I can say that pretty
19 authoritatively. There are offices of some companies
20 in Hong Kong, but I do not believe there is any
21 production in Hong Kong.

22 MR. CORKRAN: Okay. A related question, at
23 least, Mr. Lewis, and perhaps Mr. Mosteller, I'm not
24 sure from the testimony, Mr. Lewis, you specifically
25 testified that you saw multiple producers. You were

1 leery of a number of them. There was one that you
2 were more impressed with. I'm surely not asking for
3 names in a public forum, but I would ask in the post-
4 conference brief, could you, please, identify --
5 you've already identified -- well, would you, please,
6 identify both the company that you found impressive,
7 but, also, the companies that you looked at, but
8 didn't feel comfortable with?

9 MR. LEWIS: Absolutely.

10 MR. CORKRAN: And, Mr. Mosteller, you have
11 testified that you import. Could you identify in the
12 post-conference brief the Chinese producers that
13 you're aware of that you know actually produce the
14 product at issue?

15 MR. MOSTELLER: Sure.

16 MR. CORKRAN: Thank you, very much. I have
17 one more question and that is, again, in the petition,
18 the Petitioner asserts that competition is on the
19 basis of price and goes further to state that price
20 assumes a special significance in this case, because
21 the items ultimately represent an expense to the
22 purchaser. Do you find these views to be accurate?

23 MR. LEWIS: That's not our view. As I
24 mentioned earlier, if -- whatever happens here, if
25 there's some kind of a duty or tariff applied to the

1 magnet coming into this country from the supplier that
2 we're currently working with, I mean, we would have to
3 weigh and measure, obviously, at some point, if it's
4 prohibitive, then so be it. But, if all things were
5 equal and maybe even, if we had to pay a slight
6 premium, we would do that and continue to buy from our
7 Chinese source.

8 MR. CORKRAN: Okay. I'd like to thank you
9 all, very much, for your testimony. It's been
10 extremely helpful and I very much appreciate the time
11 that you spent coming here. Thank you.

12 MR. CARPENTER: Yes. Again, thank you, very
13 much, for your very informative responses to our
14 questions. We appreciate your patience with us. And
15 at this point, we will take just a very brief recess
16 of five to 10 minutes and we'll conclude with the
17 closing statements. Thank you.

18 (Whereupon, a short recess was taken.)

19 MR. CARPENTER: Can we resume the conference
20 now, please? Welcome back. Mr. Thomas, please
21 proceed whenever you're ready.

22 MR. THOMAS: Thank you, very much. I will
23 be brief. In closing, I will respond very briefly to
24 a couple of the arguments we heard from Respondents
25 this afternoon and then make a few general remarks.

1 In the first place, as I mentioned in the
2 break, I would encourage -- I didn't quite understand
3 Mr. Elliot, but if I did understand him correctly, he
4 said he had some imports of the 13 mil product from
5 China. I would encourage the staff to ask him for the
6 prices at which he purchases that product.

7 In addition, I would like to note that Mr.
8 Mosteller claims that Magnum has gone into competition
9 with its printer customers by printing magnets is
10 simply wrong. Magnum is not a printer.

11 That takes us back to the theme here, which
12 is China's prices, and everybody, Petitioners and
13 Respondents, seem to know what that means. That's the
14 device with which the Chinese and Taiwanese raw
15 flexible magnet producers have worked their way into
16 the U.S. market. That's the device by which they have
17 taken an important share of the U.S. market from the
18 U.S. industry. And that's the device that has cost
19 the U.S. needed revenues and prevented it from
20 recovering increased costs. Finally, that's the
21 device that threatens still further serious injury to
22 the few merchant market domestic producers that
23 remain.

24 Now, we've heard several different claims
25 from the usual Respondent claims today, that their

1 buying Chinese or Taiwanese products for reasons other
2 than its low prices, reasons such as quality, or a
3 long past, short-term, never serious contraction in
4 Magnum's supply. In addition to Mr. Mosteller's
5 erroneous claim, Magnum recalls the other events
6 somewhat differently than from the way in which they
7 were discussed today. In the case of the Magnetic
8 Attraction, subsidiary of Adams Magnetics, MSI had,
9 now a subsidiary of Magnum's, had an unusual written
10 requirements contract with that company, which
11 extended into 2008. In the spring of 2007, Magnetic
12 Attractions terminated that contract, citing quality
13 issues, principally blocking. Magnum MSI had provided
14 solutions to the blocking, but Magnetic Attractions
15 refused to be satisfied. For one, in 2006, Magnum
16 proposed to supply back-coated magnet, but MA was not
17 interested.

