

UNITED STATES  
INTERNATIONAL TRADE COMMISSION

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In the Matter of: )  
MULTILAYERED WOOD FLOORING ) Investigation Nos.:  
FROM CHINA ) 701-TA-476 and  
 ) 731-TA-1179 (Final)

REVISED AND CORRECTED COPY

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P R O C E E D I N G S

(9:36 a.m.)

1  
2  
3 CHAIRMAN OKUN: Good morning again. On  
4 behalf of the U.S. International Trade Commission I  
5 welcome you to this hearing on Investigation Nos.  
6 701-TA-476 and 731-TA-1179 (Final) involving  
7 Multilayered Wood Flooring From China.

8 The purpose of these investigations is to  
9 determine whether an industry in the United States is  
10 materially injured or threatened with material injury  
11 or the establishment of an industry in the United  
12 States is materially retarded by reason of subsidized  
13 and less than fair value imports of multilayered wood  
14 flooring from China.

15 Schedules setting forth the presentation of  
16 this hearing, notice of investigation and transcript  
17 order forms are available at the public distribution  
18 table. All prepared testimony should be given to the  
19 Secretary. Please do not place testimony directly on  
20 the public distribution table.

21 All witnesses must be sworn in by the  
22 Secretary before presenting testimony. I understand  
23 that parties are aware of the time allocations. Any  
24 questions regarding the time allocations should be  
25 directed to the Secretary.

1           Speakers are reminded not to refer in their  
2 remarks or answers to questions to business  
3 proprietary information. Please speak clearly into  
4 the microphones and state your name for the record for  
5 the benefit of the court reporter.

6           I will note that we have many witnesses  
7 scheduled today on both Panel 1 and Panel 2. To  
8 accommodate the many witnesses we have them sitting on  
9 all sides of the room, so not to confuse anyone we'll  
10 be clear when the panels are set who will be  
11 testifying on behalf of which side.

12           Finally, if you will be submitting documents  
13 that contain information you wish classified as  
14 business confidential your requests should comply with  
15 Commission Rule 201.6.

16           Mr. Secretary, are there any preliminary  
17 matters?

18           MR. BISHOP: No, Madam Chairman.

19           CHAIRMAN OKUN: Very well. Let us begin  
20 with our opening remarks.

21           MR. BISHOP: Opening remarks on behalf of  
22 those in support of the imposition of antidumping and  
23 countervailing duty orders will be by Jeffrey S.  
24 Levin, Mondial Trade Compliance.

25           CHAIRMAN OKUN: Good morning, Mr. Levin.

1           MR. LEVIN: Good morning, Madam Chairman.  
2 Good morning, Commissioners. My name is Jeff Levin,  
3 and I am with Mondial Trade Compliance. I have the  
4 distinct privilege of representing the Petitioners in  
5 these investigations, the Coalition for American  
6 Hardwood Parity and its member companies.

7           On behalf of the Petitioners, we  
8 respectfully submit that the domestic multilayered  
9 wood flooring industry is suffering material injury by  
10 reason of subject imports from China and is threatened  
11 with further injury unless measures are imposed to  
12 reconstitute fair, competitive parity in the U.S.  
13 market.

14           I am honored to be joined today by a panel  
15 of witnesses whose experience in and contributions to  
16 this industry are unparalleled. These gentlemen do  
17 something that unfortunately is becoming all too  
18 uncommon in this country. They make something. They  
19 are a testament to manufacturing in the United States.

20           Last November, this Commission issued a  
21 unanimous preliminary affirmative determination. In  
22 that determination, the Commission found that the  
23 volume of subject imports from China and the increase  
24 in that volume were significant, that the significant  
25 volume of subject imports had significant adverse

1 effects on domestic producers' prices and that the  
2 increasing volumes of subject imports displaced U.S.  
3 producers' market share throughout the period of  
4 investigation, undersold the domestic like product and  
5 led to significant downturns in the industry's  
6 production, shipments, capacity utilization,  
7 employment and profitability. They also played a  
8 significant role in forcing the complete shutdown of  
9 certain domestic producers' facilities.

10           Since that preliminary determination,  
11 imports from China have continued to increase, the  
12 share of the U.S. market captured by these imports has  
13 continued to increase, and subject imports' prices  
14 have continued to exert substantial downward pressures  
15 on competitive products. This industry continues to  
16 struggle to remain competitively viable in the face of  
17 a weak economy whose effects have been greatly  
18 exacerbated by direct competition from low-priced  
19 Chinese imports.

20           Each company that comprises the domestic  
21 industry stands as a lifeline not only to its  
22 employees and their families, but to the small towns  
23 and communities to which they are intrinsically tied.  
24 That is why senators and congressmen and mayors have  
25 reached out to this Commission to express their

1 concerns and their hopes that this manufacturing  
2 industry will be spared the fate of too many  
3 manufacturing industries once centered in this nation.

4 Today you will hear from those parties  
5 opposed to the petition certain propositions intended  
6 to justify their competitive means in the market. It  
7 is certainly in their interests to present such  
8 arguments. We look forward to squarely addressing  
9 their proposition as today progresses and as these  
10 investigations move to their conclusion.

11 But these propositions cannot detract from  
12 elemental facts: That the volume of subject imports  
13 is significant, that subject imports have had and  
14 continue to have a pronounced adverse impact on U.S.  
15 prices of the product and that the injury suffered by  
16 this industry is to a significant degree attributable  
17 to the tide of cheaply priced, directly competitive  
18 and, we submit, unfairly traded imports from China.

19 President Obama noted last week, and I  
20 quote, "China has been very aggressive in gaming the  
21 trading system to its advantage and to the  
22 disadvantage of other countries, particularly the  
23 United States." While the President's remark was  
24 aimed at Chinese currency manipulation, the same  
25 characterization can be made of other trade practices

1 all too prevalent in this market: The cloning of  
2 American product design and suspect sourcing of wood  
3 imports.

4 In the face of all of these challenges, this  
5 industry is not looking to embargo product from China,  
6 nor is it looking for a thumb on the scale of  
7 comparative advantage. It is hoping only for the  
8 opportunity of free trade. On behalf of the  
9 Petitioners, we respectfully submit that the evidence  
10 of record strongly supports an affirmative  
11 determination in these investigations. Thank you.

12 CHAIRMAN OKUN: Thank you.

13 MR. BISHOP: Opening remarks on behalf of  
14 those in opposition to the imposition of antidumping  
15 and countervailing duty orders will be by Jeffrey S.  
16 Neeley, Barnes, Richardson & Colburn.

17 CHAIRMAN OKUN: Good morning, Mr. Neeley.  
18 Can you make sure your microphone is on?

19 MR. NEELEY: It is on. I'm Jeff Neeley from  
20 Barnes Richardson. I represent the Chinese industry,  
21 but I have been asked to make opening remarks on  
22 behalf of all the Respondents this morning.

23 The story that we hear from Mr. Levin and  
24 from the domestic industry is one where it sounds like  
25 they have a slam dunk, to use an unfortunate phrase

1 that has been around this town for a while.  
2 Unfortunately for them, I think that slam dunks  
3 sometimes run up against facts on the ground, and the  
4 facts on the ground here I think cut against them in  
5 many respects that we'll explain today.

6 At the most basic level we see that in 2010  
7 the domestic industry substantially increased its  
8 shipments at the same time that imports substantially  
9 increased and at a time when the profitability of the  
10 U.S. industry went in a very positive direction. This  
11 is not what we would expect to find if there were  
12 material injury to the domestic industry. In fact,  
13 it's just the opposite.

14 The question is why is that, and I think  
15 that's the question that the Commission needs to  
16 grapple with, beginning with those very elementary  
17 facts. What we see is that the reason, the  
18 explanation in a general sense, is that there is no  
19 overlapping competition of any significance. We think  
20 that the data on the record support that, and we think  
21 that in addition to the data you'll hear testimony  
22 from my clients and from experts on buying and selling  
23 of this product in the United States that that is so.

24 We begin with the price data. The  
25 Commission, as we all know, gathered price information

1 on eight products that account for a very substantial  
2 portion of U.S. producers' products sold, yet there  
3 really is no meaningful pattern of underselling. In  
4 fact, there is overselling.

5 Well, why is this? That seems odd, doesn't  
6 it? Well, for the same reason that we, as the Chinese  
7 producers, can increase our imports and have no effect  
8 on the U.S. industry, the overselling can occur  
9 because we're in complementary parts of the industry  
10 and not in direct competition, at least for most  
11 goods. We will have testimony today from purchasers  
12 who will explain to the Commission how this happens  
13 specifically with regard to specific products.

14 What we see really as the problem with the  
15 U.S. industry is that there was a collapse of the  
16 industry due to the housing collapse in the United  
17 States that we're all very familiar with. At the time  
18 of the housing collapse, the U.S. industry was very  
19 dependent on that segment of the market. That was a  
20 choice they made.

21 To their credit, they have switched that  
22 because housing certainly hasn't come back as much as  
23 any of us probably would have liked. They've switched  
24 that into other sectors and have become quite  
25 competitive in those sectors and quite successful.

1 China has had no discernable role in either the  
2 collapse of the U.S. industry, and it certainly has  
3 not prevented its recovery. In other words, there  
4 simply is no causal connection.

5 Finally, we will have testimony from my  
6 clients about threat. There's always this specter of  
7 lots of Chinese companies over there. We think that  
8 we have very good data from the Chinese companies that  
9 covers the overwhelming amount of exports to the  
10 United States and the overwhelming majority of people  
11 who actually can export to the United States.

12 We also see that in the future demand will  
13 not be in the United States or, for that matter, in  
14 Western Europe, but rather in China, which has an  
15 incredibly strong housing market, and in some other  
16 third world countries.

17 So that's what we're going to talk about,  
18 and we thank you for your attention.

19 CHAIRMAN OKUN: Thank you very much.

20 Mr. Secretary, will you please call the  
21 first panel?

22 MR. BISHOP: Would our first panel in  
23 support of the imposition of antidumping and  
24 countervailing duty orders please come forward and be  
25 seated?

1                   Madam Chairman, all these witnesses have  
2                   been sworn.

3                   (Witnesses sworn.)

4                   CHAIRMAN OKUN: Mr. Levin, it looks like  
5                   your witnesses are all seated. You may begin when  
6                   you're ready.

7                   MR. LEVIN: Thank you, Madam Chairman. We'd  
8                   like to start our presentation this morning with the  
9                   President and Chief Executive Officer of Mannington  
10                  Mills, one of the principal petitioning companies, Mr.  
11                  Tom Davis. Tom?

12                 MR. DAVIS: Thank you, Jeff. Good morning,  
13                 Commissioners. It's good to see you again, and I'm  
14                 honored to be here to testify on behalf of our  
15                 industry. My name is Tom Davis, and I'm the President  
16                 and CEO of Mannington Mills. I have been with  
17                 Mannington Mills since 1993.

18                 We have been manufacturing in the United  
19                 States for almost 100 years, since first being  
20                 established by John Boston Campbell in Salem, New  
21                 Jersey, in 1950. Mannington Mills is still based at  
22                 Salem. Through four generations, it is still owned  
23                 privately by the Campbell family. I read recently the  
24                 odds of a company remaining private through four  
25                 successive generations are something like one in a

1 million, and it's our intent to maintain to the fifth.

2 We are deeply dedicated to manufacturing in  
3 the United States. We take enormous pride in the fact  
4 that we have successfully manufactured in the United  
5 States for so long. We are proud of the products we  
6 make. We are proud of the ways that we support and  
7 serve our various communities. Most, by the way, are  
8 small American towns. The people in those towns are  
9 very much our family. We owe them. Without them, we  
10 simply couldn't do what it is we do.

11 Unfortunately, towns like Epps and Salem and  
12 High Point would suffer more than I can care to even  
13 think about if Mannington no longer were a part of  
14 those communities. Our multilayer wood flooring  
15 products are manufactured in Epps, Alabama, and in  
16 High Point, North Carolina, and those facilities  
17 produce only this product.

18 We had the distinct pleasure and privilege a  
19 short time ago of hosting several of the Commissioners  
20 and their staff at our High Point facility. On behalf  
21 of Mannington and the fellow members of the U.S.  
22 manufacturing industry, I want to thank you for that  
23 visit and the time you devoted to see what we do. I  
24 hope that if you took nothing else away from that  
25 visit you got a sense of the pride that we take in the

1 work that we do and we hope to continue doing for  
2 many, many, many years.

3 This is a sample of one of the  
4 multilayer wood flooring products that we produce.  
5 Jeff?

6 MR. LEVIN: Madam Chairman, may I approach  
7 the dais?

8 CHAIRMAN OKUN: Yes, if you could. Mr.  
9 Bishop can bring it around. Mr. Bishop, can you take  
10 the sample?

11 MR. DAVIS: The inner plies are of a number  
12 of species harvested in close proximity to our plant,  
13 including gum, poplar, oak or hickory, and a face made  
14 of oak. These various layers of wood are then  
15 stacked, glued and pressed together.

16 Multilayered wood flooring is  
17 environmentally friendly because it makes very, very  
18 efficient use of timber. For example, while only  
19 about 20 to 30 percent of a log will end up in a solid  
20 wood floor, approximately 70 to 80 percent of a log  
21 will end up in a multilayered product.

22 It is also easily installed and readily  
23 lends itself to do-it-yourself home improvement  
24 projects. You can go to your local independent  
25 retailer, for example, or Home Depot, Lowes, Lumber

1 Liquidators, purchase the amount of multilayered wood  
2 flooring you need and install it at home by yourself  
3 with or without the use of a contractor.

4 For these reasons, the use of multilayered  
5 wood flooring has grown rapidly in the past decade and  
6 now represents about half or more of the wood floor  
7 products sold in the U.S. But we are not unique here  
8 in the United States. The production and use of  
9 multilayered wood flooring has grown tremendously in  
10 China as well.

11 And as the industry in China has grown, so  
12 has the volume of imports from that country and the  
13 share of the total U.S. market that has been captured  
14 by these imports. In recent years and up to the  
15 present time, this fact has fundamentally altered the  
16 domestic market for the product and has posed and  
17 continues to pose very basic threats to the continuing  
18 competitive viability of the domestic industry.

19 In just the past three years, Mannington has  
20 experienced a significant reduction in our production,  
21 in our shipments and in our revenues. Our bottom line  
22 continues to suffer, despite our best efforts to  
23 reduce manufacturing and SG&A costs wherever possible.  
24 We have had to lay off more than one-third of our  
25 workforce, and we have shut down entire production

1 lines. Our capacity utilization rate sits below 40  
2 percent. To a very significant degree, this is  
3 directly attributable to the unfair competitive  
4 pressures we are experiencing with Chinese imports.

5 Through the course of Mannington's long  
6 history, we have seen the flooring market in both good  
7 times and in bad. We survived through two world wars,  
8 the Great Depression and numerous recessions, but the  
9 playing field, quite frankly, has changed, and the  
10 very real concern on our part, on the part of our  
11 workers and on the part of the communities in which we  
12 live, is that the tide of cheaply priced imports from  
13 China will do what two world wars, the Great  
14 Depression and numerous recessions have not.

15 Imports from China are literally forcing  
16 this industry into a race to the bottom. If this  
17 continues at the pace set over the past few years, at  
18 some point we will no longer be able to compete and  
19 will need to exit this industry.

20 Four years ago I had the privilege of  
21 offering testimony before this Commission in its  
22 fact-finding investigation of competitive conditions  
23 facing the industry at that time. I stated my fear  
24 that we were at the front end of another bad time, and  
25 I remember noting then that the bad time looming could

1 do lasting damage to this industry because it is so  
2 largely driven by something that wasn't present in the  
3 market just five years ago, and that's imports from  
4 China.

5 No doubt, the severe troubles in the housing  
6 market over the past few years and this prolonged  
7 economic crisis have been a black cloud over the U.S.  
8 engineered wood flooring manufacturers, just as it has  
9 been over many other industries in our country.  
10 However, were it just a more pronounced market slide  
11 than we have experienced in the past we could ride the  
12 dip in the anticipation of inevitable upswing, just as  
13 we've done time and time again over the nearly 100  
14 years of our history.

15 Quite frankly, having the will and the  
16 ability to do that is the only way a company like ours  
17 has been able to survive for the fourth generation,  
18 but the substantial increase in imports from China and  
19 the severe and continuing price erosion caused by  
20 those imports has introduced a new and sad reality,  
21 and this new reality presents a fundamental, if not  
22 unsurmountable, obstacle to the domestic industry's  
23 ability to recover its competitive footing, even when  
24 underlying economic conditions in the country turn  
25 more favorable.

1           On behalf of Mannington Mills and our  
2 dedicated employees and our communities, I appreciate  
3 the opportunity to present this testimony, and I look  
4 forward to any questions you might have. Thank you.

5           MR. LEVIN: Thank you, Tom.

6           Our next witness will be Mr. Dan Natkin.  
7 Dan is the Director for Wood and Laminate Products at  
8 Mannington Mills. Dan?

9           MR. NATKIN: Good morning, Commissioners.  
10 It's good to see you again. As Jeff just said, my  
11 name is Dan Natkin. I'm the Director of Wood and  
12 Laminate Business for Mannington. I've had the honor  
13 and pleasure of being with Mannington since 2006, and  
14 in my position I'm responsible for the sales and  
15 marketing of multilayered wood flooring for my  
16 company.

17           I have direct, almost daily personal contact  
18 with major customers in the U.S. market. I personally  
19 review sales reports, market pricing data, customer  
20 call reports, emails and other correspondence from our  
21 sales force concerning activity and prices at our  
22 customer accounts and reports of prices offered in the  
23 U.S. market by Mannington's foreign and domestic  
24 competitors.

25           Before joining Mannington, I worked for

1 Armstrong World Industries in a series of senior  
2 positions, including Global Wood Sourcing Manager,  
3 with responsibility for sourcing wood from around the  
4 globe, including China, Europe, South America and  
5 Indonesia. I later served as a product manager  
6 responsible for wood flooring. I am very familiar  
7 with all of the domestic manufacturers of multilayered  
8 wood flooring and a vast majority of the foreign  
9 manufacturers as well, including those in China.

10 Over the past several years, I've visited  
11 Chinese flooring operations several dozen times and  
12 have seen firsthand the products and the manufacturing  
13 operations. There are literally hundreds of  
14 manufacturers of multilayered wood flooring in China  
15 from small, mom and pop shops to some of the largest,  
16 most sophisticated flooring producers in the world.  
17 And although the Chinese middle class and the demand  
18 for wood flooring in China has grown over recent  
19 years, there's no doubt in my mind that the United  
20 States remains the primary focus for Chinese  
21 producers.

22 When I started in this business, China was a  
23 bit player who sold very little Chinese product in the  
24 U.S., and what we did see was very basic, rather low  
25 quality flooring. By the time I joined Mannington in

1 2006, China had grown to become the dominant exporting  
2 country at the expense of both domestic manufacturers  
3 and more traditional foreign sources. Now China is  
4 the dominant player in the U.S. market with a market  
5 share at least equal to that of the domestic producers  
6 and certainly greater than any domestic manufacturer.

7           The Commission reported in its preliminary  
8 determination that the share of the U.S. market held  
9 by Chinese imports was just over 30 percent in 2007.  
10 In its final investigation, the Commission reports the  
11 Chinese share to be just under 48 percent in the first  
12 half of 2011. This accurately reflects what I see and  
13 what I hear in the marketplace; that about one out of  
14 every two square feet of multilayered wood flooring  
15 sold in the U.S. comes from China. For the most part,  
16 the quality of the product we see from China is very  
17 good now.

18           I understand that one of the things that the  
19 opponents to our petition argue is that imports from  
20 China have increased market share so sharply in recent  
21 years because manufacturers in China provide a product  
22 not available from domestic manufacturers. If that  
23 were true then we can thank the Chinese industry for  
24 sharing in a mutually beneficial and complementary  
25 partnership. Their argument is simply not true.

1           I want to take a few minutes to speak to  
2 some of these claims. Now, I'm not aware of a U.S.  
3 manufacturer that currently produces multilayered wood  
4 flooring with a face veneer of either Acacia or Asian  
5 birch. However, I am aware that many, if not all,  
6 U.S. manufacturers produce multilayered wood flooring  
7 with face veneers that are visually similar, if not  
8 indistinguishable, from these species.

9           Some importers brand the group of species  
10 known as Acacia as tropical walnut to directly compete  
11 with American black walnut. Asian birch is a direct  
12 competitor with American yellow or white birch. In  
13 any case, whether a specific multilayer wood flooring  
14 product has a face veneer of Acacia, a face veneer of  
15 walnut, American or Asian birch, they are directly  
16 competitive in the market.

17           Second, and putting aside for now the  
18 irrefutable fact that there is seven ply multilayer  
19 wood flooring production in the U.S., let me state  
20 unequivocally the number of plies in a particular  
21 multilayer wood flooring product is irrelevant to the  
22 performance of the finished product. In my  
23 experience, it's also irrelevant to the customer. No  
24 manufacturer, foreign or domestic, markets its product  
25 by claiming that having more plies make a product, and

1 never has a customer asked me to supply a product with  
2 more plies.

3           The data in the prehearing staff report  
4 showed the volume of imports from China jumped by 44  
5 million square feet between 2009 and 2010. Being in  
6 the market every single day, dealing every single day  
7 with other manufacturers and importers and  
8 distributors and customers, I believe that it's an  
9 outright fallacy to claim that in the worst economic  
10 climate of the past 50 years there was suddenly this  
11 screaming demand for multilayered wood flooring with  
12 an Acacia face or made with seven plies.

13           I know that some of the opponents to this  
14 petition claim that the struggles of this industry are  
15 our own fault; that domestic manufacturers chose to  
16 focus on new home building while imports, especially  
17 through big box and do-it-yourself retailer outlets,  
18 have concentrated on the larger, more active  
19 remodeling sector. That's just not true. The  
20 information collected by this Commission shows that  
21 it's not true, and the Commission carefully reviewed  
22 extensive evidence of this industry's efforts in its  
23 preliminary determination and found that it's not  
24 true.

25           In that respect, nothing has changed between

1 last November and now. What's happening during this  
2 economic climate is that consumers are naturally drawn  
3 to lower price points. To the extent that the vast  
4 increase in Chinese imports is a result of demand here  
5 in the U.S., it's not demand for Acacia or because  
6 they want a seven ply product versus a five ply. It's  
7 the demand for cheap.

8           There was a time not that long ago that the  
9 styling and aesthetics of a product were the  
10 overarching factors in a purchasing decision. There  
11 was a time when multilayered wood flooring was  
12 considered an aspirational product. That era is  
13 slipping away, at least for now. While a product  
14 needs to be visually pleasing and of at least  
15 serviceable quality, there's no doubt that price  
16 drives the market. China drives the price.

17           As an example, we recently engaged a  
18 consulting firm to help us evaluate our wood business  
19 in the face of this continuing flood of import  
20 competition. In interviews with dozens of customers,  
21 including builders, independent retailers,  
22 shop-at-home merchants and big box home centers, the  
23 message was resoundingly clear. It's all about price,  
24 and you can't beat the prices they were getting from  
25 the Chinese.

1           I continue to see new lows on pricing for  
2 imports from China. Every time I think we've hit  
3 bottom, a new low emerges. The phrase I've heard  
4 myself saying way too many times is this is  
5 ridiculous. While we will on occasion meet an  
6 outlandishly low price on Chinese product in order to  
7 keep production lines running at some sort of  
8 reasonable level and to maintain our customer base,  
9 we've reached the point where this is no longer  
10 economically feasible.

11           And, yes, we do import a small percentage of  
12 our product line from China. We do this to maintain  
13 our customer base that might otherwise get the product  
14 from another source. It's an economic imperative, but  
15 we'd certainly prefer not to do that. Given a choice  
16 between importing to save a customer and losing that  
17 customer, I'd choose to keep our customers. I'd  
18 prefer if the choice was to make that product in our  
19 own operations, but at these prices I can't.

20           I'm hoping that in the question and answer  
21 session I'll have the opportunity to talk about the  
22 differences between multilayered wood flooring and  
23 other floor coverings. I have a few samples I'd like  
24 to share.

25           But let me make just two quick points here

1 about multilayered wood flooring and other products  
2 such as solid wood flooring laminate and tile. First,  
3 they're made differently. They're made with different  
4 materials by different people in different production  
5 facilities and on different equipment. They have  
6 different properties which allow for different uses.

7           Second, as something I'm sure most of the  
8 people in this room are familiar with, if you look at  
9 a home listing in the classifieds, on line, wherever,  
10 very often one of the principal selling features that  
11 you'll find in an ad is hardwood floors throughout.  
12 Laminate and tile don't earn that same sort of  
13 prominence in a sales pitch. You never see an ad that  
14 says brand new laminate floors all throughout the  
15 house.

16           The greatest and very real danger is that no  
17 matter which way the economy turns in the coming  
18 months, this industry will struggle mightily to retain  
19 a viable competitive future. Should the housing  
20 industry begin to show signs anew of recovery, it's  
21 more than likely that any market expansion will be  
22 dominated by cheaply priced imports of multilayered  
23 wood flooring from China. On the other hand, should  
24 the economy remain stagnant or deflated, domestic  
25 manufacturers will continue to lose market share to

1 cheaply priced imports from China.

2 I thank you for your time and attention this  
3 morning, and I look forward to answering any questions  
4 you may have.

5 MR. LEVIN: Thank you, Dan.

6 Our next witness will be a gentleman who I  
7 affectionately refer to as one of the forefathers of  
8 the multilayered wood flooring industry, Mr. Don  
9 Finkell, who is the CEO of Shaw Hardwoods and Anderson  
10 Hardwood Floorings. Don?

11 MR. FINKELL: Good morning, Commissioners.  
12 My name is Don Finkell, as Jeff said, and I am the CEO  
13 of Shaw Hardwood and its independent subsidiary,  
14 Anderson Hardwood Floors.

15 I'm also a past chairman of the board of the  
16 National Wood Flooring Association and, along with my  
17 colleague, Kim Holm of Mannington, a current member of  
18 that association's board of directors as chairman of  
19 the NWFA Research Foundation. I'm an active member of  
20 the Hardwood Federation, an umbrella organization  
21 representing the majority of trade associations  
22 engaged in the manufacturing, wholesaling or  
23 distribution in North American hardwood lumber,  
24 veneer, plywood flooring and other related products.

25 I was closely involved in the passage of the

1 Lacey Act amendments that were approved by Congress in  
2 2008 and which were designed to help protect against  
3 the importation of wood products procured from illegal  
4 or undocumented sources, and for better or worse I am  
5 considered in some quarters to be the public face of  
6 this incredibly important legislation within the wood  
7 flooring industry.

8 In sum, I have been in this industry longer  
9 than most. Wood flooring is in my blood and in my  
10 family's genes. A particular point of pride for me  
11 personally was the popularization of hand-scraped wood  
12 floors where the face layer is individually  
13 hand-scraped board by board to give it a rustic  
14 appearance.

15 In 2007, after nearly 62 years in business,  
16 the Anderson family, upon my recommendation, sold out  
17 to a larger competitor, Shaw Industries. I am very  
18 proud to now be a member of the Shaw team, and I've  
19 tried as hard as I can to carry forward the Anderson  
20 family tradition of hard work and ingenuity in this  
21 new setting.

22 A large part of my decision to sell our  
23 family business to Shaw was the competitive  
24 environment that began to emerge at that time.  
25 Although the residential housing industry, which is so

1 important to the flooring industry, was going through  
2 an incredible boom, a powerful new force in the form  
3 of Chinese imports emerged almost overnight on the  
4 scene.

5           2007 was also the year that the Commission  
6 conducted its Section 332 fact-finding investigation  
7 regarding competitive conditions in the U.S. wood  
8 flooring market. And, as the Commission had noted in  
9 the report in that investigation, the Chinese industry  
10 has emerged as the largest foreign suppliers of  
11 engineered wood flooring to the U.S. market and the  
12 most significant competitors to the U.S. industry in  
13 this market.

14           I also note that in their prehearing brief  
15 the Chinese producers claim that four of the eight  
16 products for which the Commission requested detailed  
17 pricing information "were developed by Chinese  
18 producers for the U.S. market and for which the U.S.  
19 companies entered the market late."

20           That is categorically untrue. In fact,  
21 Products 4, 6 and 8 have been available in the U.S.  
22 market for over 20 years. Product 7 is the  
23 hand-scraped product that I just mentioned, which we  
24 introduced over a decade ago.

25           Much has changed since that hearing back in

1       October 2007. The U.S. economy was soon to enter one  
2       of its most difficult periods, triggered in large part  
3       by troubles in the housing industry. But one thing  
4       has not changed. As China became the dominant foreign  
5       supplier of multilayered wood flooring to the U.S.  
6       market over the 2002-2007 timeframe, it has remained  
7       so today.

8                 And as China emerged by 2007 as the most  
9       significant competitor to the U.S. industry and the  
10       U.S. market for this product, it has solidified that  
11       status in the ensuing years. According to the  
12       prehearing staff report prepared by the Commission's  
13       staff in the current investigation, China now controls  
14       a larger share of the U.S. market than do domestic  
15       manufacturers.

16                I think our petition and our submission in  
17       the preliminary phase investigation, as well as our  
18       prehearing brief last week, details some of the  
19       reasons why Chinese imports can enter the U.S. at such  
20       cheap prices, underselling domestically manufactured  
21       product, taking sales and customers and capturing an  
22       increasing portion of the U.S. market.

23                Three of these reasons reviewed in our  
24       prehearing brief stand out in particular. First,  
25       currency manipulation is a market reality. It is

1 awfully hard to compete when the exchange rate is  
2 artificially controlled at a level that is 20, 30 or  
3 ever 40 percent below what it should be.

4 Second, U.S. manufacturers and distributors  
5 that handle both domestically manufactured and Chinese  
6 made goods strongly believe that the Chinese  
7 manufacturers have become well practiced at pirating  
8 or cloning U.S. products. For us, the successful  
9 marketing of a multilayered wood flooring brand takes  
10 a great amount of time, energy, creativity and money.  
11 Sometimes these investments pay off. More than often  
12 they don't.

13 That's the nature of the beast in this  
14 market because what we are talking about in the end is  
15 a product that looks good in someone's home. For  
16 every 50 or 20 new product designs that we test, only  
17 one or two will catch on commercially. Unfortunately,  
18 major manufacturers in China have simply cannibalized  
19 design and aesthetic innovations first formulated by  
20 domestic producers at significant expense over years  
21 of painstaking trial and error. I know of several  
22 specific examples firsthand.

23 My friend, Tom Davis, said it best when he  
24 testified before the Commission back in 2007. We pay  
25 the price of the failures for the trials out there

1 that don't make it, and they are scooping up all the  
2 winners. And it is no less true today than it was a  
3 few years back.

4 In my testimony during the preliminary phase  
5 of the investigation, I noted one example involving  
6 one of our leading collections, Casitablanca. It's a  
7 three-eighths inch thick Spanish hickory face, five  
8 inch wide, multilayered wood flooring product. It is  
9 a beautiful product. Our marketing of this collection  
10 involved brochures, websites, displays at retail,  
11 displays at trade shows and many other elements.

12 After all this time and effort, a Chinese  
13 company comes along with a camera, takes a photograph  
14 of the product and inspects and simply clones it, even  
15 names it the same colors. They make one small  
16 handboard and they place it in front of our display,  
17 but it has a much cheaper price. The products  
18 themselves are indistinguishable. If it was only that  
19 easy for us. We could save a whole lot of time and  
20 money if we chose to do business like that. But we  
21 won't do business like that.

22 And a third issue is illegal logging. It is  
23 well documented that a significant portion of wood  
24 imports used by Chinese manufacturers come from  
25 illegal or suspect sources. Some of these involve

1 overquota log harvesting, cutting more trees than the  
2 permit allows within China itself.

3 To an even greater degree, China obtains a  
4 vast quantity of logs and timber from countries,  
5 including Russia and Indonesia, in which illegal  
6 logging is rampant and operates as a black market  
7 beyond the reach of government enforcement efforts.  
8 As this Commission itself documented in the Section  
9 332 report, illegal logging results in lower costs and  
10 lower prices at the expense of virgin forests.

11 I would like to make one last point. We did  
12 not file this petition to kick China out of the U.S.  
13 market. We are not looking to embargo product, and,  
14 despite the protestations of some of our friends on  
15 the other side of the aisle, we did not file this  
16 petition to pick a fight with distributors or  
17 importers or gain control over the U.S. market. Our  
18 trade with China and our relations with China are  
19 important for our country and for my company. All we  
20 are looking for is parity and a level playing field on  
21 which to compete squarely.

22 I want to thank the Commission for  
23 conducting this investigation. I think the facts and  
24 figures that the investigation staff has developed  
25 support the domestic industry's position, and I look

1 forward to answering your questions. Thank you.

2 MR. LEVIN: Thank you very much, Don.

3 Our last industry witness will be Mr. John  
4 Anderson. John, it's our pleasure to have you come  
5 from Memphis, Tennessee, to join us today. John is  
6 the Vice President of Building Plastics, Inc., one of  
7 the largest distributors in the country. John?

8 MR. J. ANDERSON: Thanks, Jeff. Good  
9 morning, Commissioners. My name is John Anderson.  
10 I'm the Vice President of BPI, Building Plastics,  
11 Inc., in Memphis, Tennessee, and I've been so for  
12 nearly a quarter of a century.

13 Overall, I've been working in the wood  
14 flooring industry or the flooring industry as a  
15 distributor, as a consultant and as a retailer since  
16 about the time Richard Nixon took office. In other  
17 words, I've been in business for a long, long time.  
18 My company is a distributor of multilayered wood  
19 flooring, as well as solid hardwood flooring and other  
20 floor covering products, such as ceramic, laminates,  
21 resilient and carpet.

22 We're based in Memphis, Tennessee, and have  
23 10 distribution facilities in 10 states in the mid  
24 south, including Alabama, Arkansas and Mississippi.  
25 We also have a major presence in Texas, which is one

1 of the primary markets in the United States for  
2 multilayered wood flooring, especially because of the  
3 dominance of homes constructed on concrete slab  
4 foundations for which engineered flooring is uniquely  
5 suitable.

6 We purchase and distribute both domestic,  
7 manufactured and multilayered wood flooring from  
8 China. The vast majority of our imported products  
9 come from Chinese manufacturers. On the domestic  
10 side, our suppliers include Anderson; Bruce Hardwood  
11 Floors, owned by Armstrong; Columbia, owned by Mohawk;  
12 and Mannington. Our customers are large and small  
13 retail and commercial dealers. We do not sell  
14 directly to builders or consumers.

15 BPI is currently one of the largest  
16 distributors of multilayered wood flooring in the  
17 United States. Without going into my company's  
18 confidential data, our purchases of product from China  
19 have increased about 40 percent over the past three  
20 years, while our purchases of domestically  
21 manufactured product have declined about 70 percent.  
22 The reason for this is price.

23 On average, across the board our cost today  
24 for multilayered wood flooring from U.S. producers is  
25 about \$2 a square foot, perhaps a little above. On

1 average, across the board our cost for multilayered  
2 wood flooring from Chinese suppliers is about \$1.60.

3 While price is key, quality is also a factor  
4 in our purchasing decisions. If the product is junk,  
5 if the supplier isn't reliable, if we know there's a  
6 decent chance that we'll run into problems, then the  
7 cheaper price is never worth it. But that's not the  
8 case with China. Here and there domestic  
9 manufacturers may have a slight qualitative edge over  
10 the Chinese producers, but that's a rare exception  
11 these days.

12 And to the extent that an occasional  
13 domestic product has a slight quality edge over the  
14 Chinese counterpart, the 20 to 25 percent pricing  
15 differential more than compensates. As Dan Natkin  
16 stated a few minutes ago, price drives the market, and  
17 China drives the price.

18 Based on my direct personal and daily  
19 experience with the product and the marketplace, I can  
20 state without hesitation that imports of multilayered  
21 wood flooring from China are directly competitive with  
22 domestically manufactured products. I can also state  
23 without hesitation that multilayered wood flooring as  
24 a result of imports from China have and continue to  
25 literally swallow up market share at the direct

1 expense of domestically manufactured product.

2 I know from my direct personal and daily  
3 experience with the product and the marketplace that  
4 the domestic manufacturers of MLWF lose sales to  
5 imports from China on a daily basis. There is such a  
6 thing in the market as the China price, and it's  
7 irresistible to many purchasers.

8 Domestic manufacturers are often forced to  
9 reduce their offered price of MLWF products to try to  
10 maintain competition with the imports of compatible,  
11 directly competitive product sourced from China.  
12 While on occasion this does not result in enabling the  
13 domestic manufacturers to retain a particular sale; in  
14 fact, much more often some of the reduction will still  
15 not salvage a potential sale due to the vast price  
16 difference between their products and the directly  
17 competitive product sourced from China.

18 Again, price drives the market and China  
19 drives the price. Let me just give you a few  
20 examples. One of our largest customers prior to 2008  
21 sells and installs multilayered wood flooring for  
22 several of the largest U.S. home builders. Where  
23 prior to 2008 100 percent of the multilayered wood  
24 flooring was produced in the United States, today  
25 roughly 80 percent is imported from China.

1           Because we participate in both U.S. produced  
2 and Chinese produced multilayered wood flooring, I can  
3 personally tell you that what we were purchasing was  
4 an average price of \$2.50 a square foot for U.S.  
5 produced products, and it's now down to \$1.80 a square  
6 foot for Chinese produced products. Lower pricing  
7 drove their decision to change.

8           Another good example I experienced was in  
9 our Prestige private label hardwood program. Prior to  
10 2008, our leading products in this multi-million  
11 dollar program were exclusive MLWF produced by a U.S.  
12 manufacturer. That manufacturer today is no longer  
13 one of our suppliers. We have replaced the products  
14 with products produced in China. The reason for our  
15 change was due to price, and the price alone drove our  
16 decision.

17           One last example would be where prior to  
18 2008 our number one selling series from a domestic  
19 manufacturer sold to customers at just above the \$4 a  
20 square foot mark. Today we're selling the same series  
21 to customers for just above \$3, a decline of about 25  
22 percent. Now we're selling the Chinese produced  
23 knockoff for just over \$2, another 50 percent decline  
24 in the price and half of where the original price  
25 point made it a top seller.

1           As a company, we would very much like to buy  
2 more from U.S. manufacturers. I happen to think that  
3 support for U.S. manufacturing is important, even  
4 crucial, in this economy if this country is going to  
5 rebound again and regain its economic strength, but I  
6 also have to survive. The cheaper priced products  
7 from China are what drives the market, and if BPI  
8 wants to stay in the business of distributing  
9 multilayered wood flooring then that's what I need to  
10 provide -- the same product, the same quality, lower  
11 price.

12           I suppose that you will hear different  
13 stories from other witnesses this afternoon, but based  
14 on my experience in the market this has nothing to do  
15 with the failure of U.S. manufacturers to innovate and  
16 has nothing to do with the failures of U.S.  
17 manufacturers to take advantage of new market  
18 opportunities, and it certainly has nothing to do with  
19 the range of products available from U.S.  
20 manufacturers. It has everything to do with the  
21 price.

22           I appreciate the opportunity to be here and  
23 present my testimony. I look forward to any questions  
24 that you might have. Thank you very much.

25           MR. LEVIN: Thank you very much, John.

1           Our next witness is someone who not only has  
2 to suffer through season after season of being a New  
3 York Mets fan like myself, and therefore we have a  
4 close affinity; he's also the senior economist with  
5 Economic Consulting Services, Jim Dougan. Jim?

6           MR. DOUGAN: Good morning. My name is Jim  
7 Dougan of Economic Consulting Services, and I  
8 appreciate the opportunity to present to the  
9 Commission in this investigation.

10           The increasing market share of subject  
11 imports and their increasingly low prices have had a  
12 clear adverse impact on the domestic industry. Please  
13 see Exhibit 1. The industry suffered operating losses  
14 in every period of the POI, negative cashflow in every  
15 full year of the POI and let go over 600 production  
16 and related workers from 2008 to 2011, a drop of 27  
17 percent in the workforce in just three years.

18           The injurious impact on several other key  
19 indicia, including R&D, capital expenditures and the  
20 industry's asset base, cannot be discussed in this  
21 public hearing, but is discussed in detail at pages 51  
22 to 64 of Petitioners' prehearing brief.

23           Respondents would have the Commission  
24 believe that the domestic industry is steadily  
25 improving and that there is no causal link between

1 import volume and domestic industry performance.

2 First of all, with respect to the steady  
3 improvement, again the domestic industry suffered  
4 operating losses in every period of the POI, along  
5 with declines in a host of other indicia. The  
6 negative 6.5 percent operating margin suffered in  
7 2010, rather than the negative 9.9 percent operating  
8 margin in 2009, is not an indicator of a robust and  
9 improving health. You can drown 10 feet underwater  
10 just as well as 100 feet underwater.

11 Moreover, as discussed in detail using  
12 confidential data in Petitioners' prehearing brief,  
13 the apparent improvement in domestic industry  
14 profitability between the part-year periods was the  
15 result of survivor bias. This improvement related to  
16 the anomalous circumstance of a single U.S. producer  
17 whose operating results masked the fact that it was  
18 suffering injury in a different form.

19 Apart from this anomaly, domestic industry  
20 profitability declined between the part-year periods.  
21 Please see pages 59 to 62 and Exhibits 22 and 23 of  
22 Petitioners' prehearing brief. We have provided  
23 courtesy copies for the Commissioners' review.

24 This is an industry suffering material  
25 injury, and it is vulnerable to future injury if

1 subject imports continue unchecked. We would submit  
2 that however the domestic industry's health may have  
3 appeared to improve over recent periods, it would have  
4 improved significantly more without the continued  
5 injurious impact of subject imports.

6 To see what the world would look like  
7 without subject imports' continual gains in market  
8 share, Exhibit 2 presents the results of an income  
9 statement analysis of the kind regularly seen by the  
10 Commission. In this analysis we analyzed how domestic  
11 industry profitability would have improved had it been  
12 able to maintain the same market share that it held in  
13 2008.

14 As you can see from a comparison of the two  
15 lines in boldface at the bottom, had it been able to  
16 maintain its 2008 market share the domestic industry  
17 would have suffered smaller operating losses over the  
18 POI and by the first half of 2011 would have earned a  
19 small positive operating margin. I note that this is  
20 an analysis based on conservative assumptions,  
21 considering only the positive effect of adding back  
22 the volume lost to subject imports in 2009 to 2011.

23 It makes no attempt to adjust for the  
24 adverse price effects that simultaneously occurred  
25 during the period. Absent these adverse effects,

1 domestic industry profitability would have recovered  
2 even more strongly. Moreover, if 2007, the beginning  
3 of the preliminary period of investigation, is used as  
4 a base year when domestic producers' market share was  
5 54 percent instead of 46 percent in 2008, the results  
6 would be even more compelling.

7 This analysis makes the causal relationship  
8 between subject import volume and domestic industry  
9 performance clear. Respondents tied the domestic  
10 industry's condition to that of the overall housing  
11 market and argue that when it declines industry  
12 performance declines and when it improves domestic  
13 industry performance improves, regardless of the  
14 volume of subject imports.

15 They claim that for causation to exist an  
16 increase in imports must result in a decline in  
17 profitability and vice versa. This simplistic  
18 scenario masks the true adverse impact of subject  
19 imports as revealed by the income statement analysis.  
20 Because they continue to gain market share at lower  
21 prices, regardless of movements in the housing market,  
22 subject imports act as a collar on the domestic  
23 industry's performance.

24 When demand conditions deteriorate, the  
25 presence of subject imports exacerbates the negative

1 effect on the domestic industry. When demand  
2 conditions improve, subject imports limit the benefit  
3 enjoyed by the domestic industry and take the lion's  
4 share of that benefit for themselves. See Exhibit 3.

5 From 2008 to 2009, apparent consumption  
6 declined by 53.8 million square feet or about 16  
7 percent, but nearly half of that decline was in U.S.  
8 producer shipments, which dropped 25.8 million square  
9 feet or 16.5 percent, while subject imports declined  
10 only 16 million square feet. Between these periods,  
11 U.S. producers' operating margin dropped from negative  
12 7 percent to negative 9.9 percent.

13 From 2009 to 2010, subject imports captured  
14 virtually all of the 21.1 million square foot increase  
15 in consumption. The domestic industry's operating  
16 margin improved from a negative 9.9 percent to a  
17 negative 6.5 percent, but that's likely less than if  
18 domestic producers had been able to enjoy a greater  
19 share of the improvement in demand. Likewise, when  
20 apparent consumption increased by 6.2 million square  
21 feet in part-year 2011, subject imports captured all  
22 of the increase.

23 As discussed earlier, the domestic  
24 industry's operating margin declined between the  
25 part-year periods once the effect of survivor bias is

1 removed. So again, when the market declines the U.S.  
2 producers take a disproportionate hit, and when the  
3 market improves subject imports take a  
4 disproportionate benefit. This explains why the  
5 domestic producers' margin suffered so severely in  
6 2009 and have experienced only modest improvement  
7 since then, still remaining in the red. So long as  
8 subject imports continue to enter in high volumes at  
9 low prices, this pattern will continue.

10 Respondents further claim a lack of  
11 causation because "the vast majority of total subject  
12 imports over the POI simply do not compete with MLWF  
13 produced in the United States." But as stated by the  
14 Commission in its preliminary determination,  
15 "Respondents' attenuated competition argument is at  
16 odds with much of the evidence on the record in these  
17 investigations."

18 A cornerstone of Respondents' argument is  
19 that subject imports' competition with the domestic  
20 industry is attenuated because the domestic industry  
21 focuses on the builder market, while imports are  
22 focused on the renovation and DIY markets. The  
23 domestic industry's supposed overconcentration in the  
24 builder market allegedly caused it to suffer more  
25 severely during the housing crisis than if it had been

1 more focused on the renovation market. As Exhibit 4  
2 shows, this argument is at odds with the record  
3 evidence.

4 The overlap between channels employed by the  
5 domestic industry and subject imports is very  
6 significant. In their briefs, Respondents focus on  
7 only one of the channels, builders, to show the  
8 supposed lack of overlap. That's the red sections in  
9 the bars on the chart. They fail to mention that both  
10 importers and domestic producers ship significant  
11 portions to the big box stores, distributors and other  
12 retailers, which are all of the other colors in the  
13 chart.

14 Moreover, even the distinction between DIY  
15 and construction may not be as bright line as,  
16 depending on the size of the job, many contractors  
17 source their materials from the big boxes. Moreover,  
18 as found in the preliminary determination and as  
19 discussed in Petitioners' prehearing brief in this  
20 final phase, a large number of purchasers are named as  
21 a Top 10 customer of at least one U.S. producer and at  
22 least one importer from China. Collectively, these  
23 common customers account for a significant share of  
24 both U.S. producer shipments and importer shipments,  
25 further rebutting the idea of no competitive overlap.

1           As Mr. Natkin addressed in his testimony,  
2 the competitive overlap extends to product  
3 specifications as well. Respondents argue that they  
4 have developed and styled products in direct response  
5 to customer demands for non-native species such as  
6 Asian birch. To Petitioners' knowledge, Respondents  
7 have not provided evidence of these customer demands  
8 for exotic species like birch, but it's worth pointing  
9 out to the Commission some evidence that is available  
10 from Lumber Liquidators' website as shown at Exhibit  
11 5. Out of all the 66 engineered wood flooring  
12 products, the four cheapest offerings on the list are  
13 birch.

14           Now, customers may well have demanded more  
15 of these products once they were introduced, but was  
16 it because they provided unique visuals or because  
17 they were the cheapest available? If we say for the  
18 sake of argument that Respondents are correct with  
19 respect to the fact that some portion of MLWF in the  
20 product spectrum is not available from domestic  
21 producers, what share of the market would that be? Is  
22 it 5 percent? Ten percent? Twenty percent?

23           Even accepting that the correct figure is 20  
24 percent, which Petitioners do not, the fact remains  
25 that subject import market share was approximately 30

1 percent in 2007 and has grown in every period of the  
2 POI while U.S. producers' market share has shrunk in  
3 every period of the POI. Subject import market share  
4 stood at nearly 48 percent in part-year 2011. See  
5 Exhibit 6. These gains in share all occurred over a  
6 period of market contraction, and indeed subject  
7 imports gained share in every period regardless of  
8 fluctuations in demand on the overall declining trend.

9           Again, even assuming that products uniquely  
10 available from China account for 20 percent or even 25  
11 percent of apparent U.S. consumption, how did Chinese  
12 imports attain this incremental 20 to 30 percent  
13 market share, nearly all of which came at the expense  
14 of domestic producers? Was it by selling through  
15 channels unserved or underserved by U.S. producers?  
16 No. As shown earlier at Exhibit 4, U.S. producers  
17 compete or attempt to compete in all of the same  
18 channels as subject imports.

19           Was it by offering superior quality? No.  
20 As shown in the prehearing staff report at Table II-7,  
21 the overwhelming majority of purchasers report that  
22 domestic and subject merchandise are comparable with  
23 respect to quality. This leaves only one reasonable  
24 answer. Low prices.

25           At the same time that subject imports were

1 gaining market share, the AUV of subject imports  
2 dropped by 14 percent. If Chinese MLWF is such a  
3 differentiated product as Respondents argue and  
4 doesn't compete with domestic merchandise, why did  
5 Chinese import prices drop so dramatically throughout  
6 the POI? The answer is clear. Chinese importers  
7 sought to gain market share by offering MLWF at a  
8 price point so low that it was impossible to refuse.

9 As shown at Table II-3 of the prehearing  
10 staff report, the most important purchase factors  
11 listed by purchasers are by far quality and price.  
12 Since purchasers overwhelmingly agree that Chinese  
13 MLWF is of comparable quality to domestic merchandise  
14 and at least two-thirds of purchasers require  
15 precertification, quality is essentially off the table  
16 before most negotiations begin. This leaves price as  
17 the most important negotiating factor.

18 Average unit values of Chinese imports  
19 dropped 14 percent between 2007 and 2010, while  
20 imports gained over 16 percentage points of market  
21 share. This increase in market share came mainly at  
22 the expense of domestic producers who tried to cut  
23 their prices, but ultimately couldn't cut them enough  
24 to compete with the Chinese imports and lost over 10  
25 percentage points of market share.

1           See Exhibit 7 where the AUV, the average  
2 unit value, of Chinese MLWF imports and the AUV of  
3 domestic producers' U.S. shipments were indexed with a  
4 base year of 2007. The price decreases by the Chinese  
5 were relentless with the most substantial drop coming  
6 between 2009 and 2010 when apparent U.S. consumption  
7 grew. Thus, these price cuts were not responses to  
8 demand conditions, but rather Chinese producers'  
9 strategy to gain market share.

10           In part-year 2011, U.S. producers lost  
11 market share again even as their price decreased and  
12 Chinese import AUVs increased somewhat. This was  
13 unsurprising, given the already very low level of  
14 Chinese import prices.

15           As domestic prices of MLWF were declining,  
16 the AUV of U.S. producers' export shipments, which can  
17 be a useful proxy for market conditions outside the  
18 United States, increased in every year of the POI,  
19 experiencing a 15 percent increase between 2008 and  
20 2010. See Exhibit 8. This contrast indicates that  
21 MLWF prices in the U.S. market are not a result of the  
22 recession, but rather the result of large volumes of  
23 underpriced Chinese product entering the market.

24           Pricing data in the prehearing staff report  
25 further confirm that Chinese imports undersell

1 domestically produced product. By the staff's  
2 calculations, there were 60 instances of underselling  
3 in 110 comparison periods. As discussed at  
4 Petitioners' prehearing brief at pages 41 to 43 and  
5 Exhibit 15, these data are somewhat distorted by a  
6 certain importers' use of substitute products that  
7 don't meet the pricing product definitions. If  
8 corrected for these distortions, the actual share of  
9 underselling to subtle comparisons is greater.

10 But even with the existing data, it's  
11 important to note that within the pricing data where  
12 subject import volumes are most heavily concentrated  
13 is where you will see underselling. Again,  
14 Petitioners' prehearing brief at pages 41 to 43.

15 Finally, the domestic industry is threatened  
16 with further injury by reason of subject imports.  
17 First of all, the domestic industry is in a highly  
18 vulnerable state, having suffered operating losses  
19 over the entire POI.

20 Second, Chinese producers have substantial  
21 idle capacity, in the neighborhood of 30 percent,  
22 which is equal to at least 150 million square feet or  
23 about half of apparent U.S. consumption. See Exhibit  
24 9. And I'll add that, as Mr. Neeley said this  
25 morning, the coverage of foreign producer

1 questionnaires is very good, so we believe these data  
2 are representative.

3           Whatever Respondents may argue about the  
4 burgeoning Chinese home market, the Chinese industry  
5 is highly export oriented, with three-quarters of its  
6 shipments headed overseas. Forty percent or more of  
7 these shipments have been sent to the United States  
8 over the POI, and based on the data appearing in the  
9 staff report these producers do not predict this to  
10 change. See Exhibit 10.

11           The existence of these massive quantities of  
12 available subject merchandise, as well as importers'  
13 relentless purchase of market share using low prices,  
14 means the domestic industry is threatened with further  
15 material injury if trade remedy is not provided. This  
16 is particularly the case given that macroeconomic  
17 indicators give little indication of broad recovery in  
18 the housing sector overall within the reasonably  
19 foreseeable future.

20           The Lira data presented at pages 26 to 28 in  
21 the prehearing report suggests that there will be a  
22 decline actually in the remodeling market. As  
23 mentioned earlier in my testimony, recent experience  
24 tells us that so long as Chinese imports trade at  
25 unfair prices any downturn in demand will have a

1 disproportionately negative effect on the domestic  
2 industry, and any upturn benefits will be  
3 disproportionately taken by subject imports. Thank  
4 you.

5 MR. LEVIN: Thank you, Jim.

6 Good morning again, Commissioners. I want  
7 to conclude our witness panel by touching briefly on a  
8 few of the legal issues presented in this  
9 investigation. These have all been detailed at some  
10 length in our prehearing brief, and I would be happy  
11 to discuss these issues further in the questions and  
12 answers session and in our posthearing brief next  
13 week.

14 First, subject merchandise and domestic like  
15 product. The definition of subject merchandise has  
16 been the object of some discussion in the Commerce  
17 Department investigations, and we will presumably  
18 learn in a short time, sometime this afternoon,  
19 whether the Department affirmed its preliminary  
20 determination to reject the various requests for  
21 exclusion presented by some of the Respondents.

22 That being said, we submit that the like  
23 product definition here should not be expanded to  
24 include other flooring materials such as solid wood  
25 flooring, laminates or tile. Curiously, while some of

1 the Respondents presented arguments along these lines  
2 in their briefs, no Respondent suggested that the  
3 Commission collect data regarding the producers of  
4 such products during the questionnaire process.

5 In any case, and as detailed in our various  
6 submissions since this petition was filed, while there  
7 are clear dividing lines -- I'm sorry. While there  
8 are no clear dividing lines -- excuse me -- between  
9 multilayered wood flooring products, there are clear  
10 dividing lines between multilayered wood flooring and  
11 other products I just mentioned in terms of physical  
12 characteristics, interchangeability, producer and  
13 customer perceptions, common manufacturing facilities  
14 and production processes.

15 Attendant to this issue is whether any  
16 domestic manufacturer should be excluded from the  
17 domestic industry definition and, as we detailed in  
18 our prehearing brief, aside from those companies that  
19 act as merely finishers we submit that the definition  
20 of the industry should remain as set in the  
21 Commission's preliminary determination.

22 Second, the volume of subject imports is  
23 significant both in absolute terms and relative to  
24 production and consumption in the United States. This  
25 industry has suffered a wide range of adverse effects

1 by reason of these imports, including industry-wide  
2 declines in production, shipments, capacity  
3 utilization, employment, market share, average unit  
4 values and revenues. The industry suffered an  
5 operating loss throughout the period of investigation  
6 and cannot earn a sufficient return to permit any  
7 significant new capital expenditures.

8 One last point regarding factors other than  
9 subject imports. There are two factors that  
10 potentially come into play here: Nonsubject imports  
11 and other economic factors. On the nonsubject import  
12 issue, China so dominates the import share, about 85  
13 percent of total imports, that we assert that it is  
14 implausible that the injury suffered by this industry  
15 can be attributed to nonsubject sources. The other  
16 issue is whether the struggles of this industry can be  
17 properly attributed in whole to general economic  
18 conditions, not subject imports.

19 No doubt, the continuing travails within the  
20 housing market impact this industry. However, two  
21 facts remain. First, in a declining market China has  
22 taken significant market share from domestic  
23 manufacturers. Whatever the shibboleth that  
24 Respondents may conjure to shroud this clear  
25 trajectory, these are the facts, and the increase in

1 subject import and their market share is a functional  
2 of price.

3 Second, as the Commission has noted in prior  
4 determinations, the statutory scheme clearly  
5 contemplates that an industry may be facing  
6 difficulties from a variety of sources, including  
7 nonsubject imports and other factors, but the  
8 existence of injury caused by other factors does not  
9 compel a negative determination if the subject imports  
10 themselves are making more than an incidental,  
11 tangential or trivial contribution to material injury,  
12 and that is most certainly the case here. Subject  
13 imports have certainly made more than an incidental,  
14 tangential or trivial contribution.

15 On behalf of the Petitioners' panel, we  
16 respectfully submit that the facts in evidence  
17 presented in these final investigations strongly  
18 support an affirmative determination. Madam Chairman,  
19 Commissioners, that concludes our affirmative  
20 presentation. We respectfully request that any  
21 remaining time be reserved for rebuttal testimony this  
22 afternoon.

23 And before I stop talking I just want to  
24 introduce one other witness on our panel who will be  
25 available for questions, Mr. Kim Holm. Kim is the

1 President for Residential Products for Mannington  
2 Mills. Kim, thank you for joining us.

3 CHAIRMAN OKUN: And before we begin our  
4 questions this morning I want to take this opportunity  
5 to thank all the witnesses for being here, in  
6 particular to those members of the industry who have  
7 taken the time to travel to be here and taken time  
8 from your regular business.

9 We very much appreciate your willingness to  
10 answer our questions and to participate and also just  
11 a thank you for the courtesies extended to  
12 Commissioners and staff on their fact-finding visit to  
13 Mannington. We very much appreciate having the  
14 opportunity to see the product.

15 And with that, just also one just quick  
16 reminder to witnesses. If you can just restate your  
17 name for the benefit of the court reporter when  
18 responding to questions? It's hard to see everybody's  
19 name in the second row, so if we're looking back there  
20 just be sure and restate your name. Thank you.

21 And we will begin our questions this morning  
22 with Commissioner Lane.

23 COMMISSIONER LANE: Good morning. I too  
24 welcome you to this panel and also thank you for the  
25 informative tour of the Mannington facility in High

1 Point.

2 Mr. Dougan, you probably answered all of  
3 this with all of your charts and stuff, but I'm going  
4 to give you an opportunity to answer it again, and  
5 that is looking at the financial data on Table VI-1,  
6 it looks like from 2008 to 2010 unit net sales fell by  
7 almost as much as unit cost of goods sold.

8 Considering the negative operating income,  
9 why was the industry unable to hold prices even as  
10 cost of goods sold dropped and offset some of the  
11 operating losses?

12 MR. DOUGAN: Thank you, Commissioner. This  
13 is Jim Dougan from ECS. My response to that would be  
14 they were unable to hold the net sales price because  
15 of strong competition from low-priced imports.

16 If we could, could you put Exhibit 7? You  
17 can see the continual decline in import AUVs over the  
18 period. When faced with that kind of pricing  
19 pressure, even if you have improvements in your cost  
20 of goods sold on a unit basis you're going to be  
21 facing the pricing and be unable to obtain the full  
22 benefit of that.

23 That's kind of where I was going with my  
24 testimony about impact, which is there was a somewhat  
25 improvement between '09 and '10, but less than it

1 would have been had there not been such volume and  
2 price pressure from subject imports. They would have  
3 been able to get a better margin because of recovering  
4 greater gross margin with the decline in the cost of  
5 goods sold.

6 COMMISSIONER LANE: And perhaps you can  
7 explain to me. As I recall from the record, there was  
8 almost an equal number of underselling and overselling  
9 between the subjects and the domestic. So how do you  
10 reconcile that evidence with what you just said?

11 MR. DOUGAN: Well, that's the \$64,000  
12 question.

13 COMMISSIONER LANE: And I expect you to  
14 answer it.

15 MR. DOUGAN: Well, two things. One, the  
16 pricing data collected by the Commission represent  
17 only about 15 percent -- I think between 10 to 15  
18 percent -- of subject import volume, and whereas the  
19 import AUVs that are represented here in an indexed  
20 form are certainly more comprehensive and are asked to  
21 and frankly should adhere to those specifications as  
22 closely as possible.

23 The fact is that may not necessarily  
24 represent how competition takes place in the  
25 marketplace. I'll kick this over to some of the

1 industry representatives in just a moment, but let's  
2 take one -- any -- of the products of a given species,  
3 say red oak. A customer may not be going in looking  
4 for a particular species, with the exception of maybe  
5 some of the very rarified exotics. They're looking  
6 for a color or a grain or what they call a visual I  
7 believe in the industry. I'll let the more  
8 knowledgeable folks talk about that.

9 So what may actually be the competitive  
10 product that they're making the comparison with might  
11 not be quite so narrowly described as the pricing  
12 product and so a domestic red oak of a given  
13 specification that meets Pricing Product Definition 1  
14 could actually may be undersold by an imported product  
15 that otherwise visually looks the same, but because  
16 it's not the same species wouldn't perhaps rightfully  
17 appear in the importers' pricing data.

18 I would ask some of the industry  
19 representatives to take on that question.

20 COMMISSIONER LANE: Okay. Thank you, Mr.  
21 Dougan. Does someone from the industry wish to answer  
22 that question?

23 MR. NATKIN: I will, Commissioner Lane.

24 COMMISSIONER LANE: Okay. Thank you.

25 MR. NATKIN: This is Dan Natkin from

1 Mannington Mills. When the consumer comes in to shop,  
2 she's often coming in with a color in mind. She has a  
3 decorating scheme in mind. Honestly, and not to  
4 demean the consumer, most consumers can't tell you the  
5 difference between an oak floor, a maple floor, a  
6 hickory floor. They don't know that coming in.

7 They have a piece of furniture in mind.  
8 They have a rug. They have a color scheme in their  
9 room. And so they'll come in first with that and  
10 they'll be shown a series of samples that then go onto  
11 that.

12 And that speaks to what Jim was just saying  
13 where you can have an Asian birch product that is  
14 ridiculously cheap in a similar color scheme to a  
15 domestic birch or even an oak, so you've got product  
16 comparability issues that maybe don't meet those  
17 definitions as defined in Products 1 through 8.

18 COMMISSIONER LANE: Okay. And so I want to  
19 follow up a question with Mr. Finkell. You can answer  
20 the first question if you like. Wait a minute. I'm  
21 sorry.

22 MR. LEVIN: Mr. Anderson and Mr. Finkell.

23 COMMISSIONER LANE: Okay. I'm sorry. I not  
24 only can't see, but apparently I can't read either.

25 So, Mr. Anderson, if you would answer the

1 first question, and then the second question I have  
2 was you are a distributor that you carry both the  
3 domestic and the subject imports. Do you segregate  
4 those in your store or your warehouse, and do you sell  
5 them at different prices, the same product?

6 MR. J. ANDERSON: Could I speak just for a  
7 second to that last question?

8 COMMISSIONER LANE: Yes.

9 MR. J. ANDERSON: Usually we relate to  
10 consumers that don't understand the difference between  
11 hardwoods and laminates, the quick answer is do you  
12 want a real wood floor, or do you want a picture of a  
13 hardwood floor. And so that's usually where we start  
14 the conversation, but it boils down to what Dan said.  
15 It's really color and texture that's more involved.

16 We represent both domestic and imported  
17 manufacturers. Our material is displayed in their  
18 stores usually in that particular manufacturer's  
19 display unit. So we don't separate the inventory  
20 necessarily, but we do the marketing programs and so  
21 forth based upon where the product is manufactured,  
22 U.S. made product or Chinese made product, which most  
23 of our Chinese made product we put in a private label  
24 line that we have called Prestige.

25 COMMISSIONER LANE: And would you say that

1 you generally sell it at a lower price than the  
2 domestically produced product?

3 MR. J. ANDERSON: No doubt about it. Yes.

4 COMMISSIONER LANE: Okay. Thank you. Now,  
5 it appears that employee levels have been continually  
6 declining even as sales rebounded in 2010.

7 Are the employees in this industry being  
8 injured as evidenced by dropping employee levels, and  
9 is part of the injury to the producers being offset by  
10 increased productivity at the expense of reduced  
11 employees?

12 MR. LEVIN: The number of employees has  
13 dropped. The number of hours has dropped. The number  
14 of production lines and facilities has dropped.  
15 There's been production lines idled. There's been  
16 facilities shut down. The wages paid has dropped.

17 Yes, like most American workers in most  
18 manufacturing industries they have become more  
19 productive so you will see a slight uptick in  
20 productivity as would be expected, but that in no way  
21 compensates for the magnitude of the employment loss  
22 in the industry.

23 MR. DOUGAN: Jim Dougan from ECS. If I may  
24 add on to what Mr. Levin has said? I don't want to  
25 get into too much confidential data, but this isn't a

1 situation in which there is, as I think one of the  
2 Respondents said in their brief, a rationalization of  
3 bloated costs, okay?

4 There are facilities being shut down and  
5 people being laid off and there may be an attendant  
6 increase in productivity, but what's worth noting, and  
7 which we can get into in postconference because it's  
8 confidential, has to do with what is the behavior of  
9 some of the producers who are doing that and is it  
10 obvious that this is a rationalization for improved  
11 productivity or is the production perhaps going  
12 elsewhere.

13 COMMISSIONER LANE: Okay. Thank you. And  
14 Madam Chair?

15 CHAIRMAN OKUN: Commissioner Pearson?

16 COMMISSIONER PEARSON: Thank you, Madam  
17 Chairman. I too would like to extend my greetings to  
18 all witnesses. It's good to have you here this  
19 morning.

20 If subject imports had simply maintained  
21 their market share, what would have been the effect on  
22 your industry of the recession?

23 MR. LEVIN: We did pretty much that exact  
24 analysis. I'm just the law guy, so let me let the  
25 economist talk to it. But the bottom line is the

1 industry would have been in much better shape. Jim?

2 MR. DOUGAN: Jim Dougan from ECS. Thanks,  
3 Commissioner Pearson. The income statement analysis  
4 that's presented here in Exhibit 2 shows that their  
5 profitability would have been less negative and the  
6 recovery more quick had U.S. producers' market share  
7 -- and we're going to assume that the other  
8 significant player here being subject imports.

9 If U.S. producers had maintained their 2008  
10 market share, the downturn would have been less severe  
11 and the recovery more quick.

12 COMMISSIONER PEARSON: In fairness, though,  
13 my question dealt specifically with subject imports,  
14 and doesn't this chart include a significant volume of  
15 nonsubject Chinese imports that you're including in  
16 your calculation?

17 MR. DOUGAN: This is just the market share  
18 of the U.S. producers having maintained their share.  
19 So if they had been able to maintain their share in  
20 comparison to subject imports, nonsubject imports,  
21 regardless, they would have had a much improved  
22 profitability picture.

23 COMMISSIONER PEARSON: Okay. It would have  
24 been improved, but there would be no change in trend.

25 MR. DOUGAN: I think that that's probably

1 true. As I was sort of mentioning earlier in my  
2 testimony, the subject imports, the impact has been to  
3 exacerbate the downturn and limit the upside.

4 COMMISSIONER PEARSON: Okay. Well, would  
5 you be here with this case if not for the recession?

6 MR. DOUGAN: Yes.

7 MR. DAVIS: Yes.

8 MR. DOUGAN: Everybody now.

9 MR. DAVIS: Yes.

10 MR. DOUGAN: Absolutely.

11 COMMISSIONER PEARSON: Mr. Davis?

12 MR. DAVIS: Yes. Without question. I mean,  
13 that's why I was here at the earlier hearing seeing  
14 what was coming at us.

15 I mean, obviously the recession, which we  
16 have felt in our other categories just like in this  
17 one, but we haven't been devastated by the imports in  
18 the other categories as we have in this one. There's  
19 no question that we'd have more volume running through  
20 our plants, we'd have more full utilization and we'd  
21 have better pricing.

22 COMMISSIONER PEARSON: Okay. But the case  
23 wasn't filed in 2007 or '08 or '09. It didn't get  
24 filed until 2010, well after the recession had hit.

25 So if the case was so compelling that a case

1 should be brought, why wasn't it brought before the  
2 recession as soon as you knew there was a possibility  
3 of a problem?

4 MR. LEVIN: Well, if I may, Commissioner, a  
5 lot of that has to do with practicalities. As you  
6 know, not every domestic producer is a petitioning  
7 company, although we have had prior to the filing of  
8 the petition and prior to the decision to start the  
9 petition process conversations with other members of  
10 the domestic producing industry. And so in a very  
11 practical sense it was a matter of getting down a set  
12 of who's in and who's out, and there are companies  
13 that chose to not be part of the petitioning coalition  
14 for reasons specific to them.

15 Yes, we all would have preferred if the  
16 petition was filed a little earlier, but this is a  
17 major undergoing for an industry that, quite frankly,  
18 had really no idea that this law existed, that these  
19 investigations can be undertaken. There's a decent  
20 amount of build up to get to the process of deciding  
21 okay, we're going to make the investment in filing a  
22 petition.

23 I want to make two quick points. First of  
24 all, when Tom and when Don and Dan testified in the  
25 Section 332 hearing, which was in October of 2007,

1 they never heard of antidumping investigations. All  
2 they knew is that there was this fact-finding  
3 investigation, that it was requested from Capitol  
4 Hill. It involved their product. There was something  
5 going on with the Chinese imports. This would be a  
6 good opportunity to speak to policymakers, if you  
7 would.

8           Second of all, getting back to your original  
9 point on subject imports, there's a real small slice  
10 of non Chinese imports. We'll know in about two, two  
11 and a half hours what we're looking at as the total  
12 pool of subject imports.

13           Most of the information presented in the  
14 prehearing brief, with one or two exceptions, operated  
15 on the basis of all the Chinese imports, and that's  
16 what we decided, not knowing what we're going to be  
17 looking at by this afternoon. Let's work with that  
18 and we'll make the adjustments as necessary in the  
19 posthearing brief.

20           COMMISSIONER PEARSON: Okay. Well, Mr.  
21 Levin, you know that it's not unusual for me to  
22 wrestle with issues of causation, so on this record  
23 how can we distinguish between the harm that may be  
24 inflicted by subject imports -- now, particularly if  
25 we're talking a small slice of subject imports --

1 versus harm that might have been inflicted by the  
2 recession?

3 MR. LEVIN: Well, I think if I may, the  
4 chart, the analysis that Jim and his team put  
5 together, actually does -- can we bring that up -- a  
6 fairly decent job of that.

7 The operating income starts going into the  
8 black in the first half of 2011. Yes, the industry is  
9 still in bad shape. The question is how much worse  
10 shape, how much exacerbation, was affected by the  
11 subject imports. We believe that to a large extent  
12 the data outlined by Jim in this chart explains that.

13 COMMISSIONER PEARSON: Yes, but the problem  
14 is that we have to find injury by reason of subject  
15 imports. The Chinese imports found by the Commerce so  
16 far not to be subject -- it's confidential, so we  
17 can't discuss the specific amount, but it's not an  
18 immaterial quantity, okay?

19 So if you've got the domestic industry  
20 losing market share but to fairly traded imports, we  
21 can't find injury based on subject imports in that  
22 case, can we?

23 MR. LEVIN: What I would say is even if the  
24 final determination by Commerce reflects the  
25 preliminary determination, the pool of subject imports

1 is still considerable.

2 I concede the point that the other companies  
3 at issue are a decent share of the Chinese imports,  
4 but that doesn't wipe out the amount of Chinese  
5 imports. We've tracked the volumes of Chinese imports  
6 and taking out in combination different companies that  
7 may not end up in the pool of subject imports by the  
8 end of today, and there's still a considerable volume,  
9 a significant volume of subject imports, and the  
10 trends that we see demonstrated by those subject  
11 imports remains generally the same.

12 COMMISSIONER PEARSON: Right. I would agree  
13 that there would still be a meaningful quantity of  
14 subject imports even if the firms that are currently  
15 nonsubject remain nonsubject.

16 But if one looks at the trends, there's been  
17 a relatively more modest adjustment in imports from  
18 subject producers than there has been in effect from  
19 the recession, and that's why I'm trying to sort out  
20 which is which.

21 My light has turned yellow now, so unless  
22 you have some quick response we might have to come  
23 back to this.

24 MR. LEVIN: If I may, just one quick thing.  
25 As I said, I think the data here goes a long way

1 towards it. I understand what you're saying, and  
2 obviously we would adjust this as necessary come later  
3 on today.

4 But there is a tremendous amount of  
5 on-the-ground evidence that's been testified to by the  
6 industry witnesses that indicates that, yes, what's  
7 actually happening in the marketplace is that the  
8 domestically manufactured product is losing out to  
9 sales of Chinese imports, and that's happening on a  
10 daily basis.

11 Some of that real life stuff unfortunately  
12 sometimes doesn't fit within the squares of  
13 questionnaire responses and the data boxes.

14 COMMISSIONER PEARSON: Right. And we'll  
15 talk later about lost sales, lost revenues. Perhaps  
16 some of my colleagues will raise that, but my time has  
17 expired. Thank you, Madam Chairman.

18 CHAIRMAN OKUN: Commissioner Aranoff?

19 COMMISSIONER ARANOFF: Thank you, Madam  
20 Chairman. I want to join my colleagues in welcoming  
21 all the witnesses and thank you for spending time with  
22 us today and also express my appreciation for  
23 everything we learned while doing the plant visit at  
24 Mannington.

25 Can someone describe to me when the Chinese

1 product was first starting to come in commercially  
2 significant quantities into the U.S. market did it  
3 first enter as these Acacia and Asian birch type  
4 products, or did it first enter as oak face or other  
5 more typical U.S. products?

6 MR. NATKIN: I'll answer that question, and  
7 then I'll defer to some of the other industry experts  
8 as well.

9 It really started as clones of current  
10 domestic products. It was oak and it was hickory.  
11 The Chinese recognized the emergent trend of  
12 hand-scraped floors, as an example. Anderson was kind  
13 of put forth and said hey, look at all this  
14 hand-scraped floor that Anderson is doing. We'll sell  
15 it to you cheaper. So it really kind of started  
16 there.

17 And just like we expand our domestic basket  
18 of species to look for visual trends as trends in  
19 furniture went away from grainier species or more  
20 distressed, we look for species domestically. They  
21 did the same thing over there in looking for  
22 alternative species that matched or were complementary  
23 to species that were already offered in the U.S.  
24 market.

25 So it really started with the core basics.

1 It was basic oak and maple and hickory and stuff they  
2 had easy access to, just like we had access to.

3 COMMISSIONER ARANOFF: Okay. Now, I've  
4 heard some conflicting things, and I wanted to get you  
5 to comment on this and then I'll ask the Respondents  
6 this afternoon. Maybe, Mr. Natkin, you can comment on  
7 this or maybe Mr. Anderson, because he's a level  
8 closer to the ultimate consumer, might want to comment  
9 on this.

10 These Acacia and Asian birch products. Do  
11 they tend to be marketed to U.S. consumers as exotics,  
12 something different from what's available here, or do  
13 they tend to be marketed as this looks the same as  
14 name your domestic species?

15 MR. NATKIN: Commissioner Aranoff, I'll  
16 answer that first, and then I'll defer to Mr. Anderson  
17 over here.

18 The birch is directly competitive. It's  
19 called birch just like we call birch in the U.S., so  
20 outside of that in particular is a direct competitor,  
21 and there's really not a distinguisher. Typically you  
22 don't see it marketed as Asian birch. You see it  
23 marketed as birch, just like we market something as  
24 birch.

25 Acacia? Yes, Acacia is marketed more as an

1 exotic, and you put it in the basket of exotics just  
2 like we market things as we call things domestic  
3 exotics, whether it's maple or walnut, but you also  
4 see Acacia not always called Acacia. You see it  
5 called tropical walnut.

6 You know, walnut is something that consumers  
7 can grab onto. I know what walnut is. I had a walnut  
8 tree in the back yard. So a lot of times these  
9 species will be called other things to try to draw the  
10 consumer into it.

11 MR. J. ANDERSON: Yes. That's true. The  
12 Acacia name has an exotic appearance to it because  
13 most consumers have not heard that name, but as far as  
14 any additional quality that it provides, I don't think  
15 that's necessarily the case.

16 The imports first started with really the  
17 five-sixteenths oak products, very thin face veneers  
18 that were coming over from China as a direct knockoff  
19 to the oaks that were already in the U.S. market being  
20 used in the home building industry. They came in at a  
21 price point, very thin veneers, .06 or -- .06, I  
22 think.

23 MALE VOICE: 0.6.

24 MR. J. ANDERSON: 0.6. And that's the first  
25 ones that appeared in the marketplace. But the Acacia

1 I don't think really has the appeal that -- the name  
2 gives it the appeal. Let me put it that way.

3 COMMISSIONER ARANOFF: In terms of looking  
4 at it, does it have an exotic look?

5 I mean, people throw around the term  
6 exotics, and usually when you hear it it's referring  
7 to some sort of thing out of the Brazilian rain forest  
8 that really looks different from anything we have  
9 here, but I don't know if that's true with respect to  
10 Acacia, whether you can sell it on a unique look.

11 MR. J. ANDERSON: I think it's the  
12 salesperson on the floor that's calling it an exotic  
13 specie. Consumers are, number one, concerned about  
14 color and then, number two, they're concerned about  
15 texture. Species is kind of the third thing they look  
16 at.

17 So it's a selling point to say well, this is  
18 Acacia, it's an exotic species, but it's really about  
19 the appearance to the consumer of color and the  
20 texture, and the grain would go along with the texture  
21 as well.

22 MR. FINKELL: This is Don Finkell. I'd like  
23 to say exotics are just as you say. They're typically  
24 something out of the rain forest. They have a very  
25 hard surface, and they have a color that goes all the

1 way through it. They're typically sold as unfinished,  
2 natural, because the color is what is so beautiful  
3 about them.

4 Acacia is none of that. Acacia looks like  
5 -- you know, it's just kind of a dead looking product.  
6 I've heard it called tropical walnut. I've heard it  
7 called elm. But it's being sold almost always with a  
8 stain on it so that it looks like some other domestic  
9 product.

10 MR. NATKIN: Honestly, Commissioner Aranoff,  
11 if I may? Dan Natkin again. Just like Don just said,  
12 it's visually indistinct. It looks kind of like a  
13 knotty maple or a knotty birch.

14 It was a very plentiful species that was  
15 being used honestly for plywood manufacturing, a  
16 little bit in the furniture, that the Chinese grabbed  
17 a hold of and said hey, let's make something that  
18 sounds exotic, but really is fairly inexpensive.

19 COMMISSIONER ARANOFF: The market for  
20 flooring, and in particular for this flooring product.  
21 Would you describe it as being sort of driven by  
22 fashion trends in the broader home decor market?

23 I think that's what some of you testified  
24 to, that sort of different styles and finishes and  
25 things become popular for some period of time, and

1 then they're superseded by something else.

2 MR. FINKELL: This is Don Finkell again. I  
3 would say that is true to some extent. We try to put  
4 products out there that are forward in style and  
5 fashion, but the trends in wood flooring do not change  
6 as fast as trends in fashion. I mean, they're slower  
7 trends.

8 That used to be the case probably five years  
9 ago. It used to be more of a fashion industry, and  
10 then now it's getting to be price, price, price. I  
11 mean, you see that in fashion even in clothing. Now  
12 the consumer is a little more concerned about cost  
13 than maybe they were before the recession started.

14 MR. HOLM: Good morning. This is my first  
15 opportunity to speak. I'm Kim Holm with Mannington  
16 Mills.

17 Addressing your question, Commissioner, we  
18 have done a fair amount of consumer research around  
19 that specific question, and we found that consumers  
20 generally are looking for one of two types of  
21 flooring, either functional flooring or what we call  
22 aspirational, fashion.

23 In those specific categories, functional  
24 would be like plastic laminated floors, vinyl floors,  
25 carpet to a lesser degree. And those floors, by the

1 way, are also considered to be floor covering and more  
2 temporary in the home. The more aspirational or  
3 design or fashion forward are wood primarily and  
4 ceramic or porcelain tile. Those products  
5 specifically create value in your home and are  
6 considered flooring, part of the structure of the home  
7 and much longer term.

8 So that's the way our research has defined  
9 it for us, and I think we see that every day in real  
10 life as consumers make their choices of the different  
11 categories.

12 COMMISSIONER ARANOFF: Okay. Do  
13 manufacturers design a product and then set a price  
14 point, or do you start with a price point and then  
15 design a product?

16 MR. HOLM: Kim Holm again. Yes, both. Some  
17 of both.

18 I mean, there's some products that you do  
19 create some value in where you believe you can  
20 establish maybe a little higher margin because of the  
21 value you've put into the product, and then there's  
22 some that are very competitive and there's a very  
23 large, competitive set where the price is more  
24 important.

25 COMMISSIONER ARANOFF: Okay. Mr. Natkin,

1 did you want to add something to that?

2 MR. NATKIN: Commissioner Aranoff, no. I  
3 was going to say, very similar to Mr. Holm, that when  
4 we start the product design we either start with a  
5 price in mind or a visual in mind, and they're kind of  
6 wholly separate. There are different scenarios, and  
7 it all depends.

8 We go through an extensive what we call  
9 consumer research process. We start the year in  
10 looking at fashion trend, color trend and things like  
11 that, and we'll develop 100 maybe or 80 designs that  
12 then get filtered down.

13 That tends to be more to the fashion side,  
14 but we'll also look at market conditions and say we  
15 need an entry level hand-scraped product to compete  
16 with what's coming in from China, and then we'll go  
17 through kind of an engineering process in that case to  
18 get to that.

19 COMMISSIONER ARANOFF: I appreciate all of  
20 those answers. Thank you, Madam Chairman.

21 CHAIRMAN OKUN: Commissioner Pinkert?

22 COMMISSIONER PINKERT: Thank you, Madam  
23 Chairman, and I thank all of you for being here today  
24 to help us to understand what's happening and what's  
25 likely to happen in this industry.

1 I want to begin with a question that was  
2 discussed a little bit in the earlier testimony having  
3 to do with the seven ply or greater product. Do any  
4 domestic producers make that product?

5 MR. NATKIN: I'll answer that for Mannington  
6 Mills, Commissioner Pinkert. This is Dan Natkin.  
7 Yes, we make a seven ply product today. We've been  
8 making a seven ply product for a number of years now.

9 Again going back to my testimony, the number  
10 of plies is really irrelevant to the product. The  
11 only reason that you see more plies on import  
12 products, in my opinion, is in the fundamentals of the  
13 manufacturing process itself. We have a much more  
14 automated process, and we tend to peel thicker veneers  
15 to make the sandwich.

16 The Asians are working from a much smaller  
17 base tree, typically eucalyptus or poplar, and the  
18 trees are maybe this big around so they have to peel  
19 or slice it thinner and then kind of do a lot of hand  
20 work to put it together to make the same basic  
21 structure. But in the end, whether it's a five ply or  
22 a seven ply, when you look at the product you don't  
23 know the difference.

24 MR. LEVIN: If I may, Commissioner Pinkert,  
25 Mr. Finkell is the guy who first explained this to me,

1       how it's done in China versus how it's done in the  
2       United States.  Don, can you just speak to it?

3               MR. FINKELL:  Yes.  This is Don Finkell.  We  
4       made a seven ply product about 10 years ago, which we  
5       sold with a click on it to Home Depot, and it was an  
6       FSC certified product.

7               The reason that we used a seven ply product,  
8       we had a core that was FSC certified coming out of  
9       Brazil, and eucalyptus as a specie has a tendency to  
10      split so you can't heat it very hot to peel it so the  
11      thicker the veneer is the hotter you have to make it  
12      to be able to get it to go through the lathe, so it  
13      tends to be thinner veneers are cut.  The colder you  
14      cut it, the thinner they are.

15              So that's what we ended up doing, and then  
16      we graded those products.  We brought them in, and  
17      then we put a U.S. specie on the face and back and  
18      made a seven ply product, but that's pretty much why  
19      seven ply is used with eucalyptus and other species  
20      that you don't heat as much.

21              COMMISSIONER PINKERT:  Thank you.  Now, Mr.  
22      Dogan, I understand your argument about the interim  
23      periods and about the survivor bias matter, but I'm  
24      wondering whether 2010 as a whole -- not the interim  
25      period, but 2010 as a whole -- provides a sort of

1 natural experiment in terms of increasing market share  
2 for the subject imports, decreasing market share for  
3 the domestic industry and then whatever other impacts  
4 can be ascertained for that period of time.

5 And I'm wondering if 2010 is a natural  
6 experiment then should we be thinking that conditions  
7 in 2010 should have been worse for the domestic  
8 industry than in fact they were?

9 MR. DOUGAN: I'm sorry. Should we be  
10 thinking that conditions -- could you repeat the last  
11 part of that?

12 COMMISSIONER PINKERT: Yes. In other words,  
13 if we observe that the market share of the subject  
14 imports is increasing during that period  
15 substantially, the market share of the U.S. producers  
16 is decreasing significantly in 2010, then should we  
17 expect to see a poorer outcome in terms of financial  
18 performance for the domestic industry in 2010 than we  
19 in fact observed during that period of time?

20 MR. DOUGAN: You might based only on those  
21 variables, but there was an improvement in some of the  
22 unit costs, unit raw materials and COGs and things  
23 like this.

24 This goes back to a question I believe that  
25 Commissioner Lane asked earlier, which was because of

1 that you would have expected a much more substantial  
2 improvement in their margins because they saw  
3 favorable changes in, for example, raw materials and  
4 some of the other COGs.

5 So what we're saying is you should have  
6 expected a greater improvement, but that improvement,  
7 the opportunity for that improvement, was taken away  
8 by the gains in market share and the continuing price  
9 pressure of the subject imports. So they were unable  
10 to take advantage of what might otherwise have been  
11 greater improvements in margin because of price  
12 pressure and volume pressure.

13 MR. HOLM: Commissioner Pinkert, if I could  
14 add one point? I know in our case, and I think around  
15 the industry too, there were a lot of assets taken out  
16 of the system at the end of 2009 as we continued to  
17 feel continued deterioration in the business.

18 I know our company took a fairly major asset  
19 write-off at the end of 2009 which improves your  
20 depreciation picture or your cost forward picture. So  
21 we saw improvement, if you will. Continued losses,  
22 but we did see improvement in our margins because of  
23 an asset write-off, nothing more than that.

24 I know we have several of our competitors  
25 that were doing some of the same things because of the

1 situation and the circumstances that we're in.

2 MR. DAVIS: I would just add to that. Tom  
3 Davis. As the situation got worse and worse, there  
4 are obviously some accounting rules that make you take  
5 impairments on assets that aren't returning a decent  
6 return and so then you get the benefit of the  
7 depreciation in years going forward.

8 One of the problems in this sort of a  
9 drastic fall-off where someone has come in and  
10 occupied basically no market share and gone from  
11 single digit market shares to 50 percent over a  
12 relatively short period of time, you are chasing your  
13 cost curve because of the unit fall-off that you're  
14 experiencing. And so eventually hopefully you get to  
15 a point where you get it back to more of a steady  
16 state over time.

17 MR. FINKELL: This is Don Finkell. If I  
18 could too? When the recession or the financial crisis  
19 hit in the fall of 2008 there was a lot of discussion  
20 and projections about how long this recession would  
21 last. If you looked at historical recoveries, they  
22 were a V-shape.

23 So there was a tendency I think of companies  
24 to not lay off those people and not close those plants  
25 in 2009 because we were all anticipating this

1 recovery, but by the end of 2009 we could see that  
2 that wasn't going to materialize so we actually  
3 started taking those actions to do those things  
4 reluctantly, which helped 2010.

5 MR. NATKIN: Commissioner, this is Dan  
6 Natkin again. I think the other thing that you have  
7 to keep in mind too is there was I'll call it a false  
8 bubble for the first half of 2010 versus 2009 when you  
9 look at 2009-2010.

10 2010 was a tail of two halves. The first  
11 half of the year you had the Homebuyer Tax Credit in  
12 place, which drove significant incremental demand in  
13 home buying, both in remodel and in new home  
14 construction. The second half of the year the wheels  
15 fell off the bus so to speak, and it was really a very  
16 different scenario in that second half of the year.

17 MR. LEVIN: And if I may add, if you look at  
18 some of the indicators, especially the financial  
19 indicators for the first half of 2010 and the second  
20 half of 2010, as the Commission can do with the data  
21 available, what the industry witnesses testified to in  
22 the preliminary investigation, but before the full  
23 story unfolded for the second half of 2010  
24 unfortunately emerged true.

25 Yes, there was, as Dan I think aptly

1 characterized it, a false bubble in the first half of  
2 2010. Once the tax credit ended in May I think it  
3 was, June, the industry went downhill and downhill  
4 tremendously during that second half.

5 MR. HOLM: To further Jeff's point, if you  
6 look at the black bottom line here, the fourth column  
7 over, which is the first half of 2010, the industry  
8 had taken an actual loss in the wood category of 3.1  
9 percent. For the full year they had a loss of 6.5  
10 percent.

11 So the second half of 2010 the industry was  
12 running more of a loss, near 10 percent, similar to  
13 its experience in 2009. It truly was the bubble of  
14 the first half of 2010 that benefitted the category.

15 MR. LEVIN: And if I may, Commissioner, let  
16 me just say it's not like the industry was going  
17 gangbusters in the first half of 2010. They were  
18 suffering a little less because of the false bubble  
19 effected by the tax credit.

20 I'm also looking at just the numbers, and I  
21 understand I'm looking just at full year numbers here,  
22 but in 2010, from 2009 to 2010, there was a slight  
23 increase in U.S. producers' U.S. shipments, most of  
24 that driven by the increased demand in the first half  
25 of 2010.

1           There was a tremendous increase in U.S.  
2 shipments of Chinese imports in 2010, so to the point  
3 that Jim was saying in his affirmative testimony  
4 Chinese imports tend to get the greater share or  
5 almost all of the share of improvements in the overall  
6 market, U.S. producers tend to pay the far larger  
7 price when the market recedes.

8           And I think that's certainly what we have  
9 seen in 2010, in other periods of the period of  
10 investigation, and to that extent your  
11 characterization, Commissioner Pinkert, at the  
12 beginning of your question whether or not 2010 was a  
13 good test model, a good lab, yes, it certainly was.

14           COMMISSIONER PINKERT: Thank you. I'm going  
15 to have to stop you there in case there was any  
16 additional comment on my question. Thank you, Madam  
17 Chairman.

18           CHAIRMAN OKUN: Thank you. And again, thank  
19 you for all your responses thus far. Maybe we can  
20 just continue with demand questions while we're on  
21 that line. I appreciate the comments about the effect  
22 of the tax credit and when that was felt.

23           Can you talk a little bit more then about  
24 what's going on in 2011, both the data that we see on  
25 a record in the first half of 2011 with respect to

1 demand and then also what you're experiencing  
2 currently and predicting in the future and what  
3 indicators we should be looking at if they're not  
4 already in the staff report? I would ask the industry  
5 to comment on that.

6 MR. HOLM: Thank you, Chairperson. Kim Holm  
7 again with Mannington. I think we continue to  
8 struggle as an industry. The flooring industry seems  
9 to continue to be in a recession. The residential  
10 side of the business continues to be in a recession,  
11 albeit the economists would suggest we're out of our  
12 recession.

13 We do use industry analysts to create our  
14 projections and our budgets for 2012. For the last I  
15 would say three years, we've gone into the new year  
16 with some optimism that housing starts were going to  
17 rebound, that remodeling spending was going to rebound  
18 and that we were going to begin to see a bit of a  
19 recovery.

20 And we budget that for 2010, so we are  
21 budgeting modest improvement as we go into the next  
22 couple years, but we consider the market, the industry  
23 and the economy to be very, very fragile, and there's  
24 certainly so many components that have an impact today  
25 on consumers' mindset that we're very, very cautiously

1 optimistic.

2 CHAIRMAN OKUN: And before I ask others in  
3 the industry to respond, can you also just respond to  
4 when you're looking at the different channels in which  
5 you sell into whether you see any differences in  
6 demand within those different channels?

7 MR. HOLM: Yes. Thank you. I will respond  
8 as well. Yes, I think what's happened with the  
9 industry today and with the consumer today and what  
10 we've talked about today, everything is about price,  
11 or another term is value.

12 So I think the winning channels over the  
13 next couple years in our industry are going to  
14 continue to be the large, mass merchants that can  
15 provide product to the consumer at more value, with  
16 more value than maybe some of the smaller, independent  
17 competitors that we traditionally have done a lot of  
18 business with.

19 So the customers like the home centers, like  
20 the Lumber Liquidators or the world, very much so I  
21 think and very similar to the consumer shopping  
22 patterns where I guess I would imagine WalMart is much  
23 more successful today than Bloomingdale's, if you  
24 will. So that's a bit of the direction.

25 We also see there's been a bit of a shakeout

1 with the contractors and what's gone on with the  
2 builder demise, but the contractors that are out there  
3 today seem to be healthy and should survive.

4 CHAIRMAN OKUN: Okay. Mr. Finkell?

5 MR. FINKELL: Yes. Without divulging  
6 confidential information, which I would be happy to do  
7 in a posthearing brief, we don't see the housing  
8 industry recovering any time in the next two years, so  
9 we're looking at some major moves within our company  
10 to try to get more competitive. I can illustrate or  
11 elaborate on those more.

12 CHAIRMAN OKUN: Okay. Appreciate that.

13 MR. DAVIS: Just to add to that --

14 CHAIRMAN OKUN: Yes? Mr. Davis, do you have  
15 your microphone on --

16 MR. DAVIS: Yes.

17 CHAIRMAN OKUN: -- or close to you?

18 MR. DAVIS: Yes.

19 CHAIRMAN OKUN: Okay. Thank you.

20 MR. DAVIS: Maybe it's not close enough.

21 But I was just going to comment almost every week  
22 someone in the residential carpet market, for example,  
23 right now is announcing a plant closing to deal with  
24 the situation.

25 They're the largest producer of flooring for

1 those kind of segments, so that's why it's still an  
2 indication that we're still in a very difficult  
3 period, just to reinforce what these gentlemen have  
4 said.

5 CHAIRMAN OKUN: Mr. Anderson, could you  
6 comment on what you see on the demand side? Thank  
7 you.

8 MR. J. ANDERSON: Are you talking about  
9 recent demand?

10 CHAIRMAN OKUN: Yes. 2011 and then what you  
11 see looking forward in the next year.

12 MR. J. ANDERSON: In the overall market.  
13 We're not planning an increase in our hardwood  
14 flooring business and some of the other segments of  
15 our business for 2011.

16 CHAIRMAN OKUN: What about for 2012?

17 MR. J. ANDERSON: 2012? We don't think  
18 we're going to have much movement in 2012 as well.  
19 Maybe one or two percentage points in some segments,  
20 but not in the hardwood segment.

21 CHAIRMAN OKUN: Okay. And I had wondered.  
22 You had commented I think in either your testimony or  
23 in response to a question whether you've seen much  
24 shifting among the different products that you carry.

25 MR. J. ANDERSON: Yes. We've seen a

1 stronger shift to the imported side because of price.

2 CHAIRMAN OKUN: And how about within not the  
3 manufactured, not the engineered wood, but the other  
4 products you carry? Has there been much shifting  
5 among those?

6 MR. J. ANDERSON: Well, laminate is actually  
7 down in demand and tile flooring is up in demand, but  
8 multilayered wood flooring is steady. It's not  
9 declining or increasing right now because of the home  
10 building business just not being there. Solid wood is  
11 about the same as well.

12 CHAIRMAN OKUN: Okay. Appreciate that. If  
13 there's anything for posthearing that you could  
14 provide on a confidential basis in helping us  
15 understand demand both for 2011 and then in the  
16 reasonably foreseeable future that would be helpful.  
17 In the future, I should say.

18 Then let me ask about the channels of  
19 distribution. I know both in the staff report at  
20 Table II-1 and then in the exhibits that you've shared  
21 in Exhibit 4, Mr. Dougan, you talk about where the  
22 competition is and what we see and I wondered --

23 Well, first maybe a question, and I'm not  
24 sure if this goes to Mr. Anderson as well, but others  
25 could comment on it. Just to make sure I have an

1 understanding of who the distributors are and who  
2 they're selling to. So are the distributors selling  
3 to both? Well, yes. Who are the distributors selling  
4 to?

5 MR. J. ANDERSON: We're primarily selling  
6 anywhere from a small mom and pop retailer to larger  
7 retail accounts. We currently only sell some highly  
8 specialized products to the big box stores, so we  
9 don't sell as much of the big box group as we did  
10 before, and we do sell on the commercial side, as well  
11 as what we would call the floor covering contractors  
12 that are doing business with the home builders. So we  
13 sell that segment as well. Does that answer the  
14 question?

15 CHAIRMAN OKUN: It does. And then, and  
16 maybe that also helps explain, although others in the  
17 industry could discuss it as well, when we look at the  
18 chart and see where there's been increases and where  
19 there's been decreases during the period that we're  
20 examining. So you, Mr. Anderson, would have been in  
21 the big, yellow line that starts at a big percentage  
22 and drops significantly -- well, no. Well, anyway, it  
23 drops, I guess, and then some changes within the other  
24 retailers in the size of those markets. What does  
25 this tell us about the nature of competition and

1       whether we should expect any changes or how we should  
2       look at competition?

3               MR. J. ANDERSON:  Is that for me?

4               CHAIRMAN OKUN:  For you, but for others as  
5       well since there's --

6               MR. HOLM:  Excuse me.

7               CHAIRMAN OKUN:  Yes?

8               MR. HOLM:  Commissioner, if I could ask?  
9       Based on the questionnaires, Mr. Anderson from BPI  
10      would not have reported -- they're going to sell to  
11      the blue, but these charts are developed by the  
12      manufacturers or the importers:  who are their  
13      downstream markets, where are their downstream  
14      markets.  So we would be reporting that as a  
15      manufacturer, that we're selling to a distributor, or  
16      a retailer, or a big box, but a distributor in turn  
17      would resell that but it wouldn't be reflected in this  
18      specific graph.

19              CHAIRMAN OKUN:  Okay.  that's helpful to me  
20      because I'm trying to compare those two different  
21      charts.  So then tell me, if I can stay with you, then  
22      does this, I mean you've talked about, I mean I think  
23      what this exhibit was put up for and the reference to  
24      the staff report is to indicate that the domestic  
25      industry is selling in all channels and that the

1 builders are a small channel, but the competition  
2 there from both sides. Does it say anything more  
3 about how we should look at pricing or pricing  
4 competition and any changes that you've experienced?

5 MR. HOLM: Yeah. A couple of comments.  
6 First of all, the red, by definition in the  
7 questionnaire, was a little bit unique. Most  
8 manufacturers, most builders don't buy product. They  
9 don't buy flooring product. Most of us sell to a  
10 foreign contractor. That would be similar in the  
11 blue. So we're not totally sure where the red numbers  
12 come from. I think the most telling story here, in my  
13 opinion, is the blue on the bottom. I mean, the  
14 largest buyers in this country of product and the  
15 biggest price challenges come with the big boxes and  
16 the mass merchants. That's an area where the  
17 importers are out performing in a fairly dramatic way  
18 with the domestic producers.

19 CHAIRMAN OKUN: Mr. Finkell, did you have  
20 any comments?

21 MR. FINKELL: Well, I was going to say that  
22 if you look at where the yellow is in the beginning  
23 for the domestic producers, they're, you know, almost  
24 60 percent, but there are sales to other channels, and  
25 then if you come down to the last one you see that

1 distributors have lost some of that business. Some of  
2 that is because our company, Shaw, doesn't sell  
3 through distributors, they sell directly to retailers  
4 and also builders, so you've seen some smaller  
5 builders fall out of the market, but the biggest  
6 builders are big enough to put together their own  
7 program. Then, you know, you see the home centers are  
8 fairly consistent, you know, with us. We've lost a  
9 little bit there. The bigger buyers that have the  
10 ability to put together, you know, their China  
11 connection really are the ones that are prospering  
12 through this.

13 CHAIRMAN OKUN: Okay. I see my light has  
14 been on, so I will have a chance to return to some  
15 other questions about competition in the market on my  
16 next round. Vice Chairman Williamson?

17 VICE CHAIRMAN WILLIAMSON: Thank you, Madam  
18 Chairman. Mr. Finkell, could you maybe just finish  
19 your thought there about you were saying the bigger  
20 the -- who was benefitting, and why were they  
21 benefitting?

22 MR. FINKELL: Well, you see other retailers,  
23 people that used to buy through distributors, either  
24 builders or buying groups like CCA Global, and then  
25 you have like Lumber Liquidators which buys

1 completely, it doesn't buy through distributors and  
2 never has, buys pretty much direct. There's a size  
3 issue in the market, so you have bigger -- when you  
4 reach a certain size you can afford to have a staff go  
5 to China and you can work out the deals on these kinds  
6 of purchases with the Chinese manufacturers, whereas  
7 the smaller mom and pop, you know, retail flooring  
8 store, which is what distributors typically make  
9 their, you know, that's their bread and butter, they  
10 can't compete as well there, so you see some change in  
11 the way the market, you know, is falling out. Some of  
12 it, too, is you have, as the recession drags on, you  
13 have, you know, the weaker players go by the wayside.  
14 So I'm not sure if that answers the question.

15 VICE CHAIRMAN WILLIAMSON: Okay. Okay.  
16 Thank you. Do purchasers in the do it yourself market  
17 and the new home market have different sensitivities  
18 to certain nonprice factors, like ease of  
19 installation, contract lead time and made to order  
20 designs?

21 MR. HOLM: Mr. Commissioner, could you say  
22 that one more time, please?

23 VICE CHAIRMAN WILLIAMSON: If you take a  
24 look at some of the people in the do it yourself  
25 market as opposed to those who are, say, you know,

1 doing new --

2 MR. HOLM: Professional install. Yeah.

3 VICE CHAIRMAN WILLIAMSON: -- moving into a  
4 new home, do they have different sensitivities to  
5 nonprice factors? I mean, does ease of installation,  
6 contract lead time or --

7 MR. HOLM: Ease of installation becomes much  
8 more important for the big box retailers, those that  
9 primarily sell in DIY market, versus the  
10 professionally installed market, so that clearly is,  
11 but price is always the dominant factor with the  
12 majors players, the mass merchants of the world that  
13 buy in huge quantities.

14 VICE CHAIRMAN WILLIAMSON: Okay. Anyone  
15 else want to add to that?

16 MR. FINKELL: This is Don Finkell. I agree  
17 with that, that with the DIY market it is price.  
18 That's why somebody does it themselves as opposed to  
19 hiring somebody to do it. So price is the primary  
20 criteria when you're doing about a DIY product, which  
21 is why click works there and doesn't work so well in  
22 the rest of the market.

23 VICE CHAIRMAN WILLIAMSON: Okay. Are there  
24 disadvantages to the click then for professional  
25 installers, and like that?

1           MR. FINKELL: Well, you know, you end up  
2 with a floor that sounds a little hollow. When you  
3 walk on a floor that's been either glued down or  
4 nailed down, it has a more permanent sound, so, and it  
5 moves up and down a little bit, you can see it, so  
6 some people object to that. We say it's, you know,  
7 somewhat idiot proof, so if you're doing it yourself  
8 -- and people don't complain about what they do  
9 themselves. They complain about when they pay  
10 somebody, but they don't complain when they do it  
11 themselves.

12           VICE CHAIRMAN WILLIAMSON: Okay. As long as  
13 it stays together, they're happy.

14           MR. FINKELL: Right.

15           VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
16 Either now or in post-hearing could you address how we  
17 should analyze the underselling here? You all have  
18 suggested we should just give equal weight to each of  
19 the 110 quarterly price comparisons in the staff  
20 report, whereas Respondents have suggested that we  
21 should be looking at the total import and domestic  
22 shipment volume in trying to analyze the impact of  
23 what do we see from the underselling.

24           MR. DOUGAN: Vice Chairman, I'll respond,  
25 and thank you for the question. We will do so. What

1 I can say without getting into confidential  
2 information is that many purchasers of all stripes  
3 responded that the purchase frequency of this type of  
4 product is quite frequent. They're not doing, you  
5 know, multiyear contracts for a set volume, they  
6 purchase on a much more frequent basis, so the idea of  
7 collapsing all volume and value over a three and a  
8 half year period to determine, you know, how we should  
9 be looking at this, I would say, is inappropriate, but  
10 we can get into that more in the postconference brief,  
11 or posthearing brief.

12 VICE CHAIRMAN WILLIAMSON: Okay. So when  
13 you say purchase more frequently, you mean that the  
14 retailer, maybe he buys them and the customer comes  
15 in. He's not having a contract program or something  
16 like that.

17 MR. DOUGAN: Right. I mean they're not  
18 making a decision in the first quarter of 2008 that's  
19 going to determine what happens for the next three  
20 years, so collapsing, you know, the volume and value  
21 and just looking at an average over the entire period  
22 may not be appropriate. You know, more periodic, more  
23 frequent temporal comparisons would be more  
24 appropriate.

25 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.

1 I'll appreciate, looking forward to seeing what you  
2 say in posthearing on that. Let's see. In looking at  
3 our Table E, this may have to be posthearing, the  
4 average between the values of nonsubject imports  
5 presented in the Commission staff report are lower  
6 than AUVs at both the subject and domestically  
7 produced MLWF, so if orders were imposed, why would  
8 nonsubjects take a lot of the, increase their markets  
9 shares as opposed to the domestics?

10 MR. FINKELL: This is Don Finkell. I think  
11 that they will increase some. I think domestics will  
12 increase, too. If you look at what's happened to  
13 imports from other countries, they're down  
14 dramatically, you know, from where they were before,  
15 so they've lost -- all this Brazilian flooring we're  
16 talking about, Brazil is exporting dramatically less,  
17 less than half of what they used to. So there will be  
18 some recovery in those countries as well.

19 VICE CHAIRMAN WILLIAMSON: Okay.

20 MR. DOUGAN: And this is Jim Dougan from  
21 ECS. What I'll also note is that, you know, observing  
22 what you observe in the data being true, you know,  
23 again, if the underselling or pricing data were truly  
24 representative of all the market dynamics, you would  
25 have expected nonsubject imports to capture a lot of

1 market share because if you just look at the pricing  
2 data it looks like, well, they're underselling the  
3 Chinese. Again, looking at the broader indications  
4 and looking at the descriptions of what these  
5 gentlemen talk about what's happening in the  
6 marketplace, it's pretty clear that it's not the  
7 nonsubjects that are driving the price, and, you know,  
8 how much market share they do or do not stand to gain  
9 I think is an open question.

10 MR. LEVIN: Yeah. And if I may add,  
11 Commissioner Williamson, two things. First of all,  
12 what I've heard continuously from these gentlemen  
13 since the beginning of the investigation is that a lot  
14 of the producers in third countries are being affected  
15 negatively, as well as domestic producers. I mean,  
16 they're having a harder time selling in the U.S.  
17 market by virtue of the Chinese competition. I  
18 believe that's proven true on the trend lines that you  
19 see for nonsubject imports, meaning non-Chinese  
20 imports, for right now. Second of all, if orders are  
21 imposed and there is to some degree a reduction in the  
22 presence of imports from China, yeah, we think the  
23 domestic manufacturers will stand to benefit to some  
24 percentage from that.

25 Nonsubject imports will probably stand to

1 benefit as well, and that's fine. That's the nature  
2 of a competitive marketplace. These nonsubject  
3 imports have to be considered fairly traded. So as we  
4 said in the testimony, we're not looking for the  
5 advantage, we're just looking for parity in the  
6 marketplace for a fair opportunity for fair  
7 competition. If Mannington, or Anderson, or Shaw has  
8 to go up against Brazilian imports, for example, well,  
9 let the better product win. That's the nature of  
10 competition in the marketplace. The overarching  
11 factor there is that they would be competing against  
12 fairly traded imports.

13 VICE CHAIRMAN WILLIAMSON: Okay. Thank you  
14 for that. If the estimate for, you know, the product  
15 rebounded in the near or medium term, would the  
16 domestic industry have the ability to increase  
17 production to meet demand?

18 MR. NATKIN: I'll answer that from our  
19 perspective. You heard in Mr. Davis' testimony we  
20 have more than ample capacity domestically to respond  
21 to any kind of increase in demands. There are idled  
22 plants around the United States from all of the  
23 representative and nonrepresentative companies, so the  
24 demand could more than double in the United States and  
25 there would still be sufficient domestic capacity.

1 MR. FINKELL: I want to second that, too.  
2 We're running at less than 50 percent capacity.

3 VICE CHAIRMAN WILLIAMSON: Okay.

4 MR. LEVIN: And if I may add, they'll be  
5 able to use some production assets that are sitting  
6 idle.

7 VICE CHAIRMAN WILLIAMSON: Okay. Good.  
8 Thank you for that. My time has expired. Thank you.

9 CHAIRMAN OKUN: Commissioner Lane?

10 COMMISSIONER LANE: Thank you. Other  
11 factory costs other than raw materials and labor  
12 appeared to have dropped significantly in 2009. What  
13 components of other factory costs contributed to that  
14 decline? Mr. Dougan, I think maybe you might be the  
15 best person to answer that.

16 MR. DOUGAN: So you're referring to a  
17 decline in other factory costs between 2008 and 2009?

18 COMMISSIONER LANE: Yes. Other than raw  
19 materials and labor.

20 MR. DOUGAN: You know, I would have to --  
21 there's likely some, basically the general overhead  
22 and energy, you know, depreciation of the productive  
23 assets that are included in there. I'll note that  
24 they declined in aggregate and dollar terms but  
25 actually increased slightly in unit terms and that is

1 no doubt in part to the decreased amount of production  
2 between those two years.

3 COMMISSIONER LANE: Okay. Thank you. Let  
4 me stick with you.

5 MR. LEVIN: Madam Commissioner, if we may,  
6 can we reserve some further discussion on that issue  
7 for a posthearing brief?

8 COMMISSIONER LANE: Yes. I was referring to  
9 I think it's Table VI-I. Okay?

10 MR. DOUGAN: I'm looking at it. We'll look  
11 at it more, particularly with responses of individual  
12 producers, and come back to you in posthearing with a  
13 better answer.

14 MR. LEVIN: And that's my concern. We may  
15 be in a territory where we're talking about company by  
16 company differences. I don't want to tread near  
17 confidential information.

18 COMMISSIONER LANE: Okay. Thank you. Mr.  
19 Dougan, I'll stick with you. What, if any, conclusion  
20 can be drawn by the fact that there appears to be  
21 fairly consistent loss results in that most of the  
22 participants in the industry report operating losses  
23 every year?

24 MR. DOUGAN: I think it is indicative of the  
25 fact that the U.S. producers are equally suffering

1 from the impact of the low priced, high volume  
2 imports, you know, that there's not a grand kind of  
3 segmentation between producers in terms of, you know,  
4 markets that they serve and products that they make.  
5 To the extent that there are variations, they all tend  
6 to be suffering pretty equally. There are exceptions,  
7 but again, without getting into confidential data, I  
8 think what it says is that the injury is broad-based  
9 and it's not related to, for example, a single, large  
10 producer driving everybody else down. The injury is  
11 widespread.

12 COMMISSIONER LANE: Okay. Yes, Mr. Davis?

13 MR. DAVIS: If I could respond to that as  
14 well, Commissioner Lane. When you have such a  
15 precipitous loss of market share over really a short  
16 period of time going from almost nothing to 50 percent  
17 of the market, it's just difficult to get the costs in  
18 sync with how fast the volume is going down, and so,  
19 you know, as hard as you struggle, you just can't get  
20 there. I think that affected everybody the same way  
21 because you've got a double whammy. You've got your  
22 volume going down, you've got pricing suppressed at  
23 the same time.

24 COMMISSIONER LANE: Okay. Thank you. SG&A  
25 expenses represent on average for the entire industry

1 about 20 percent of net sales. What are the major  
2 components of SG&A expenses, and do you consider 20  
3 percent to be a high number or has SG&A always been in  
4 that range for this industry?

5 MR. NATKIN: I'll answer that, Commissioner  
6 Lane, for Mannington. I'll defer to Mr. Finkell as  
7 well. The principal components for us of SG&A are  
8 things like our sales force, our marketing expenses  
9 that go into developing and marketing the product and  
10 putting in the marketing displays, samples. Those are  
11 really the principal components. As volume fell off,  
12 you know, we worked to cut SG&A. You have to make  
13 some very, very difficult decisions at times,  
14 particularly when you're talking about people in the  
15 sales force that you're cutting. So I think 20  
16 percent is maybe a little bit higher because the  
17 volume fell off so fast we couldn't cut fast enough.  
18 I think we've gotten it to a more sustainable level  
19 now where we are, without divulging our SG&A expense.

20 CHAIRMAN OKUN: Put your mic on, please.

21 MR. FINKELL: Sorry. This is Don Finkell.  
22 I think that for a company like Shaw that sells  
23 directly to the retailer, they've got more sales cost  
24 in that, which is primarily people, and it also has to  
25 do, as Dan said, with marketing materials, putting the

1 product into the market, and then you have the G&A is  
2 primarily administrative staff, so a lot of it's  
3 people, and so for Shaw that number seems to me to be  
4 right, for Anderson that's probably a little bit  
5 higher because we rely on distributors to actually do  
6 the final sales contact to the retailer.

7 COMMISSIONER LANE: Thank you. Mr. Dougan,  
8 on Exhibit 2 you have a chart that says if the  
9 domestic industry had maintained its 2008 market  
10 share, it's profitability would have been  
11 significantly improved, so I have a variation on that  
12 exhibit.

13 MR. DOUGAN: Okay.

14 COMMISSIONER LANE: Have you performed any  
15 calculations that would show your estimate of the  
16 impact on the domestic industry sales prices and net  
17 operating income if the subject imports had been  
18 fairly traded during the period of investigation?

19 MR. DOUGAN: So in other words, if all  
20 subject imports were fairly traded and the volume of  
21 dumped imports was zero?

22 COMMISSIONER LANE: Yes.

23 MR. DOUGAN: I have not done that analysis.  
24 I can do it for the posthearing.

25 COMMISSIONER LANE: That would be nice.

1 Thank you.

2 MR. LEVIN: I think one thing we can assume  
3 is that the U.S. producers' market share would have  
4 gone up. So if the Chinese imports were fairly  
5 traded, whatever the pool of subject imports is, I  
6 think you would have seen an improvement even moreso  
7 than what we're looking at here.

8 COMMISSIONER LANE: Okay. Thank you.

9 MR. DOUGAN: Just as a follow on. Sorry.  
10 Jim Dougan again. Just as a follow on to that, and  
11 this is somewhat related to a question that  
12 Commissioner Pearson asked earlier, the mandatory  
13 Respondents, at least what we're able to understand  
14 about their volumes is, you know, not nothing. It's  
15 certainly, you know, a significant share of, you know,  
16 the total imports from Chin, but it's still a  
17 minority. So, you know, drawing inferences about the  
18 rest of the Chinese imports being fairly traded I  
19 think might be complicated.

20 COMMISSIONER LANE: Okay. Thank you. Mr.  
21 Levin, this is for you. Do you consider this product  
22 a commodity product?

23 MR. LEVIN: No, I don't consider it a  
24 commodity product, per se. I think the trend has  
25 become that it has become more commoditized over the

1 course of the past several years as the important of  
2 aesthetics has declined and the importance of price  
3 has increased. To the average consumer, that's where  
4 it's going. The manufacturers still would like to  
5 believe that it's an aspirational product based on  
6 aesthetic design, what it brings to the value of a  
7 home, and I think that's part of what's being lost in  
8 this day and age. More and more the competition is  
9 based solely on price, assuming that the quality of  
10 competitive products is at least good enough.

11 COMMISSIONER LANE: So based upon that  
12 answer, should we be doing a Bratsk analysis when we  
13 are deciding this case?

14 MR. LEVIN: Well, obviously whether or not  
15 it's a commodity product is one of the triggering  
16 mechanisms for a Bratsk analysis, and we could do it  
17 either way. We could say that it's a commodity  
18 product and go through the analysis, or we can say  
19 that it's not a commodity product and still do the  
20 process. The bottom line is going to be the same.  
21 The nonsubject imports insofar as third country  
22 suppliers are concerned have been basically a minimal,  
23 if not, well, negligible may be overstating it, but a  
24 minimal player in the overall market.

25 COMMISSIONER LANE: Okay. Thank you. Madam

1 Chair?

2 CHAIRMAN OKUN: Commissioner Pearson?

3 COMMISSIONER PEARSON: Thank you, Madam  
4 Chairman. Mr. Anderson, you testified earlier to the  
5 extent that domestic producers lose sales to Chinese  
6 imports on a daily basis. If that's the case, why on  
7 this record do we see such a relatively low level of  
8 allegations of lost sales and revenues? I ask this in  
9 the context we look at a lot of products, a lot of  
10 cases, and it's very common to have a substantial  
11 percentage of lost sales and lost revenue allegations,  
12 and here I'm just not seeing that, and yet I note your  
13 testimony, and so I'm just trying to square those two.

14 MR. J. ANDERSON: John Anderson. Mr.  
15 Pearson, I'm not sure I understand the question. In  
16 comparison to what data?

17 COMMISSIONER PEARSON: You would not have  
18 access to the confidential data regarding lost sales  
19 and lost revenue so take my word for it, the  
20 percentage of lost sales and lost revenue allegations  
21 in this case is quite a bit lower than I might have  
22 expected based on my other experience.

23 MR. J. ANDERSON: Well, just from on the  
24 ground experience the trend is going the other  
25 direction. In other words, the imports are getting

1 much, much stronger in our company and we're selling a  
2 lot more of the import products based upon the price  
3 that I said earlier or the disparity in the price  
4 versus the domestically-produced products that has  
5 been our traditional base.

6 COMMISSIONER PEARSON: Mr. Dougan, do you  
7 have any thoughts on that question?

8 MR. DOUGAN: Can I ask a clarification  
9 first?

10 COMMISSIONER PEARSON: Certainly.

11 MR. DOUGAN: Are you saying that the overall  
12 number of allegations and the, say, valuation of lost  
13 sales alleged is small relative to the market of  
14 apparent consumption, or are you saying that the  
15 number of confirmed allegations is smaller than you  
16 would have expected?

17 COMMISSIONER PEARSON: Well, the latter is  
18 also correct, but that's not so unusual. What is more  
19 unusual, I thought, was that the actual level of  
20 allegations themselves, the value of those  
21 allegations, was relatively low, modest.

22 MR. DOUGAN: Well, I think my understanding  
23 of market dynamics is such that, and the industry  
24 witnesses can chime in on this, is that in many  
25 instances the domestic producers aren't even given an

1 opportunity to bid such that it would even necessarily  
2 be considered a lost sale. I know, and we made  
3 citations in our prehearing brief from purchaser  
4 questionnaires where they said essentially, you know,  
5 when a product is introduced, we put it out for bid,  
6 we take the lowest price, and then once we've got  
7 that, we don't switch suppliers very often, the only  
8 time we do is when someone tries to raise the price on  
9 us. So, in essence, you may have lost a sale once  
10 and, you know, it's not a situation where you're  
11 losing it again and again every quarter or every year.  
12 You've lost it once, maybe even a couple of years ago,  
13 and you'll never get it back.

14 MR. FINKELL: Yes, sir, this is Don Finkell.  
15 One of the problems that we have in trying to put  
16 together a big stack of lost sales reports is we don't  
17 actually sell to the retailer or to the consumer, so  
18 we're a step removed, so we have to rely on  
19 distributors to do that. As you can see, there are a  
20 lot of distributors here that don't support this  
21 because they like the lower prices. So some of it is  
22 just the nature of how we can come up with that  
23 information.

24 MR. HOLM: One last comment, Commissioner.  
25 In our case, with our largest customer on a given

1 product, we didn't lose the product or the business,  
2 we just had to lower price to retain.

3 COMMISSIONER PEARSON: Right. And that  
4 would be a lost revenue allegation.

5 MR. HOLM: Yes.

6 COMMISSIONER PEARSON: It may well be  
7 included in our data. I don't know that.

8 MR. HOLM: There's a fair amount of that  
9 certainly in real life.

10 COMMISSIONER PEARSON: Okay. But again, the  
11 record doesn't reflect a whole lot of lost revenue  
12 allegations, so I hear what you're saying, I'm just  
13 not seeing it so clearly in the record. Mr. Levin?

14 MR. LEVIN: Yeah. Commissioner Pearson, if  
15 I may. The thing with the lost sale allegations,  
16 whether it's this investigation or other  
17 investigations, the specific instances have to be this  
18 particular product to this particular customer at this  
19 particular price on this particular date. There's not  
20 a tremendous amount of that that fits that four square  
21 lost sale allegation, although if you look certainly  
22 at the preliminary investigation record you'll note  
23 there's a very, very high percentage of purchases that  
24 have reported switching from domestic to Chinese  
25 product. Point two. There is other evidence on the

1 record, confidential, in the distribution world that  
2 speaks to the general day-to-day reality of the  
3 marketplace. Much what Mr. Anderson is confirming is  
4 his experience.

5           Number three, one of the main issues that  
6 the Respondents presented in the preliminary phase  
7 investigation is that, especially some of the big box  
8 guys and Lumber Liquidators said, you know, they're  
9 competing in the builders' market, they have nothing  
10 to do with what we're looking at. In the  
11 postconference brief we put in a tremendous amount of  
12 support for the repeated attempts that domestic  
13 manufacturers try to make to sell to some of those  
14 purchasers and were rebuffed. Now is that a "lost  
15 sale, lost revenue" allegation that can be confirmed?  
16 As you noted, a savvy Respondent is going to know how  
17 to answer that question. Perhaps not, but these are  
18 wide swaths of the market that manufacturers are  
19 trying to sell to. You have two or more of the  
20 largest distributors in the country noting to this  
21 Commission that the day-to-day reality is the  
22 competition, the head-to-head competition, between  
23 domestic manufactured and Chinese imports. Is it lost  
24 sale in the box of lost sales? Maybe, maybe not. But  
25 that is what is happening. It is direct competition.

1                   COMMISSIONER PEARSON: Well, thank you for  
2 those comments. Did you have something to add, Mr.  
3 Finkell?

4                   MR. FINKELL: Yes, sir. The way that we  
5 sell it, we will have a display system, we will sell  
6 that to our distributor, the distributor will place it  
7 will the retailer, and then the consumers will come in  
8 and they'll decide to buy this product or that  
9 product. So if we lose the sale to a Chinese product  
10 because of the price, we never really know that. The  
11 phone just doesn't ring. You see what I'm saying? So  
12 we're sort of a step or two away from that.

13                   COMMISSIONER PEARSON: The distributor  
14 doesn't call you and say, gosh, I can't afford your  
15 stuff because there's this imported product that I'm  
16 able to stock at a lower cost?

17                   MR. FINKELL: When the distributor decides  
18 that they're going to take on a Chinese product they  
19 will put together a display program and they will go  
20 place that display in the same store next to ours. In  
21 some cases, it's actually the distributors that are  
22 taking our best products and sending them to China and  
23 ask for it to be cloned. So they come back with  
24 something that's very similar and they set it next to  
25 it and that price is just less. So the distributor

1 knows that that is generally happening, but to be able  
2 to document it each case, each consumer that came in  
3 and made that choice, I mean the consumer may not have  
4 even said, hey, I'd like to buy this but the price is  
5 too high. They just make that decision internally and  
6 do it. So there's an awful lot of this that we're  
7 just not able to see, but it's happening.

8 COMMISSIONER PEARSON: Okay.

9 MR. NATKIN: Just to add. This is Dan  
10 Natkin, Commissioner Pearson. A lot of this, too, the  
11 nature of this industry is a transactional basis.  
12 We're not talking about long-term contracts, we're not  
13 talking about the consumer walks in and she's deciding  
14 on a floor.

15 COMMISSIONER PEARSON: You don't have  
16 customer loyalty here with the distributors then?

17 MR. NATKIN: We have customer loyalty, but  
18 like Mr. Anderson said, when the price spread is 40 or  
19 50 percent, loyalty goes out the window, with all due  
20 respect, and John's one of my favorite people in the  
21 world.

22 MALE VOICE: I would like to say, too, that  
23 we do in the beginning, you know, we kind of  
24 encouraged our customers, you know, to be loyal to us  
25 and we had some customers that were loyal to us.

1 Unfortunately, I know two of them that were our best  
2 customers, they went out of business because of it.

3 MR. NATKIN: Again, Dan natkin. Just to  
4 finish that thought, because it's transactional,  
5 sometimes you're able to get it back. You get a  
6 distributor beating you up, for lack of a better word.  
7 Hey, you know, I can't sell this product for \$4  
8 because I'm importing one that I could sell for \$2.  
9 There's plenty of evidence on the record that we've  
10 submitted. It might not, as Jeff said, fit into that  
11 box, but there's a ton of that, but then there's a  
12 whole sea of information out there where you don't  
13 even know it. Your display is there, Anderson's  
14 display is there, XYZ private label from a distributor  
15 is there, and you don't even know it. You know, you  
16 might have five inch hand scraped hickory from all  
17 three products and you don't know it until you sit  
18 down with the retailer and say, hey, why are we losing  
19 business? Well, we're selling more of this import  
20 stuff.

21 MR. LEVIN: If I may, just one last thought,  
22 Commissioner Pearson. If we pull the focus back just  
23 slightly to the period of investigation covered in the  
24 preliminary investigation, 2007 we're looking at  
25 Chinese imports holding 30 percent of the market.

1 First half of 2011 it's bumping right up to 50  
2 percent. That's 20 percentage points over the course  
3 of three and a half years. It's direct displacement  
4 of domestic manufacturers. The vast majority of that  
5 is coming from domestic manufacturers, not subject  
6 imports. If they're not losing sales, how else to  
7 explain that? Quite honestly, I don't buy that  
8 suddenly 20 percent of the market had this need for  
9 acacia.

10 COMMISSIONER PEARSON: Right. Okay. Well,  
11 my time has expired so --

12 MR. DAVIS: I don't know if this is  
13 appropriate or not, but you asked me a question when  
14 you relinquished the floor the last time and I didn't  
15 get a chance to really finish it.

16 COMMISSIONER PEARSON: I apologize. Madam  
17 Chairman, may I?

18 CHAIRMAN OKUN: Yes. Please. Let Mr.  
19 Davis --

20 MR. DAVIS: That had to do with why we  
21 didn't file earlier, because I commented on the fact  
22 that I participated as a witness in the 332  
23 investigation. I must say, that really was the  
24 embryo, the stimulus to begin getting an understanding  
25 of how this process works because, quite frankly, I've

1       been in manufacturing now for over 40 years and have  
2       gradually watched manufacturing disappear in this  
3       country. It appeared to me over that period of time  
4       that our country had frankly sort of washed its hands  
5       of manufacturing and it wasn't an important part of  
6       what we were going to be in the future. Very  
7       frustrating to watch it happen. But I've seen a  
8       change. I've seen states, I've seen people here, in  
9       Washington, begin to understand what we've lost and it  
10      re-energized me to pursue what he explained was this  
11      process because it's not -- let me tell you, for a  
12      company our size it is not a minor undertaking in  
13      either time, energy, resources or money to do this  
14      thing.

15                   COMMISSIONER PEARSON: Thank you for that  
16      comment. I would just observe, I've spent enough time  
17      in the private sector, so I appreciate the way that  
18      Government processes can be challenging to understand.  
19      Thank you, Madam.

20                   MR. HOLM: Madam Commissioner, if I could  
21      steal one more minute on that same deal or no?

22                   CHAIRMAN OKUN: Let's come -- I will give  
23      you an opportunity to do that but let turn to  
24      Commission Aranoff and let her begin her questions.

25                   COMMISSIONER ARANOFF: Thank you, Madam

1 Chairman. I understand that both Anderson and  
2 Mannington have made separate announcements that each  
3 is entering the Chinese retail flooring market. Can  
4 you tell us whether the entry into selling product in  
5 China includes multi-layer wood flooring?

6 MR. NATKIN: Chairman Aranoff, this is Dan  
7 Natkin. I will speak on behalf of Mannington and I  
8 will let Mr. Finkell speak on behalf of Anderson.

9 We entered the market a couple of years ago  
10 in China. It's not something you can do on your own.  
11 You have to kind of go in with a partner and we have a  
12 partner we've been working with for a number of years.

13 The terms of our relationship include the  
14 marketing of multi-layer wood flooring in China. The  
15 relationship was established so that we could both  
16 ship product to China and also allow in the contract  
17 manufacture under our brand name with a brand license  
18 from us for use in China.

19 The practicality of it is nearly a hundred  
20 percent is being manufactured in China, because  
21 there's a barrier to entry in going into China of  
22 about a 40 percent import duty for products that would  
23 be produced in the U.S., so its easier and more  
24 efficient for the manufacturer that we partner with in  
25 China to make the visuals, to make sense for their

1 market and in many cases clone product -- not clone  
2 but copy products that we make here in the U.S. and  
3 make them over there for use in their own market.

4 MR. FINKELL: This is Don Finkell. We went  
5 into a relationship with a large company in China also  
6 about four years ago, and part of that was that we  
7 would manufacture product here and ship to China, and  
8 it was all -- at that time it was all multi-layered  
9 wood flooring, and the product that they were making  
10 in China was all multi-layered wood flooring for sale  
11 into China.

12 We had some initial shipments but it really  
13 has not developed into very much. Just recently we've  
14 actually gotten some orders for some solid products,  
15 but it's a very, very small amount, and it's because  
16 of when product goes that way, it gets a VAT tax, it  
17 gets a tariff, and the product becomes very expensive  
18 to the Chinese consumer, and they're just not buying  
19 it.

20 COMMISSIONER ARANOFF: Okay. The reason  
21 that I asked the question was not to see whether China  
22 was going to be a really terrific export market for  
23 product coming from the U.S. directly but I assume  
24 that when you entered into these relationships, you  
25 did some due diligence about demand in China, and

1 that's what I'm really trying to get at, whether you  
2 had business plans that were prepared in the course of  
3 business which assessed, you know, likely demand for  
4 multi-layer wood flooring in China, and whether that's  
5 something that you could share with the Commission  
6 with your post-hearing brief?

7 MR. FINKELL: I think that, I mean, if you  
8 want my opinion, if you want -- there is certainly  
9 demand for this product in China. The China market is  
10 very strong. There are a lot more people there. They  
11 have more housing starts than we do, but -- and we saw  
12 it as a potential as you have consumers in China  
13 moving up the income scale. We thought there was a  
14 possibility that we could sell more U.S. manufactured  
15 goods there, and we still believe that.

16 We keep working on trying to find the right  
17 key, you know, to open that door for us. So far we  
18 have not, but I do think there is potential there.

19 MR. LEVIN: Commissioner Aranoff, if I may,  
20 we can go back through some of the background  
21 information and provide the Commission with what you  
22 are looking for in the post-hearing brief, but I want  
23 to make one point ancillary to the issue.

24 One of the arguments, as I understand it,  
25 that the Respondents are presenting is that looking

1 forward, Chinese imports don't really present much of  
2 a threat to the domestic industry, because there's  
3 this enormous market in China, growing middle class,  
4 increasing demand.

5 The numbers bear out that the U.S. remains  
6 the primary focus for Chinese producers. We haven't  
7 seen the numbers declining as the middle class in  
8 China is growing.

9 COMMISSIONER ARANOFF: Okay. I take your  
10 point there. I think if there's some research that  
11 was done at the time that these investments or  
12 partnerships were entered into, you know, in the  
13 ordinary course of business, looking at Chinese  
14 demand, I think that would be helpful in helping us  
15 get through the back door to what you're discussing  
16 now, which is what really is the demand picture for  
17 Chinese production in China.

18 MR. LEVIN: And we will and I understand the  
19 question. I'm not looking to minimize the potential  
20 market that 1.1 billion people represent and the  
21 attractiveness of that market to U.S. manufacturers  
22 and European manufacturers and South American  
23 manufacturers.

24 But the question is whether or not that  
25 domestic demand has really turned Chinese producers

1 inward, and it really hasn't.

2 COMMISSIONER ARANOFF: Right.

3 MR. LEVIN: At least on the record of these  
4 investigations.

5 COMMISSIONER ARANOFF: Right, and so we need  
6 to think about that looking forward.

7 MR. HOLM: Commissioner Aranoff, the exhibit  
8 on the wall here is from the questionnaires and does  
9 give you -- we could back into those numbers, but the  
10 25 percent of the foreign producers, the Chinese  
11 producers, are currently shipping into their own  
12 market, which is growing but not nearly at the rate  
13 you might expect.

14 COMMISSIONER ARANOFF: Okay. Well, I  
15 appreciate those answers and I'll look forward to more  
16 in the post-hearing.

17 I have another request for post-hearing, and  
18 that is on related parties' issues. As you probably  
19 know, when I look at related parties, one really  
20 important thing is the ratio of producers, subject  
21 imports to their domestic production, so to the extent  
22 that there are any domestic producers who have a  
23 ration of imports to production that exceeds a hundred  
24 percent, I'd ask that in the post-hearing brief you  
25 consider whether I should be excluding those producers

1 from the domestic industry under the related parties'  
2 analysis.

3 MR. LEVIN: We'd be happy to. We went into  
4 a good amount of detail on that in the pre-hearing  
5 brief. I will note -- again, let me be very careful  
6 here -- there is one company that was a member of the  
7 petitioning coalition and techy were purchased in  
8 April by another company, I think for the express  
9 purpose of gaining some domestic manufacturing  
10 capability.

11 So what you're looking at is data reported  
12 as an importer. So again, I'll stop there. You know  
13 what I'm talking about and we'll be happy to discuss  
14 it further.

15 COMMISSIONER ARANOFF: Okay, appreciate  
16 that. Let me turn back to questions about the issue  
17 of attenuated competition in the market and just ask  
18 another question. How important is private label  
19 product in the market for multi-layer wood flooring  
20 and are domestic producers generally willing to  
21 product private label product?

22 MR. NATKIN: It has definitely increased in  
23 importance, I think, some. The short answer is when  
24 you're running at 40 percent capacity, sure, you'll  
25 produce for just about anybody, as long as they're

1 willing to pay for it and you can make a little bit of  
2 money at it.

3 I defer to Mr. Anderson to a certain extent  
4 as far as the importance of private label. You know,  
5 the brand was extremely important a few years ago, and  
6 as the Chinese have just gutted price in the market, I  
7 think brands have suffered to a certain extent.

8 COMMISSIONER ARANOFF: Does anybody have a  
9 guesstimate of what percent of the market now is  
10 branded versus private label?

11 MR. HOLM: I would just guess it to be about  
12 ten percent.

13 COMMISSIONER ARANOFF: Ten percent private  
14 label?

15 MR. HOLM: Ten percent private label, which  
16 is 90 percent labeled product.

17 COMMISSIONER ARANOFF: Yes.

18 MR. HOLM: But when we started our private  
19 label program a few years back, our intent was to have  
20 some niche products within that program that we  
21 weren't getting from our current supply source, and as  
22 that program progressed and the U.S. manufacturer that  
23 we were buying from couldn't compete in the hand  
24 scraped category of the market, we digressed to the  
25 Chinese hand scraped products, which were a lot less

1 expensive, and that conversion just happened probably  
2 totally about a year ago.

3 So it progressed from what was originally a  
4 line to have niche products in to a line that has a  
5 lot of commodity Chinese imports in.

6 COMMISSIONER ARANOFF: Okay. So if you tell  
7 me, Mr. Anderson, that private label products are  
8 about ten percent to the U.S. market right now, that  
9 means that most of the Chinese products coming into  
10 the U.S. market is being sold under somebody's brand  
11 name; right? Because they're certainly more than ten  
12 percent of the market.

13 MR. J. ANDERSON: Well, you're probably  
14 right. I'm more focused on our marketplace, I guess,  
15 and what we're doing but I think that would be the  
16 case. It would be much more than that, because there  
17 is no Chinese brands in the marketplace. There's no -  
18 - that I'm aware of that any Chinese manufacturers  
19 have actually gone out and branded their product and  
20 tried to compete head to head in the retailer store  
21 for business, other than the big box, and they do it  
22 under their private label, as well, so --

23 MR. NATKIN: Commissioner, if I may --  
24 again, Dan Natkin. That was the one piece of clarity  
25 that I was -- that I'd like to bring to this. Mr.

1 Anderson competes I'll say in roughly half the market,  
2 you know, on the independent retail and builder,  
3 flooring contractor side. There's a whole other half  
4 of the market that is dominated by private label,  
5 whether it be private label under Lumber Liquidators  
6 brands or private label in the home centers  
7 themselves, but Mr. Anderson's company doesn't service  
8 those segments of the market.

9 COMMISSIONER ARANOFF: Okay. I've run out  
10 of time, so I'll have to come back to this, but thank  
11 you for those answer. Thank you, Madam Chairman.

12 CHAIRMAN OKUN: Commissioner Pinkert.

13 COMMISSIONER PINKERT: Thank you, Madam  
14 Chairman. Mr. Holm, did you have a quick answer to  
15 Commissioner Pearson's question?

16 MR. HOLM: Let's see. I'll make it as quick  
17 as I can, but he really had two questions. One is  
18 there -- if there was no recession, how would the  
19 category look, the wood business look, and why do we  
20 not file to 2010, and Tom touched on a couple of those  
21 but this coalition actually began to discuss this  
22 pursuit back in 2007, coming off the prior  
23 investigation, but it's hard to get together a  
24 coalition of competitors, from a practicality  
25 standpoint, just from a scheduling standpoint, as well

1 as to get them going in the same direction and asking  
2 them to invest in a pursuit of this nature.

3 So it took us until 2010 to file our case,  
4 but we were in progress for the prior three to four  
5 years.

6 And the other question was around if the  
7 recession hadn't come, would we still have had this  
8 experience in the wood business? And my answer is  
9 yes, and Mannington and Don's company and some of the  
10 other members in the coalition aren't just wood  
11 manufacturers. We happen to be in all the categories  
12 of flooring, and it's been a challenging experience in  
13 these other categories during this type of recession.  
14 There's no question.

15 But we're profitable in those other  
16 categories. The category that is hemorrhaging is this  
17 category, and the one unique feature to this category  
18 are the Chinese imports and what's happened to us from  
19 that standpoint compared to the other categories.

20 So those kind of things aren't submitted in  
21 questionnaires, because they're not asked for, but  
22 that's part of our experience and it's part of what we  
23 see every day.

24 COMMISSIONER PINKERT: Thank you. Now, Mr.  
25 Levin, I note the answer to my question about 2010

1 that I asked in the previous round of questions, and  
2 then I noted in more recent testimony that you  
3 referred back to the market share that the subject  
4 imports held in 2007, so I want to revise my question  
5 about 2010, and ask you would I be seeing more of a  
6 correlation in the data between subject import market  
7 share and financial performance by the domestic  
8 industry, if our period of investigation went back to  
9 2007?

10 MR. LEVIN: I believe so, yeah. Absolutely.  
11 I mean, a lot of the damage to the industry was in the  
12 2007 to 2008 period, when the Chinese imports emerged  
13 from pretty much a non-player in the industry to a  
14 major player, then becoming the dominant foreign  
15 supplier, then becoming the dominant player.

16 What we've seen since then is a piling on  
17 but the first real chunk of in-roads by the Chinese  
18 imports were in the 2000 to 2008 period. What's  
19 happened since then is that you've had an industry  
20 that had been rendered vulnerable to some extent by  
21 the recession and continued piling on by Chinese  
22 imports exacerbating the damage.

23 MR. DOUGAN: Commissioner Pinkert, this is  
24 Jim Dougan from UCS, and I would concur with Jeff and  
25 I think the data bear that out in terms of the

1 relationship, and we can, you know, talk about that in  
2 post-hearing, if you like.

3 COMMISSIONER PINKERT: Thank you. I just  
4 want to clarify that I'm still interested in 2010, and  
5 whether or not 2010 provides a kind of natural  
6 correlation basis for the condition of the domestic  
7 industry, but having said that, if you wish to go back  
8 to 2007 and make a comparison, I think that might be  
9 helpful.

10 MR. LEVIN: Will do. Thank you.

11 COMMISSIONER PINKERT: Thank you. Now,  
12 turning to the potential outcomes at the Commerce  
13 Department, I know that you've already testified about  
14 what might happen with the exclusions, but I'm  
15 wondering if you can testify more generally about how  
16 the Commission ought to take into account the margins,  
17 if any, that the Commerce Department determines in  
18 their investigation.

19 MR. LEVIN: I believe that the magnitude of  
20 the margins plays a role, but not a major role.

21 THE COURT: Mr. Dougan?

22 MR. DOUGAN: We've, you know, kind of done  
23 some different scenarios and tried to look at as much  
24 as we can understand about how things would go,  
25 depending on who's in and who's out, and you know all

1 that pretty much involves confidential data, but what  
2 we can say is that the overall trends are similar to  
3 what we've observed in the other data. The magnitude  
4 is -- because, as I've said before, the mandatory  
5 respondents still represent a minority of the subject  
6 or the imports from China, let's say.

7 So the trends are the same, directionally,  
8 and you know, given the pricing pressure and the  
9 volume pressure from what would be the majority of the  
10 remaining subject imports, I think our conclusions  
11 would be very much the same that we would draw, but  
12 again, we'll get into that more once we know the  
13 results and the confidential data in the post-hearing  
14 brief.

15 COMMISSIONER PINKERT: Thank you.

16 MR. LEVIN: If I may just add, and I'll be  
17 very careful here, Commissioner Pinkert, the Chinese  
18 foreign producers have provided a healthy data set,  
19 but it's not complete, and it's not complete in at  
20 least one important respect.

21 COMMISSIONER PINKERT: Thank you. I'm sure  
22 you will elaborate on that in the post-hearing. Now,  
23 Mr. Dougan, you testified earlier about the  
24 underselling on the record of this investigation, and  
25 how it appears to be concentrated in pricing

1 comparisons, where quite a few of the subject imports  
2 are also concentrated.

3 And I'm wondering, what is your argument  
4 about the price effects of that underselling? Are you  
5 saying that the underselling caused price depression,  
6 for example, or price suppression or something else?

7 MR. DOUGAN: I think the primary thing that  
8 we're talking about is price depression. We see the  
9 trends in where the U.S. price has gone in response to  
10 subject import prices.

11 The degree to which that is observable in  
12 the individual pricing products, I think varies from  
13 case to case, again without getting into confidential  
14 information.

15 As I alluded to before, I think in response  
16 to Commissioner Lane, we're talking about a small  
17 minority, still, of subject import volume. We know  
18 what the trends are in aggregate, and we -- there's  
19 good reason to believe that there would be what would  
20 be I guess cross-pricing products competition that  
21 might not necessarily be contemplated within the  
22 strict definitions of the pricing product definitions.

23 And it's not necessarily to say that the  
24 eight pricing products are the universe of what might  
25 compete against one another, but rather than there

1 might be something else out there that is, you know,  
2 where the comparison might be made in the marketplace  
3 but not necessarily represented by what was gathered.

4 So I mean, the depressive effects I think  
5 that we see in the marketplace are clear. The degree  
6 to which the underselling data that are collected are  
7 indicative of that, again I think varies.

8 COMMISSIONER PINKERT: Thank you. Now,  
9 turning to the industry members of this panel, do any  
10 of the domestic producers make hand-scraped flooring?

11 MR. NATKIN: I'll answer that for Mannington  
12 Mills, Commissioner Pinkert. This is Dan Natkin, and  
13 the short answer to that is yes, and we have for a  
14 number of years now.

15 MR. FINKELL: Yes, at Anderson we make hand-  
16 scraped floors and so does Shaw quite a bit.

17 COMMISSIONER PINKERT: Perhaps for the post-  
18 hearing or perhaps you can answer it here, what  
19 percentage of the market is accounted for by that  
20 product?

21 MR. NATKIN: Commissioner Pinkert, Dan  
22 Natkin again. That's really regionally different  
23 around the country. In some parts of the country, and  
24 I'll use Texas as an example, it may be as much as 70  
25 or 80 percent of the multi-layer wood flooring sold.

1 In other parts of the country, like up here in the  
2 Northeast, it may represent only ten or 20 percent of  
3 all the wood floor sold. It's real -- there are  
4 regional preferences on style and design, and that  
5 kind of drives some of it.

6 Mr. Anderson can maybe answer for his  
7 markets, because he represents a pretty wide  
8 geography.

9 MR. J. ANDERSON: John Anderson. I would  
10 say Dan is right, it's probably -- it's certainly a  
11 regional issue, but the Texas market is probably about  
12 70 to 75 percent hand-scraped, and then as it begins  
13 to move east into Louisiana, Arkansas and some of the  
14 other states, it's a little bit less.

15 COMMISSIONER PINKERT: Thank you. Thank  
16 you, Madam Chairman.

17 CHAIRMAN OKUN: Thank you. I wanted to ask  
18 some more questions about how we look at the pricing  
19 data on this case, but Mr. Dougan, maybe I'll start  
20 with just a question about the AUV's and how useful  
21 they should -- or how much weight the Commission  
22 should give them in this particular case, given the  
23 various products. So help me, because I know you did  
24 an analysis of that and I know the Respondents have  
25 raised them, as well, so how should we look at AUV's

1 under the facts of this particular case?

2 MR. DOUGAN: Are you referring to AUV's of -  
3 - what AUV's in particular?

4 CHAIRMAN OKUN: I know in your brief you had  
5 used Pages 40 to 41, you had used the AUV's to support  
6 your argument on price depression. You referenced  
7 that in response to another question. And I'm trying  
8 to figure out how useful these comparisons are, where  
9 you have a lot of different products, as we've all  
10 discussed here.

11 MR. DOUGAN: Well, we think, first of all,  
12 they are useful, in part because of the relatively  
13 small proportion of subject import volume that's  
14 accounted for by the pricing product data. So the  
15 overall trend is helpful.

16 I think there is certainly maybe not on the  
17 other side of the aisle, but on this side of the aisle  
18 that there is broad overlap in competition, with  
19 respect to different types of products, so are there  
20 variations in product mix? Perhaps. Are they  
21 significant in the sense that it would impact the  
22 average unit value in aggregate, to a degree enough to  
23 show what we're seeing in terms of the decline in  
24 import AUV's? I don't think so.

25 The other thing that I wanted to note with

1 respect to one of the charts is that the importers'  
2 questionnaires were more comprehensive with respect to  
3 import volume as opposed to U.S. shipments of U.S.  
4 imports, and many importers, and we wrestled with  
5 this, didn't complete that part of the questionnaire.

6 And so we believe that at least with respect  
7 to relative changes in price and in aggregate, that  
8 the import AUV is helpful as a directional indicator.

9 CHAIRMAN OKUN: Yes, Mr. Levin.

10 MR. LEVIN: This may come as a shock but I  
11 agree with Jim. But it also circles back to the  
12 question that was raised earlier as to whether or not  
13 this is becoming more of a commodity product, and as I  
14 stated before, what I'm hearing from the marketplace  
15 is that unfortunately it has become more of a  
16 commodity product, and in my mind that would make the  
17 utility of AUV's greater than it would have been if we  
18 were looking at seven or eight years ago, where it was  
19 clearly as aspirational product and the AUV's may not  
20 be as indicative of the overall trends, because of  
21 clear product distinctions.

22 But as Dan testified before, more and more  
23 this is not a situation where somebody is coming in  
24 and asking specifically for birch or asking  
25 specifically for oak or hickory or acacia for that

1 matter. They need something that's dark red for their  
2 living room. What's the best product? And it cuts  
3 across species and it may even cut across specific  
4 instructions.

5 When you have that situation where the  
6 product is becoming more of a commodity, and  
7 especially with the classifications under the HDS,  
8 yeah, I think AUV's have importance in these  
9 investigations.

10 CHAIRMAN OKUN: Anything additional that you  
11 want to add post-hearing to help me understand your  
12 argument for that, I would appreciate it.

13 Then let me -- I'm going to ask the  
14 industry, because I think Mr. Dougan, I'll let you  
15 finish at the end or respond at the end, because I  
16 think you've been asked a lot of questions about your  
17 -- the analysis I think was at Exhibit 2, where you  
18 hold the domestic industry market share steady and  
19 then predict what would happen. And you've been asked  
20 to do that in several other different permutations,  
21 but I guess my question for the industry would be  
22 this.

23 If the order were imposed, do you think you  
24 would feel more of a price impact or a volume impact  
25 or why? Mr. Natkin, you're reaching for your

1 microphone.

2 MR. NATKIN: I would say volume comes before  
3 price, although we'd like to say both impacted, but  
4 obviously volume would probably come well in advance  
5 of price.

6 CHAIRMAN OKUN: Mr. Finkell.

7 MR. NATKIN: Which would have a bottom line  
8 financial benefit, because you'd have fixed factory  
9 cost spread over a larger volume.

10 CHAIRMAN OKUN: Mr. Finkell.

11 MR. FINKELL: Yes, this is Don Finkell.  
12 That was what I was going to say too, as you increase  
13 your volume, your prices -- your costs get better,  
14 because you cover your fixed overhead, you know, over  
15 more units. So my feeling would be that we would see  
16 an increase in volume and there probably are some  
17 situations where we've been taking some orders below  
18 our cost that we would like to get out of, if we  
19 could, just to try to protect relationships with key  
20 customers. We probably would see maybe some  
21 readjustment of that in the near term, but by and  
22 large for us, the volume would be nice.

23 CHAIRMAN OKUN: Mr. Anderson, what would you  
24 say, if the order were imposed, would you see you  
25 switching back to domestics, where you've already made

1 a switch to imports that you've testified to?

2 MR. J. ANDERSON: Yes, I would. If the  
3 domestic products were more competitive in the  
4 marketplace, I think the aesthetics are certainly  
5 there. I would see that we would be able to put more  
6 domestic products in our private label programs, and  
7 sell more domestic product going forward, based on  
8 volume.

9 CHAIRMAN OKUN: Okay. I appreciate those  
10 responses. Mr. Natkin, I also wanted to go back to  
11 you to follow up on Commissioner Aranoff's questions  
12 about branding, because at the end you had started  
13 talking about the differences in the different  
14 channels of where there's more branding or not, and  
15 that the branding -- the private label branding, if I  
16 understood you correctly, and that's why I wanted to  
17 go back and have you expand -- I mean, you were --  
18 it's really the -- in the segments you're talking  
19 about, it's the Lumber Liquidators who are a -- I  
20 mean, it's competing against you, so I'm trying to  
21 understand a little bit more about what we're talking  
22 about, because it's not actually something that was  
23 commented much on and that we collected much  
24 information in the staff report.

25 MR. NATKIN: In the, I'll call it more

1 traditional channels, that would be your independent  
2 retailer, your local Carpet One or your local flooring  
3 store, I think brand historically has played a much  
4 larger role. I mean, honestly this is an industry in  
5 which the consumer doesn't necessarily know the brand.  
6 They may have heard of one or two brands.

7 But they're walking in and they don't know  
8 brands so much, but on the other side of the coin, the  
9 channels that have grown in recent years, whether it's  
10 the non-specialty flooring retailers, your Empires of  
11 the world, or it's the home centers, I think brand  
12 gets a little more muddy there.

13 Some of the players choose to push brand  
14 there; some of the players choose to push private  
15 label.

16 Not to speak for Lumber Liquidators, but  
17 they have created their own umbrella of brands for  
18 their own use in the market, underneath the Lumber  
19 Liquidators brand, so everything there is private  
20 label and they're a very significant player. They're  
21 great at what they do.

22 CHAIRMAN OKUN: Okay. And just to make sure  
23 that I'm not confused about it, to the extent -- and I  
24 don't know if you can respond publicly or put it in  
25 the post-hearing, but to the extent there are domestic

1 producers importing product, which you've both talked  
2 about from China, are those being sold as different --  
3 like a private label versus your brand?

4 I mean, if I walk in as -- and I know you're  
5 removed. I mean, I understand that you're actually  
6 too removed from where the sale is going on, and I  
7 appreciate those comments to help me keep that in  
8 mind, but what do I see in the store?

9 I mean, do I know there that it's you  
10 importing a Chinese product and selling it versus your  
11 own?

12 MR. NATKIN: Everyone is different. I can  
13 only speak for ourselves as Mannington. In our  
14 particular case where we have domestically  
15 manufactured products and imported products, we  
16 actually put on the product where the produce is  
17 manufactured, whether it's manufactured by us in the  
18 United States or whether it's manufactured in Brazil  
19 or whether it's manufactured in China.

20 Now, I will not say that we are the poster  
21 child for that. Most people don't do that. We choose  
22 to do it.

23 CHAIRMAN OKUN: Do you give it a different  
24 line name? Like when we saw the different boards that  
25 showed what you're offering, would I know looking at

1 those boards or would I have to turn it over and say -  
2 -

3 MR. NATKIN: You would have to turn it over  
4 to know, honestly. For us, when we name a series,  
5 it's about -- it's about the visual and we come up  
6 with I'll call it a sub-brand or collection name, so  
7 we may have one collection name and that's Jamestown  
8 and we have another collection name and that's  
9 Atlantis, but you would have to flip the board over to  
10 know whether it's domestically manufactured or  
11 manufactured in China.

12 CHAIRMAN OKUN: Okay. Mr. Finkell, could  
13 you add anything to that conversation?

14 MR. FINKELL: We don't currently import  
15 anything from China. When we did import from China,  
16 we created a brand called Anderson Pacific, so that it  
17 would be distinguishable to people that it was not  
18 made domestically, but I don't think that's typically  
19 the case with, you know, with the larger U.S.  
20 manufacturers who import, you know, a larger portion  
21 of their products. I think they sell it under their  
22 own brand and it is somewhat indistinguishable.

23 CHAIRMAN OKUN: Okay. My red light has come  
24 on but for purposes of post-hearing, if there's any  
25 information, Mr. Levin, that can be put in the record

1 to help me better understand, you know, how this  
2 relates to competition market and imports and -- well,  
3 how it all plays into the discussion we've been  
4 having, I would find it useful.

5 MR. LEVIN: Absolutely, Madam Chairman, and  
6 if I may with the Chair's permission, I'd like to go  
7 into a little bit of discussion in the post-hearing  
8 brief about country of origin marking requirements and  
9 how far they extend.

10 CHAIRMAN OKUN: Okay. I think that would be  
11 useful. Go ahead and do that.

12 Vice Chairman Williamson.

13 VICE CHAIRMAN WILLIAMSON: Thank you, Madam  
14 Chairman. On your Exhibit 4, which shows the  
15 distributors' relationships, this category called  
16 Other Retailers is fairly significant, particularly  
17 for the imports, and even for the domestic producers.

18 And I was wondering, do we have any idea how  
19 many firms, what kind of other firms are we talking  
20 about? Is it most mom and pop, or are there --

21 MR. NATKIN: Commissioner Williamson, Dan  
22 Natkin. In our particular case, and I can only answer  
23 in the way that we answered the question, as it was  
24 defined in the instructions, other retailers were the  
25 ones that kind of didn't fit into the mold of what's

1 there.

2 I would say they're predominantly larger,  
3 whether it's a Lumber Liquidators, or an alternative -  
4 -

5 VICE CHAIRMAN WILLIAMSON: Isn't Lumber  
6 Liquidators down in this big box, Home Center  
7 category?

8 MR. NATKIN: Not in the way that we answered  
9 the question.

10 VICE CHAIRMAN WILLIAMSON: Okay.

11 MR. NATKIN: They're not really a home  
12 center. They're specialty -- they specialize in just  
13 selling flooring, but they're not our traditional  
14 independent retailer either.

15 And then there are other what we'll call  
16 retailers out there that fall into -- they're  
17 companies like Empire, Smart Carpet, Luna, that offer  
18 a shop-at-home service, as an example, where they  
19 bring samples to your home, you make the selection in  
20 the home. I'm sure you've seen the commercials on TV,  
21 because they plaster the advertising.

22 But they would fall into that Other Retailer  
23 category, as well.

24 VICE CHAIRMAN WILLIAMSON: Okay.

25 MR. FINKELL: Commissioner?

1 VICE CHAIRMAN WILLIAMSON: Yes.

2 MR. FINKELL: This is just a point. We're a  
3 company that sells the majority of our merchandise  
4 through distribution, through companies like John's.

5 VICE CHAIRMAN WILLIAMSON: Yeah.

6 MR. NATKIN: Don here, their company -- his  
7 original company, Anderson, traditionally sells  
8 through distribution, as well, and then they in turn  
9 sell downstream to retailers. But he also works for a  
10 company, Shaw, and there's also other major players in  
11 this group that sell directly to retail. So some --  
12 so they invoice directly to a retailer or a  
13 contractor. Some sell to a distributor who sell to  
14 that same retailer and contractor.

15 So it's a little bit muddy in the way it's  
16 defined.

17 VICE CHAIRMAN WILLIAMSON: Okay.

18 MR. FINKELL: Yes, sir. I would also say,  
19 you have certain national retail programs, where there  
20 are no national distributors, so if you have say a CCA  
21 Global, which has members all over the country, if  
22 they want to have a special program and buy directly,  
23 that would be something that Anderson would not do but  
24 it is something that Shaw would be able to do, and  
25 Shaw would be one of the few companies that could do

1 that because they have this national reach with their  
2 sales force.

3 So that would also be a company that would  
4 be in that light blue category. They're not a home  
5 center. They're not a distributor. They are another  
6 retailer.

7 VICE CHAIRMAN WILLIAMSON: To the extent  
8 this category is growing, it doesn't favor the  
9 importer versus the domestic product at all, I take  
10 it, or does it?

11 MR. FINKELL: No, I think it definitely  
12 favors the importer, because the reason they do that,  
13 the reason they put those programs together, is to get  
14 a better price.

15 VICE CHAIRMAN WILLIAMSON: Yes. Okay. I  
16 was going to ask Mr. Anderson, I mean, you made a  
17 point very dramatically about how the Chinese price is  
18 driving the market. I assume we're going to be  
19 hearing some different things from other distributors  
20 this afternoon or -- and I was wondering whether or  
21 not, any of those you want to anticipate and have an  
22 answer to now? This is kind of a fishing question but  
23 --

24 MR. J. ANDERSON: Yeah, I would just mention  
25 product differentiation, and how many domestic

1 manufacturers they represent versus import  
2 manufacturers.

3 VICE CHAIRMAN WILLIAMSON: Could you  
4 elaborate on that a little?

5 MR. J. ANDERSON: Well, a lot of them don't  
6 have domestic manufacturing. They're not supporting  
7 domestic manufacturing in their programs right now.

8 MR. HOLM: Commissioner, Tom Holm.

9 MR. J. ANDERSON: Importers is what they  
10 basically are.

11 MR. HOLM: There is one on their team, their  
12 side that was a large domestic -- a very large  
13 domestic distributor of our product actually, that now  
14 is almost exclusively imported product from their  
15 program.

16 VICE CHAIRMAN WILLIAMSON: Okay, thank you.  
17 You know, we've had a lot of questions about the  
18 pricing data and we've had problems about that, and  
19 the thing I got from Mr. Anderson's testimony was  
20 that, you know, there was like a force here that's  
21 going on, that's the Chinese product is coming in.  
22 They might start marketing maybe acacia, or that  
23 becomes popular, even though it's not -- it's  
24 competing directly with domestic product, but we don't  
25 see it in our pricing data but we see it otherwise.

1                   And this whole shift in the way the  
2 distributor -- this Other Retailer category is  
3 growing, instead of kind of maybe independent supports  
4 that, and I was wondering is there other evidence that  
5 you can point to that helps us understand shall we say  
6 the way the Chinese product is competing in the U.S.  
7 market?

8                   I'm getting some blank looks so I may not  
9 have explained it but to the extent that we are having  
10 problems with the pricing data, and you have to make  
11 the point that there's price depression, I'm trying to  
12 look for other ways that we can validate that.

13                  MR. LEVIN: If we can sit back and think  
14 about the question, it's a pretty wide-open-ended  
15 question, and provide further information and support  
16 in our post-hearing brief?

17                  VICE CHAIRMAN WILLIAMSON: That's --

18                  MR. LEVIN: I didn't mean to cut you off.  
19 Go ahead.

20                  MR. DOUGAN: Jim Dougan from UCS. I think  
21 one thing that -- can we go back? Can we go to  
22 Exhibit, I believe, 7? And I think this is -- I'm  
23 going to echo how I responded to Chairman Okun, which  
24 is, you know, at least with respect to trend --

25                  VICE CHAIRMAN WILLIAMSON: Yeah.

1           MR. DOUGAN: Again, these are index numbers  
2 and they are import AUV's and so on, but at least with  
3 respect to trend, and I can ask my fellow panelists,  
4 is this representative of what you're seeing from  
5 Chinese pricing in the marketplace, to a greater  
6 degree than obviously they haven't seen the  
7 confidential pricing data --

8           VICE CHAIRMAN WILLIAMSON: Yeah.

9           MR. DOUGAN: But they do know that it's a  
10 confidential pricing data record that shows what would  
11 be considered, you know, a mix, let's say, over  
12 overselling and underselling. Would this be more  
13 consistent with your experience in the marketplace?  
14 And before they answer, let's say that this is, you  
15 know, the reach of this, the coverage of this is much  
16 greater than you see in pricing products one through  
17 eight.

18           VICE CHAIRMAN WILLIAMSON: Okay. That's a  
19 good way to put it. You start the facts and maybe --  
20 you know, problems with AUV and mixed products, but  
21 taking that aside you might adjust the data for that,  
22 but yes.

23           MR. FINKELL: Could I say one thing? This  
24 is Don Finkell again. I think if you look at the  
25 distributors that are here to testify, we have other

1 distributors that are let's say that they have a  
2 history with U.S. manufacturers, like John has, and  
3 they are primarily selling U.S. manufacturers'  
4 products, but most of them also sell some Chinese made  
5 product.

6 And the ones that don't sell any Chinese  
7 made product are pretty much out of business. So the  
8 people that are going to testify here, and I'd be  
9 curious to find out how much of what they sell is made  
10 by U.S. manufacturers, versus how much is imported.

11 There is a reluctance on the part of  
12 distributors to come testify here, because they're  
13 concerned about retaliation from Chinese  
14 manufacturers, and I think the same thing with filling  
15 out forms and being put on the record, you know, with  
16 these, even though it's supposed to all be  
17 confidential, there is a reluctance to say those  
18 things, you know, in a way that could be traced back  
19 to them.

20 So I think there is some element of that  
21 going on in this, as well.

22 VICE CHAIRMAN WILLIAMSON: Okay.

23 MR. LEVIN: Thank you, Don, for saying that.  
24 Commissioner Williamson, you know, that's real life  
25 stuff, and often lost in the course of formal

1 investigations.

2           When John and I first spoke, you know, I  
3 made sure to explain to him, you're in a public forum,  
4 there's going to be a lot of people from the industry,  
5 make sure that you want to do this. You don't have  
6 to. It's your business.

7           And his response to me is, thanks, Jeff. I  
8 understand that but this is important to me. I happen  
9 to be, as he said in his testimony, I happen to  
10 believe in U.S. manufacturing. This is important and  
11 may even be grander than just this investigation, and  
12 --

13           VICE CHAIRMAN WILLIAMSON: I appreciate that  
14 but I think the real point is, the years of experience  
15 in the market and selling, and that's worth a lot, and  
16 so the questions I'm asking are are there additional  
17 indicia that you can provide us that helps support  
18 that?

19           MR. LEVIN: Right, and my remarks were not  
20 intended as a direct response to your questioning. I  
21 said, you know, let me go back and to what Jim and Don  
22 have said, and we'll put together whatever additional  
23 information and support there is, but I did want to  
24 make the point, you know, this is real life stuff and  
25 has consequences.

1                   VICE CHAIRMAN WILLIAMSON: And we see it a  
2 lot in our 332 study, so I know what you're talking  
3 about. Thank you. My time has just expired. Thank  
4 you.

5                   CHAIRMAN OKUN: Lane.

6                   COMMISSIONER LANE: Thank you. In the  
7 opening remarks by the Respondent, the Respondent said  
8 that there was not an overlap of competition between  
9 the subject imports and the domestic product, and I  
10 don't think in the report we have a breakdown showing  
11 the different domestic products and the breakdown of  
12 the subject imports coming into this country and  
13 showing how they go, how they compete with one  
14 another. Is it possible to provide such a chart so  
15 that we don't get -- so that we can answer that  
16 question when it comes up?

17                  MR. LEVIN: Commissioner Lane, we'll do the  
18 best we can in the post-hearing brief. The domestic  
19 manufacturers -- I'm not going to speak to the  
20 imports. I'll let the Respondents' panel do that.

21                  They manufacture hundreds of SKU's and one  
22 particular SKU -- the competition faced by one  
23 particular SKU doesn't line up exactly with a  
24 particular imported product.

25                  As Dan was saying at the outset, there's a

1 lot of maneuvering room between what one particular  
2 product may compete against. So it is a difficult  
3 thing to line up the domestic products, to line up the  
4 imported products.

5 I will say two things. I'll say three  
6 things. First of all --

7 COMMISSIONER LANE: You can say four if you  
8 like.

9 MR. LEVIN: I want to keep it brief, my  
10 version of brief. There's hundreds of SKU's that are  
11 manufactured by the domestic industry.

12 Second point, the degree of overlap between  
13 the universe of domestic products and the universe of  
14 domestic imports is tremendous.

15 COMMISSIONER LANE: Okay. Then can you  
16 provide me a chart that shows that? Doesn't then -- I  
17 understand what you're saying about that there are  
18 whole lots of variations, but if the Respondents are  
19 saying that there is not an overlap of competition  
20 between the domestic and the subject, can we have a  
21 chart that shows that there is or there isn't?

22 MR. NATKIN: Commissioner Lane, Dan Natkin.  
23 I think one of the biggest challenges in doing that is  
24 the HTS codes that we work with on evaluating the  
25 import data don't say, okay, here's a code for five-

1 inch wide, hand-scraped hickory. Here's a code for  
2 five-inch wide, smooth acacia. Here's a -- the codes  
3 are just a mess, so there's no way to say, to take all  
4 their data and apportion it into these neat little  
5 buckets and say here's how they line up in the market.  
6 It's literally impossible.

7 We can bracket and say here are the big  
8 selling products in the market and, yes, the Chinese  
9 participate here or, no, they don't participate over  
10 here, but to be able to get to that kind of finite  
11 level of detail and --

12 COMMISSIONER LANE: Big brackets are fine,  
13 and perhaps what I've heard today is that when  
14 customers come in, they want wood flooring,  
15 manufactured flooring, or they want hardwood flooring,  
16 and it depends upon probably the price and what it  
17 looks like, and so they might come in with a specific  
18 idea but generally you're saying that they don't.  
19 They just come in and they want wood flooring.

20 And so is that basically correct, and then  
21 the salesman talks to them about the different  
22 variations and the different qualities, and then the  
23 person makes their decision based upon price and what  
24 they can afford?

25 MR. LEVIN: Yes, ma'am, that's correct.

1 That's exactly correct.

2 COMMISSIONER LANE: Okay. So based upon  
3 that premise, then I would think that it would be --  
4 would not be difficult to show that there is or there  
5 is not an overlap of competition between the domestic  
6 and the subject.

7 MR. LEVIN: And I think Dan hit upon  
8 probably the best means to do this. Doing it in big  
9 product categories is probably the best way that we  
10 can do it and we'll try to find -- we'll try to design  
11 the most meaningful comparison in the post-hearing  
12 brief.

13 COMMISSIONER LANE: Okay. If someone comes  
14 in and say they want wood flooring, and then  
15 determined that they can't afford it, what is their  
16 next logical product that they would look at? Do they  
17 go to carpeting? Do they go to laminate? Do they go  
18 to tile? Or do they look at the engineered flooring  
19 and say wait a minute, I can really afford hardwood  
20 flooring.

21 MR. LEVIN: What I'm hearing and I'll have  
22 the industry witnesses state some detail on this, but  
23 what I have heard is that the customer typically comes  
24 into the store already knowing whether he or she wants  
25 and can afford hardwood flooring.

1           And at that point it even becomes okay, what  
2 color do I want --

3           COMMISSIONER LANE: Wait a minute. Are you  
4 saying hardwood flooring or are you saying engineering  
5 flooring?

6           MR. LEVIN: Usually engineered wood  
7 flooring, and to some extent solid wood flooring,  
8 although there are big segments where they are not  
9 substitutable, and they have typically, and correct me  
10 if I'm wrong, Dan, they have typically come into the  
11 store already knowing, all right, I can afford multi-  
12 layered wood flooring, I don't need to go up the price  
13 scale or I can't afford to go up the price scale for  
14 solid wood flooring, or they already know that I can't  
15 use solid wood flooring because of the limitations in  
16 its physical applications.

17           MR. NATKIN: Commissioner Lane, in today's  
18 day and age, the consumers are coming in more and more  
19 informed when they walk into the store. The consumer  
20 is not going to walk -- typically walk into the store  
21 with it in mind that she's going to get a hardwood  
22 floor and --

23           COMMISSIONER LANE: Hey, I like the way that  
24 you keep saying she. Do more females purchase wood  
25 flooring than males?

1           MR. NATKIN: Let's face it, when it comes to  
2 style and design, I would say that the female tends to  
3 be the one with the most influential piece of that  
4 decision. At least I know in my own personal case, I  
5 don't really have much say in it.

6           COMMISSIONER LANE: You mean best taste?

7           MR. NATKIN: Absolutely.

8           COMMISSIONER LANE: Okay.

9           MR. LEVIN: I can confirm that on my own  
10 personal experience.

11           MR. NATKIN: But consumers are coming in  
12 very well educated, and they're going to know relative  
13 price points. They know -- they have in their mind  
14 that they want a wood floor. I'll use my own personal  
15 case as an example.

16           If my wife has it in her mind that she's  
17 going to get a wood floor, she's not going to get  
18 talked into a laminate. She's not going to get talked  
19 into LVT. She's not going to get talked into tile.  
20 She's going to get a wood floor and she's going to  
21 know roughly the color and style that she wants, and  
22 then once she gets in there, then you get -- you begin  
23 to spread out to that, but the consumer is not going  
24 to come in and have this sudden epiphany, oh, man, I  
25 can't afford a wood floor. There's going to be a wood

1 floor that she can afford in there and she's going to  
2 know that before she ever gets to the store.

3 COMMISSIONER LANE: Okay. Mr. Anderson,  
4 when you sell the imported product, the subject  
5 product, in your distribution business, do you sell it  
6 at a dump price or do you sell it at a fair price?

7 MR. LEVIN: If I may, I'm not sure that Mr.  
8 Anderson could answer that question. He's selling it  
9 at the price that he's being told to sell it to or the  
10 selling price by the Chinese producers. Whether or  
11 not a product is being sold at less than normal value  
12 or whether or not a product is being subsidized by a  
13 program that is count available, I think is beyond the  
14 purview of a distributor in the marketplace.

15 COMMISSIONER LANE: Okay. Well, then tell  
16 me this. We've got the Department of Commerce has  
17 decided that the product is coming in at less than  
18 fair value. If that product is being sold at less  
19 than fair value, not to a distributor, who else would  
20 it be being sold to?

21 MR. LEVIN: Well, it's being -- maybe I  
22 misunderstood your question. I thought the question  
23 you're asking me is whether or not the distributor  
24 knows that the product is being dumped, and my  
25 response was that's a fairly technical legal issue. I

1 think the distributor will know that the product is  
2 being sold at X price. Whether or not that happens to  
3 be a price that's a dumping price, I'm not sure that  
4 that's something that emerges in the mind of a  
5 distributor. Cheap does, but unfairly traded, I don't  
6 think so.

7 COMMISSIONER LANE: Okay. Maybe you can  
8 look at this post-hearing but as I understand it,  
9 there are one or two companies that might not be  
10 dumping and so if the rest of them are dumping and  
11 he's buying from those companies, it must be at a dump  
12 price, and so then does he in turn turn around and  
13 mark it up to the same that he's selling the subject  
14 product?

15 MR. HOLM: Commissioner Lane?

16 COMMISSIONER LANE: Yes.

17 MR. HOLM: Can I try and answer this?

18 COMMISSIONER LANE: Yes, thank you.

19 MR. HOLM: I think I understand the  
20 question. The question is if he's buying product from  
21 domestic producers like us, and he puts a margin or a  
22 markup on it, and goes to the market, when he buys a  
23 product from his Chinese imports, he goes through the  
24 same process. He puts a margin or a markup on it, and  
25 goes to market.

1           But it's generally driven by market dynamics  
2           and demand in the market, so the pricing is more  
3           dictated by the marketplace than by the distributor,  
4           but it's not like they're able to buy something at 50  
5           cents a foot cheaper from the Chinese and make 50  
6           cents more? That doesn't happen.

7           As a distributor, he puts his 20 percent  
8           markup on it to distribute downstream to the retailers  
9           and contractors, whether it's primarily from us or a  
10          Chinese import.

11          COMMISSIONER LANE: Okay. Mr. Anderson, you  
12          probably answered this before, but when you sell the  
13          subject product and the domestic product, the domestic  
14          product just generally commands a higher price?

15          MR. J. ANDERSON: Your higher selling point?

16          COMMISSIONER LANE: Yes.

17          MR. J. ANDERSON: Or a higher margin? The  
18          domestic product would normally sell at a higher price  
19          point.

20          COMMISSIONER LANE: Yes.

21          MR. J. ANDERSON: Not necessarily a higher  
22          margin.

23          COMMISSIONER LANE: Yes. Higher price, yes.

24          MR. J. ANDERSON: Yes.

25          COMMISSIONER LANE: Okay, thank you. Thank

1 you, Madam Chair.

2 CHAIRMAN OKUN: Mr. Pearson.

3 COMMISSIONER PEARSON: Thank you, Madam  
4 Chairman. I think I have two questions left, plus one  
5 for post-hearing.

6 First, in our pricing products we see a  
7 pattern that we might describe as mixed overselling,  
8 underselling. What should we think of the  
9 Respondents' calculation that the weighted average  
10 margin of overselling was 7.7 percent? That's not an  
11 approach that we've often used to try to evaluate  
12 underselling. So, Mr. Dougan, either now or post-  
13 hearing, what do you think of that analysis? How  
14 should we understand that for purposes of our  
15 investigation?

16 MR. DOUGAN: Thank you, Commissioner  
17 Pearson, and I think I may have alluded to this at  
18 least briefly in response to a question from Vice  
19 Chairman Williamson.

20 Purchasers have responded, and we can  
21 tabulate this, but in reading the questionnaires, that  
22 the purchasing frequency of this product, historically  
23 frequent -- this isn't something where they set up a  
24 multi-year contract and lock in quantity and value.

25 So in that context, just regardless of

1 whether it's something that the Commission often sees  
2 as an analysis, with respect to the realities of the  
3 marketplace and marketplace dynamics and, you know,  
4 how frequently, rather, that these purchases are made  
5 and negotiated, I don't think a full POI average is  
6 appropriate, regardless of what the answer would be,  
7 so we can address it more easily in the confidential  
8 data though.

9 COMMISSIONER PEARSON: Okay. Thank you.  
10 Please do so because it's there, it's on the record.  
11 It's presented thoughtfully by Respondents, and I'm  
12 thoughtfully trying to decide what exactly to do with  
13 it.

14 MR. DOUGAN: Understood, will do.

15 COMMISSIONER PEARSON: Another question  
16 regarding the pricing products. The Respondents'  
17 claim that the relatively low share of imports  
18 accounted for by the pricing products indicates that  
19 there's minimal overlap between Chinese and domestic  
20 multi-layer wood flooring. How do you respond to  
21 that, and I would -- in context, I would just say in  
22 this investigation we have a little -- somewhat less  
23 overlap than I might have expected relative to other  
24 investigations, and I know you've got hundreds of  
25 SKU's and all that, but still we don't have a lot of

1 head-to-head competition reflected in our pricing  
2 products. Mr. Natkin.

3 MR. NATKIN: Commissioner Pearson, I'll take  
4 a stab at it and I'll let others on the panel take a  
5 stab at it, as well.

6 When you look at the eight products that are  
7 defined in the questionnaire, they're very narrowing  
8 focused, so it will say half-inch thick, five-inch  
9 wide, hand-scraped, hickory. You know, there's a  
10 fairly narrow focus, so you really laser beam in on  
11 that, so to speak.

12 But there are other products that are  
13 similar. I mean, I've got two products here. This  
14 one is three-eighths of an inch. This one is half of  
15 an inch.

16 Visually they're almost indistinguishable,  
17 when they're on the floor, but this one would not have  
18 been included in the petition and this one would have,  
19 and but they directly compete in the market.

20 So I think that's part of where you don't  
21 get some of that overlap that you see in there, or it  
22 will say five-inch and they might be selling four-and-  
23 a-half or six-inch, so because of the breadth of  
24 products that are offered by both the domestic  
25 manufacturers and the importers, it's often hard to

1 get that overlap exactly lined up.

2 But believe me, it overlaps in the market.  
3 If your product is four-and-three-quarters an inch and  
4 this product is five-inch and this product is two  
5 dollars cheaper than this one, they're going to go for  
6 the four-and-three-quarter inch, even though it's a  
7 quarter inch narrower.

8 MR. DAVIS: Let me just make a comment and  
9 maybe this will help. Oftentimes when we do  
10 competitive analysis and product line reviews, we  
11 don't boil it down to a matrix on a piece of paper  
12 with product descriptions. We literally have to  
13 physically lay out the products and look at them  
14 visually, look at pictures, and that's where you see  
15 the overlap. It's hard to see it on a piece of paper  
16 written down in specifications.

17 COMMISSIONER PEARSON: Okay. Did we do a  
18 sub-optimal job in specifying the pricing products?

19 MR. LEVIN: I think you did the most optimal  
20 job that you could do with the nature of the product.

21 MR. DOUGAN: And may I add, Jim Dougan for  
22 UCS, and with the nature of the data gathering. You  
23 know, the descriptions are very clear, and it's easy  
24 to understand what each pricing product is and it  
25 should represent that, but in terms of how

1 representative it may be of the competitive reality of  
2 how someone may look at two different products that  
3 could be even of different species but stained to look  
4 the same and have the same quote, unquote, visual  
5 similar grain, something like that, those could be  
6 directly competitive products that may be missed by  
7 the specifications.

8           And unless, you know, and until the day that  
9 questionnaires, I guess, allow for that kind of visual  
10 representation, you know, the Commission did the best  
11 they could, but if you're wondering why there may be  
12 missing what you think would be more competitive  
13 overlap, I think that goes a long way toward  
14 explaining it.

15           MR. DAVIS: At some point it may have been  
16 that using product baskets, so to speak, would have  
17 made more sense in some way. I don't know.

18           COMMISSIONER PEARSON: Mr. Finkell.

19           MR. FINKELL: Yeah, this is Don Finkell. We  
20 make probably 500 different products, SKU's, so to  
21 pick out eight, you know, that would be most  
22 representative, that's still a very small portion of  
23 what we totally make. In my mind, with the exception  
24 of bamboo, everything in multi-layer wood flooring is  
25 coming into the U.S. overlaps with what is made in the

1 U.S.

2 I don't see where there's not overlap unless  
3 it's some legal opinion that I don't understand. In  
4 the practice, in the marketplace, it all overlaps, and  
5 if there was some species like acacia that was getting  
6 30 percent of the market, we would have acacia next  
7 week. I mean, it all overlaps.

8 COMMISSIONER PEARSON: Okay. Well --

9 MR. NATKIN: Just a quick suggestion on two,  
10 which would give you a sense of it, and we may not  
11 have the time to do it, but if you just walked into a  
12 flooring store and looked at the breadth of all the  
13 offerings, that would be worth a lot of conversation  
14 we're having here.

15 COMMISSIONER PEARSON: I know that  
16 Petitioners have input into how the pricing products  
17 were specified and so agree with you, I think that  
18 staff did the best that could be done. I'm just  
19 trying to understand, to interpret what we have on the  
20 record because Respondents are making the argument  
21 that hey, there obviously is not that much head-to-  
22 head competition because we don't see those match-ups  
23 in our pricing products.

24 So for post-hearing, to the extent that  
25 you're going to elaborate on this and help us to

1 understand why there is head-to-head competition, when  
2 it's not reflected directly in the pricing product  
3 data, that would be helpful.

4 MR. DOUGAN: Commissioner, may I add one  
5 more thing, and I'm trying to skirt some  
6 confidentiality issues here, but there was -- this  
7 kind of also relates to lost sales to some degree,  
8 where one of the listings was a disagreed, because the  
9 purchaser responded, oh, no, we didn't buy, you know,  
10 species A at the lower import price, we bought species  
11 B at the lower import price instead of this, so they  
12 made the choice to go with a slightly different  
13 species, but they confirmed that they got it at the  
14 lower price, so in some ways that helps to confirm  
15 this view of what may be going on with the pricing  
16 data overall.

17 COMMISSIONER PEARSON: Okay, thank you.  
18 Well, I'll look forward to seeing what more we can  
19 learn in the post-hearing.

20 My last question is for Mr. Levin, and it  
21 really is for post-hearing. In your opening remarks  
22 you commented to the effect that the domestic  
23 producers in the room do something that's becoming all  
24 too uncommon in this country. They make something.  
25 And then subsequently Mr. Davis elaborated on that

1 theme in some of his responses.

2 My understanding is that U.S. manufacturing,  
3 the value of the U.S. manufacturing, output has been  
4 increasing relatively steadily for some number of  
5 decades. That would be an inflationary adjusted  
6 value. It dips when there's a recession, but then  
7 it's always headed up again, and my -- I haven't  
8 looked at this issue for several months but last time  
9 I did, manufacturing had picked up again from the  
10 depths of the recent recession, and was once again  
11 trending upward.

12 So despite the fact that some industries  
13 have had considerable challenges in manufacturing, for  
14 the United States as a whole, we've had very great  
15 success and remain far and away the world's largest  
16 manufacturer.

17 So for purposes of the post-hearing could  
18 you please examine that issue and look at the U.S.  
19 manufacturing data and compare it to other countries,  
20 and then you have a chance, if you wish, to elaborate  
21 and extend your opening remarks. I know you wouldn't  
22 want unintentionally to mischaracterize the state of  
23 manufacturing in the United States.

24 MR. LEVIN: I'd be happy to, Commissioner.

25 COMMISSIONER PEARSON: Thank you very much.

1 Thank you to all witnesses. Madam Chairman, I have no  
2 further questions.

3 CHAIRMAN OKUN: Commissioner Aranoff.

4 COMMISSIONER ARANOFF: Thank you, Madam  
5 Chairman. I think as Commissioner Pearson was  
6 questioning, made clear one of the issues we have in  
7 this case is really trying to figure out what price  
8 information we should be looking at and what it tells  
9 us, and he was searching for something that was going  
10 to show the range of head-to-head competition, so I  
11 wanted to come at that from a different direction,  
12 which is a lot of Mr. Dougan's testimony at the  
13 beginning of today was based on average unit values  
14 across the total value of Chinese imports, so lumping  
15 basically everything into one category, and saying we  
16 should look at that.

17 And I think what we're looking for -- what  
18 I'm looking for is some justification for why we would  
19 want to abandon our more precise data that we usually  
20 rely on in favor of average unit value data, which we  
21 usually are extremely skeptical of, particularly in a  
22 case where there's a lot of product variety.

23 Mr. Dougan, is there a comment you want to  
24 make on that now?

25 MR. DOUGAN: Thank you, Commission Aranoff.

1 And I see what you're saying, and I think that there  
2 is -- I understand the reluctance. I think if the  
3 more precisely individual pricing product data, very  
4 often does give a lot more insight to pricing dynamics  
5 in the marketplace. And for that reason, it does tend  
6 to be more heavily relied upon, with good reason.

7 I think in this case, because of -- you  
8 know, what we've discussed in terms of the competitive  
9 dynamics of let's say visuals or things of that  
10 nature, there may be less to be gained from it than in  
11 a situation where there aren't competitive relevant  
12 factors that may not be captured in the product  
13 descriptions.

14 Looking at the AUV's, I understand the  
15 skepticism, especially with respect to product mix,  
16 and we can discuss this more and provide you hopefully  
17 with some insight post-hearing, but with some rare  
18 exceptions we think that we're competing across the  
19 broad spectrum of the marketplace.

20 So differences in product mix would not by  
21 themselves, to the extent they exist at all, would not  
22 explain the divergence in average unit values that  
23 we're seeing, and again the reason that the chart at  
24 Table 7 or Exhibit 7 rather, uses indexes is because  
25 we're looking for directional indicators, recognizing

1 that, you know, we're looking at imports versus U.S.  
2 shipments, and that there is a -- the import data is  
3 maybe more inclusive than what Respondents could --  
4 actually how they filled out their questionnaires.

5 So it is, you know, something of a more  
6 blunt instrument but the pricing -- the underselling  
7 data may provide additional precision without  
8 additional accuracy or insight. Just a thought.

9 COMMISSIONER ARANOFF: So some witnesses,  
10 you mentioned earlier, that you sometimes design new  
11 products to hit a certain price point. So I wanted to  
12 follow up on that and ask, during the period of  
13 investigation have any of you developed product with  
14 the specific purpose of meeting the price at which  
15 particular subject Chinese product was sold at?

16 MR. NATKIN: Commission, Dan Natkin. I'll  
17 speak to our company in particular. We have attempted  
18 to engineer products to get close to where a certain  
19 price point is but, again, it's a moving target too.  
20 You know, just when you think the price is here, it's  
21 gone here, and then when it's there, it's gone down  
22 further.

23 So we have developed products very  
24 specifically targeted at particular components of the  
25 market and particular price points.

1                   COMMISSIONER ARANOFF: Let me just say that  
2 these products are sold at lower prices than your  
3 preexisting products?

4                   MR. NATKIN: In some cases the answer to  
5 that is yes. We have engineered the product to be  
6 able to be sold to try and compete in the marketplace  
7 at a lower price point. They're not being sold at the  
8 prices we'd like them to be sold at, but we, as an  
9 example, hand-scraping being so popular, their being  
10 very labor-intensive and, therefore, expensive. We've  
11 designed equipment and invested in machinery to be  
12 able to do it more mechanically, to take some of that  
13 cost element out to try to get closer to the price  
14 points, but we're not selling the produce where we'd  
15 like to honestly sell it at a break-even or even a  
16 slight loss, just to keep some relative market share.

17                   COMMISSIONER ARANOFF: Okay. If there's any  
18 documentation that any of the domestic producers can  
19 submit post-hearing to show us that they have  
20 developed products to meet lower Chinese price points,  
21 and that those products perhaps are taking up a  
22 greater share of their total sales, I think that would  
23 be helpful to have.

24                   As a follow-up on the hand-scraping point,  
25 I actually was going to ask you about that, because I

1 remember that from when we were touring the plant,  
2 have you done any market research to show whether a  
3 consumer can tell the difference between your machine  
4 approximation of hand-scraped and hand hand-scraped?

5 MR. DOUGAN: We have when we were actually  
6 developing the product. The product was developed  
7 over about a two-and-a-half year period. It started  
8 with a kind of back of the envelope design for a piece  
9 of machinery, and then the first generation of it, we  
10 would lay out a truly hand-scraped floor, and then  
11 this mechanically-scraped floor and the customer  
12 research came back resounding. They could tell the  
13 difference.

14 We had to keep going back and keep  
15 reinventing and keep rethinking the process until we  
16 got to the point where it's very difficult to tell the  
17 difference.

18 COMMISSIONER ARANOFF: Okay, appreciate  
19 that. Switching to another topic, some of the  
20 Respondents have argued that it's not subject imports  
21 that are putting pricing pressure on multi-layer wood  
22 flooring products but the downward pricing pressure is  
23 coming from alternative products, such as laminates or  
24 carpet or what have you.

25 Do the prices of alternative products, such

1 as these, have an impact on ancillary wood flooring  
2 prices, and is there anything you can give us for the  
3 record that would tell us whether that's true or not?

4 MR. NATKIN: Commissioner Aranoff, I think  
5 that it's difficult to pierce into the mind of the  
6 consumer on she makes up wood -- what we do know, at  
7 least from our own consumer research, like I said  
8 earlier, she's coming in predisposed to what flooring.  
9 There's form and function.

10 If a consumer is looking for a solution, she  
11 has a wet basement, she has a heavy traffic, a big dog  
12 and kids, she may be looking for floor covering  
13 solution, like a laminant, versus wood, which tends to  
14 be much more of as aspiration product, and she's going  
15 to come in predisposed to that wood.

16 So just because laminant is 99 cents and  
17 wood is five dollars, it doesn't mean that the same  
18 consumer is coming in and balancing those two. And  
19 often we don't find that in the consumers that we've  
20 talked to.

21 We find that if she wants a wood floor,  
22 she's coming in, she's buying a wood floor. She's not  
23 coming in and being traded down to one of these other  
24 product types, despite the pricing differences.

25 And because we're a full-line manufacturer

1 and we can see that in the strength or lack of  
2 strength in all of our different product categories.

3 COMMISSIONER ARANOFF: Okay. Now, just to  
4 wrap up a couple more questions before leaving --  
5 you've made the argument that the data for the first  
6 and second halves of 2010 bear out the claim that the  
7 federal home buyer tax credit gave the industry a  
8 temporary boost near the first half of 2010.

9 Is there any seasonality in the multi-layer  
10 wood flooring market that would also provide an  
11 alternative explanation for what we see when we  
12 compare the two half years of data?

13 MR. DOUGAN: There is some general  
14 seasonality to the market itself. You tend to see  
15 that post-Christmas, I'll say it tends to be softer,  
16 for a number of reasons. One, you're not building a  
17 lot of homes in cold climates when the ground is hard.

18 And then, two, you see a lot of activity as  
19 it warms up and then pre-Thanksgiving, I'll say, you  
20 know, through August, September, and the early part of  
21 October as people are getting their homes ready for  
22 the holidays, so there is a kind of a curve to the  
23 year where it kind of goes up and then comes back down  
24 again.

25 COMMISSIONER ARANOFF: So you have been

1 manufacturing somewhat in advance of that seasonal  
2 trends, because otherwise it wouldn't really -- it  
3 wouldn't straddle well in half-year periods, so  
4 seasonality wouldn't really -- couldn't account for  
5 what we're seeing.

6 MR. DOUGAN: We manufacture to a forecast  
7 but our forecast is very closely tied to demand.  
8 We've leaned inventories out to the point that we're  
9 pretty much manufacturing to order at this point. So  
10 very much so, that January, February and kind of --  
11 I'll say December, January, February tends to be the  
12 softest part of the year, and then March through  
13 September tend to be the heavier parts of the year.

14 MR. DAVIS: I'll just add this too. There  
15 was a cliff that year, when that thing stopped, and it  
16 wasn't just flooring. It was windows. I talked to  
17 the guys at Anderson Windows. It was, you know, all  
18 sorts of building products just came to a halt.

19 COMMISSIONER ARANOFF: Okay. Let me throw  
20 one more question out before my time is up, and you  
21 can answer it post-hearing.

22 In Mr. Dougan's direct testimony earlier  
23 today, you were trying to assume an estimate of how  
24 much of the multi-layer wood flooring coming in from  
25 China is really a product that can't be produced in

1 the United States. And you were throwing around 20  
2 percent and then saying that that's probably too high,  
3 but we're just going to assume that.

4 And I guess I want to ask whether there's  
5 any sort of hard evidence that you can submit for us  
6 that would tend to document what's coming in from  
7 China that really doesn't -- really isn't something  
8 that's made or could be made by the domestic industry.  
9 Is there any way to get closer to that number?

10 MR. DOUGAN: Jim Dougan from UCS. We  
11 certainly will work with our panelists and other  
12 information sources to come up with something there,  
13 and you know, I'll admit to using some rhetoric there,  
14 but to the level of even if you assumed it to be  
15 slightly higher, and we don't know what the range is,  
16 if you talk to these guys and their response is it's  
17 nowhere near even 20 percent, but it would have to be  
18 very, very, very high indeed to explain the growth in  
19 market share, you know, that we've observed over the  
20 past few years.

21 So that was the main point of it, but we'll  
22 work to develop more.

23 COMMISSIONER ARANOFF: Okay. And you've  
24 excluded bamboo, because if you were including bamboo,  
25 there might be something of an explanation there. But

1 that doesn't figure in?

2 MR. DOUGAN: Right, but that doesn't figure  
3 in because bamboo is not subject merchandise. We'll  
4 develop something more concrete so thank you.

5 COMMISSIONER ARANOFF: I appreciate that.  
6 Thank you to the panel for all of your answers today.  
7 Thank you, Madam Chairman.

8 CHAIRMAN OKUN: Mr. Pinkert?

9 COMMISSIONER PINKERT: Thank you, Madam  
10 Chairman. I just have a few follow-up questions.

11 First of all, I'm wondering in the  
12 discussion we've had about currency evaluation, design  
13 piracy and procurement of wood from illegal sources,  
14 how does that fit into the statutory analysis that  
15 governs the determination that we have to make in this  
16 case?

17 MR. LEVIN: Commissioner Pinkert, I would  
18 assert that it fits into the conditions of competition  
19 that the Commission should evaluate in determining  
20 what factors are in play in defining the degree of  
21 competition in the U.S. marketplace and the relative  
22 advantages that one source versus another may have.

23 All of those factors that you reference that  
24 we reference, we submit abet the ability of Chinese  
25 imports to come in at lower prices.

1                   COMMISSIONER PINKERT: Well, let's take  
2 design piracy, for example. Can we make a  
3 determination about design piracy in this case?

4                   MR. LEVIN: On design policy per se, no. Is  
5 it a fact that allows Chinese imports to come in at a  
6 cheaper price? Yes. Is it emblematic of an expense  
7 that domestic manufacturers incur in order to bring  
8 product to the market? Yes. And to that extent, in  
9 defining the conditions of competition, it's a fact  
10 not to be determined one way or another, but to be  
11 evaluated in context.

12                  MR. DOUGAN: And if I may just add to that  
13 briefly, whether there is a determination on it, you  
14 know, may or may not be possible, but it does help  
15 develop the understanding of looking at injury  
16 indicia, such as research and development, and with  
17 the trends of that that would be observed over the POI  
18 and some of the reasons for that, you know. In some  
19 cases could changes in that be related to financial  
20 performance and could it in some cases be related to  
21 incentives or disincentives to make that kind of  
22 investment based on the widespread piracy, so that's  
23 perhaps part of the context for overall injury  
24 determination.

25                  COMMISSIONER PINKERT: Question for Mr.

1 Levin concerning domestic industry. On or about Page  
2 15 of your brief you allude to a possible connection  
3 between circumvention of any orders that might issue  
4 and the definition of the domestic industry in this  
5 case.

6 Can you elaborate on the connection between  
7 those two things in your mind?

8 MR. LEVIN: It refers to a specific company,  
9 so that I'd prefer to hold the majority of my remarks  
10 for the post-hearing brief. But we have seen, we  
11 certainly have heard, lots of anecdotal evidence that  
12 imports subject to other orders can be well-practiced  
13 in getting around the scope of an order, and the  
14 specific instance that I was referring to in the brief  
15 would seem to be one of those avenues that can be used  
16 to circumvent a possible order.

17 So the overarching concern in that specific  
18 instance wasn't so much the company or companies' data  
19 but whether or not we're opening up an avenue that can  
20 possibly be exploited for circumvention purposes.  
21 Beyond that, I'll elaborate, if I may, in the post-  
22 hearing brief.

23 COMMISSIONER PINKERT: Certainly. Thank  
24 you. Now, concerning the new homes that use the  
25 product that's manufactured by this industry, is that

1 a distinct segment of the market or is new home and  
2 home improvement all kind of part of the same market  
3 dynamic in the United States?

4 MR. DAVIS: They are a different part of the  
5 market, and but they are also --

6 COMMISSIONER PINKERT: Is your microphone  
7 on?

8 MR. DAVIS: Yes. Maybe it's not close  
9 enough. You got it now? Yeah. They are distinct  
10 parts of the market but there is somewhat of a  
11 connection in that typically home sales or new homes,  
12 being someone is turning over and going into another  
13 home, which may then create a room replacement in the  
14 subsequent house, so in some ways there is a bit of a  
15 relationship.

16 But today I would say that the refurbishment  
17 part of the business is driven more by consumer sort  
18 of confidence, which obviously for what I would say  
19 refurbishment products here is suffering a bit,  
20 because of the values in people's homes being down.  
21 They reticent to put money back into them.

22 MR. FINKELL: This is Don Finkell. Shaw has  
23 a separate sales force that goes out just for  
24 builders, so we do consider it to be a separate  
25 segment. And then we have a retailer market. Not

1 that you don't have the same products sold for both  
2 channels. So in my mind it's more of a channel issue,  
3 rather than a product specific issue.

4 COMMISSIONER PINKERT: Well, are the subject  
5 imports competitive in the new home segment of the  
6 market?

7 MR. FINKELL: Certainly they are, yes, sir.

8 COMMISSIONER PINKERT: Can you elaborate on  
9 that either here or in the post-hearing?

10 MR. FINKELL: Might be easier with the  
11 Respondents submitting the witness list today, are  
12 primarily new and construction contractors utilizing  
13 imports product.

14 COMMISSIONER PINKERT: Thank you. With that  
15 -- did you have something to add?

16 MR. FINKELL: No, sir.

17 MR. HOLM: No.

18 COMMISSIONER PINKERT: With that, I have no  
19 further questions, but I thank the panel and I look  
20 forward to the additional information that you will  
21 supply in the post-hearing.

22 CHAIRMAN OKUN: Thank you. A few left for  
23 me, as well. Mr. Davis, just as a followup to that  
24 last response about who we'll hear from this afternoon  
25 and will they compete, we can ask them obviously but

1 also if for purposes of post-hearing if you could  
2 identify those companies that you're referencing, that  
3 would be helpful, as well.

4 Just going back again on the price  
5 questions, and I know you have a number of them to  
6 respond to post-hearing, so hopefully some of these  
7 responses or questions into -- that will make it easy  
8 for you but, Mr. Levin, I guess on the first one with  
9 respect to in particular on the AUV's and the argument  
10 that we should not be looking at the pricing data  
11 collected, if you could look at other cases, because I  
12 think for the benefit of the industry, when you come  
13 here you're talking about, you know, your experience  
14 and that is very helpful and an important part of our  
15 analysis on where you feel price competition -- so I  
16 should say right off, I am listening to that and that  
17 will be part of the record.

18 From a legal perspective there are a number  
19 of court cases, and when we say we're reluctant to do  
20 something, it's because the Court has had other cases  
21 where we have done a particular analysis and our  
22 reviewing courts have said, no, you can't look at  
23 AUV's if you had, you know, had data collected  
24 already.

25 So I wanted you, Mr. Levin, as part of the

1 legal analysis to look at other instances and see how  
2 this case fits in terms of is it a good case for not  
3 using the traditional pricing data that we've  
4 collected.

5 MR. LEVIN: Of course, Madam Chairman, I'll  
6 be happy to do so but if I may just a little tweak on  
7 what you were saying. We're not saying that the  
8 pricing data should not be looked at. We're saying  
9 that the pricing data has some limitations that are  
10 significant in evaluating the marketplace. We're not  
11 --

12 CHAIRMAN OKUN: Right, but you're also  
13 arguing that we look at the AUV data and there are,  
14 again, if you're making that argument, then I think  
15 that --

16 MR. LEVIN: Understood.

17 CHAIRMAN OKUN: -- is usually in a case  
18 where we don't have data to look at. So both on the  
19 AUV, and then with respect to the underselling  
20 analysis, to the extent you'd have us focus on that,  
21 if you can as part of your post-hearing response help  
22 me understand whether you think that we should be  
23 focusing our analysis on the products representing the  
24 highest share of U.S. producer shipments or the  
25 highest share of subject imports from China, or the

1 highest share of shipments of both U.S. producers and  
2 subject imports from China, or whether we should be  
3 treating them equally.

4 MR. LEVIN: Indeed. Be happy to, Madam  
5 Chairman.

6 CHAIRMAN OKUN: And also -- comment, also,  
7 nodding back there, Mr. Dougan, to --

8 MR. DOUGAN: Thank you.

9 CHAIRMAN OKUN: Appreciate that. And then  
10 let's see. And I guess this would also be for  
11 purposes of post-hearing and relates on the pricing,  
12 as well, because one of things obviously we'll hear  
13 from this afternoon -- we already have the information  
14 that they have submitted on the record, but there are  
15 a number of affidavits and declarations by individuals  
16 in the flooring business, many of whom we'll hear from  
17 this afternoon, that go to the idea that there is, in  
18 fact, not -- there is attenuated competition, because  
19 there's been an improved product mix of higher quality  
20 floors, significant greater selection, and a wider  
21 range of products.

22 And so I think this is just part of the  
23 response to a question posed earlier by one of my  
24 colleagues about help us understand where we see the  
25 competition and I've been listening to what you're

1 saying about Mr. Davis and Mr. Natkin, Mr. Finkell  
2 about, you know, when you're looking at a new -- when  
3 you're doing your product line review, you're not  
4 looking at SKU's. You're looking at how is this  
5 segment doing?

6 So help us understand that, and then as part  
7 of that -- and not in a staff report but just, again,  
8 trying to keep in mind the big picture here, where --  
9 if you're doing that, tell me what's the biggest  
10 portion of that for yourselves and has that changed?

11 So if it's, you know, people still like that  
12 oak floor or they still like something that looks like  
13 that, again, understanding that they're not going in  
14 and knowing which wood that they have a color in mind,  
15 help me understand how that fits in with this argument  
16 about competition and then also what we'll hear from  
17 Respondents this afternoon.

18 I think I can ask a lot more questions but  
19 you've been very helpful and responsive. We have a  
20 long day ahead of us to ask more questions of our next  
21 panel, so with that I think I will stop there. But,  
22 again, thank you for those responses, and I will look  
23 forward to all the information post-hearing. Vice  
24 Chairman Williamson.

25 VICE CHAIRMAN WILLIAMSON: Thank you, Madam

1 Chairman. Just a few questions.

2 Commissioner Pinkert raised this, but do  
3 U.S. producers have intellectual property protection  
4 for their designs? Is that extensive thing or is it  
5 not often?

6 MR. DOUGAN: I'll take that one. It's very  
7 difficult on what I will call a natural type of  
8 product to get the design per se copyrighted. There  
9 are things such as patents on the joints and the  
10 constructions and things of that sort that exist, more  
11 prevalently than in say the look of the face.

12 VICE CHAIRMAN WILLIAMSON: Okay. So you're  
13 saying the patents are probably more significant in  
14 terms of protecting the industry. Okay, thank you.  
15 Anybody --

16 MR. LEVIN: The aesthetics themselves are  
17 not really subject to intellectual property  
18 protection.

19 VICE CHAIRMAN WILLIAMSON: Thank you. We  
20 saw the trend of this other retailer category, seemed  
21 to be growing, both for the imports and for the  
22 domestics, and I was just wondering, is that a trend  
23 that's likely to continue, particularly the importer's  
24 share, the sales that other retailers seems to be  
25 growing the fastest?

1           MR. LEVIN: In the absence of measures to  
2 impose some parity within the marketplace, yeah, I  
3 would think that all of the indicators that are on the  
4 record point towards the likelihood that the import  
5 share of the market will continue to increase.

6           VICE CHAIRMAN WILLIAMSON: And I'm sorry, I  
7 was -- it was the Other Retailers category.

8           MR. LEVIN: Oh, I'm sorry, Commissioner.  
9 They may be related. And they are to some extent. I  
10 don't know if -- Dan, do you want to speak to that?

11          MR. NATKIN: Our view, Commissioner  
12 Williamson, is yes, that Other Retailer segment will  
13 continue to grow over time, that the independent side  
14 for a certain perspective, has shrunk to a certain  
15 extent, but yes, that is a growing area.

16          VICE CHAIRMAN WILLIAMSON: And why do you  
17 expect it to continue?

18          MR. NATKIN: Some of it is convenience.  
19 Some of it is the method in which consumers shop. You  
20 know, I spoke to the shop-at-home earlier, as an  
21 example, of a dynamic that really didn't exist 15  
22 years ago, but it exists today.

23                 And some of it is frankly related to price.  
24 I think if there's more price parity in the market,  
25 you might see some stabilization of these numbers, as

1 well.

2 Commissioner, if I could? What you're  
3 really seeing there is a shift to sales backwards  
4 through the distributor and more sales direct to the  
5 other retailers, and that is a situation that is  
6 folding out in our industry as companies like Shaw  
7 Industries, that bypass distribution, and go direct to  
8 the retailer, and more imports that bypass  
9 distribution and go direct towards retailers and  
10 contractors.

11 So it's more of a distribution shift and how  
12 product gets from the manufacturer to the end consumer  
13 than it is a consumer driven habit.

14 MR. DOUGAN: if I could add one thing, it's  
15 again, depending on how each company completed the  
16 questionnaire, it may not be clear to what extent that  
17 internet shopping has influence and where it would  
18 fall in Other Retailers or other category, but one  
19 thing that was clear from some of the responses of  
20 purchasers was that at least internet price comparison  
21 shopping was something that was increasingly reality  
22 in the marketplace. They could go to a website of the  
23 various different retailers and, you know, product  
24 that has essentially the same specifications, and  
25 similar visuals and so on, and actually price

1 comparison shop before they left their home.

2 So you know, how that's represented in  
3 channel data, I think is probably very difficult to  
4 quantify, but in terms of the influence on conditions  
5 of competition with respect to price, I think it is an  
6 important development.

7 VICE CHAIRMAN WILLIAMSON: And between the  
8 imports and the domestic produced.

9 MR. DOUGAN: Indeed, yeah.

10 VICE CHAIRMAN WILLIAMSON: Thank you. One  
11 last question. The hand-scraped trend, which I  
12 understand that was started as