18 In 2007, of the last sample Magnum sent to
19 Magnetic Attractions was flexible magnet with a matte
20 finished, back coated, which was submitted in response
21 to problems Magnet Attractions purported to find with
22 some of Magnum's glues -- I should say, with some of
23 Magnet Attractions' glues not adhering to the glossy
24 finished back-coated product that Magnum had first
25 supplied. That sample was returned unopened by

1 Magnetic Attractions. They didn't even test it.

2 Magnum believes that Magnet Attractions used
3 the alleged quality complaints as a device to
4 terminate the contract, so that it was free to
5 purchase Chinese product. That put it in the position
6 either to buy the cheaper Chinese material or to use
7 those prices to negotiate low prices from another U.S.
8 producer or a combination of both. Magnum understood
9 that before Magnetic Attractions took steps to flood
10 Magnum with complaints, then terminate the Magnum
11 contract, MA had quotes of Chinese material at prices
12 30 percent below Magnum's contract prices.

13 Magnetic Attractions in each of the other
14 importer interest that are represented by Respondents'
15 counsel apparently is a major importer of the subject
16 merchandise. Each, presumably, has much to lose, if
17 they're required to pay fair value prices for their
18 imports. That and no other reason is why they are
19 here. Mr. Mosteller stated it squarely, if Magnum
20 prevails in this proceeding, prices will increase.

21 China prices, that is the issue here. That
22 is what the importers seek to protect from the
23 interference of the antidumping and countervailing
24 duty laws. That is what caused them to switch from
25 Magnum to subject imports, in some cases, and in the

1 case of others, who have not been purchasers from
2 Magnum for years, to be whetted to the subject imports
3 to the exclusion of domestic suppliers. China prices
4 have caused price suppression and price depression in
5 the U.S. raw flexible magnet market. China prices
6 have caused U.S. producers to lose sales to the
7 Chinese and Taiwanese producers. Polyflex Magnets
8 solicitation handed out this morning reveals one of
9 the devices on which the Chinese producers rely to
10 achieve sales growth and market penetration, a device,
11 whose effects can spread widely in the market.
12 Polyflex squarely asks the recipients of its
13 solicitation, such as the magnet customer that
14 forwarded the solicitation to us, 'wonder what
15 competitive advantage is your competitors have got
16 that you haven't?' What is going to worry a domestic
17 industry customer more than that its competitors are
18 going to have the advantageous of China prices and
19 consequent lower costs, permitting the competitor to
20 sell at better prices than it could offer? This is
21 the fear, in which the Chinese producers have played
22 so effectively.

23 China prices have caused loss of employment,
24 capacity, under utilization, weakened financial
25 results, and reduced capital investment in the U.S.

1 industry, as represented by Magnum. And continuation
2 of China prices, together with resulting still further
3 growth of imports from China and Taiwan, will
4 assuredly cause additional serious injury, which
5 ultimately extend to all corners of the U.S. industry,
6 adversely affecting even a relatively sheltered
7 participant, such as Holm Industries.

8 Mr. Lewis spoke of his desire to be China
9 proof in his business. MSI and Magnum, themselves,
10 already tried to China proof their business. They
11 found that you can't China proof their business or any
12 business when the Chinese product is dumped and
13 subsidized.

14 All the indicia of present material, indeed,
15 serious injury are present in this case, as well as of
16 an ominous threat of future material injury. The
17 conclusion that there is a reasonable indication of
18 material injury by reason of the accused imports and
19 of a threat of future such injury is inescapable in
20 this case. Thank you, very much.

21 MR. CARPENTER: Thank you, Mr. Thomas. Mr.
22 Donohue and Ms. Levinson, please?

23 MR. DONOHUE: Thank you, Mr. Chairman.
24 Thank you, ladies and gentlemen of the committee for
25 your time, your attention, and your commitment. I

1 must say I leave here extraordinarily impressed by the
2 quality of the feedback we have gotten from this
3 committee. You have had a long day and I will not
4 take long.

5 I want to raise only three points here.
6 First, at the early portion of Mr. Ritchie's testimony
7 this morning, he told of expressions of support by the
8 industry for the petition. If this statutory scheme
9 means nothing, it means that this is a transparent
10 proceeding. Everything is on the record. And that
11 means that there is a distinctive difference between
12 one executive, who will call another with an atta boy,
13 go after them and the executive that will come here
14 and testify or sign the petition in his company's
15 behalf. That hasn't happened here. We have one
16 Petitioner and one Petitioner only. We have one
17 member of the industry and one member of the industry
18 only, who has come forward.

19 Second, Dr. Button, in his testimony,
20 referred to the data as imperfect. We concur and that
21 may have been the understatement of the day.
22 Nevertheless, he continued to rely on that data
23 throughout his entire presentation. And I noted as he
24 did, two things.

25 Number one, not once during his presentation

1 did he talk about the industry. He talked
2 consistently about Magnum. My client is a member of
3 this industry. Not once did he get a call from Dr.
4 Button to seek my client's views. Not a single
5 question asked about demand, interchangeability of
6 product, price, warehousing, or the like. How can one
7 purport to speak on behalf of an industry when he has
8 not talked to a member?

9 That concludes my presentation. Thank you.

10 MS. LEVINSON: I would also like to thank
11 the staff today for listening as long as you have and
12 asking excellent questions and we always appreciate
13 it, very much. I was particularly struck by how much
14 the Petitioners' testimony was actually consistent
15 with Mr. Lewis's testimony and I would like to
16 highlight some of those points that were particularly
17 striking.

18 The Petitioners admit that in 2005 with the
19 MSI acquisition, that they had significant disruption
20 in production that prohibited them in 2006 from
21 sharing in some of the glory of the Capitol One
22 account that would have given them significantly
23 increased sales at that time. I believe Mr. Allen
24 Love said that they just did not have the equipment to
25 supply Capitol One and that they -- or that they were

1 having equipment problems and so they chose not to
2 supply Capitol One. They acknowledged, as Mr. Lewis
3 did, that they placed customers on allocation,
4 extended lead times. All this came from the
5 Petitioners. They had quality problems. They over
6 estimated the market. They believed that they were
7 going to get significant sales that were never
8 realized. And the most they can in response to Mr.
9 Lewis's testimony is, yes, but that was 2005 and now
10 it's 2007.

11 But the fact is that Mr. Lewis stuck with
12 them until 2007. He tried and went beyond trying. He
13 made efforts that most customers would never make and
14 he said he made those efforts because of a personal
15 relationship with Gary Murphy. He made efforts for
16 over a year-and-a-half to try to get it right with
17 them. He gave them every chance in the book. They
18 still failed and now they come here today and say,
19 well, the problem was really Mr. Lewis. The problem
20 was that he couldn't use the particular product we
21 were producing, but our other customers didn't have
22 that problem. But the fact is, he tried to use their
23 solutions and he has not had this same problem with
24 other suppliers since he seemed to have purchased from
25 MSI.

1 So from Magnum -- Magnum has virtually
2 admitted that many of their problems were self-
3 inflicted. They've also admitted that the imports
4 stats, as Mr. Donohue mentioned, the import stats are
5 not reliable. They're not the source to which the
6 Commission should look in making determinations of
7 increases in volume. And, yet, at the same time, Dr.
8 Button presented graphs that show the volume of
9 imports coming under those HTS numbers. And then,
10 finally, the testimony is pretty clear that Magnum has
11 alienated a lot of its customers and the way they have
12 gone about things has not been the way to encourage
13 customers to stay with you. And then to come and
14 complain that it's because of imports, when the
15 testimony doesn't support that at all, is unfounded.

16 So, thank you for your time and that
17 concludes my remarks.

18 MR. CARPENTER: Thank you, Ms. Levinson and
19 Mr. Donohue. And behalf of the Commission and the
20 staff, I want to thank the witnesses, who came here
21 today, as well as counsel, for sharing your insights
22 with us and helping us develop the record in these
23 investigations.

24 Before concluding, let me mention a few
25 dates to keep in mind. The deadline for the

1 submission of corrections to the transcript and for
2 briefs in the investigation is Wednesday, October 17th.

3 If briefs contain business proprietary information, a
4 public version is due on October 18th. The Commission
5 has not yet scheduled its vote on the investigations.
6 It will report its determinations to the Secretary of
7 Commerce on November 5th and Commissioner's opinions
8 will be transmitted to Commerce on November 13th.

9 Thank you for coming. This conference is adjourned.

10 (Whereupon, at 2:33 p.m., the preliminary
11 conference in the above-entitled matter was
12 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Raw Flexible Magnets from China & Taiwan

INVESTIGATION NOS: 701-TA-452 & 731-TA-1129-1130
(Preliminary)

HEARING DATE: October 12, 2007

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: October 12, 2007

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter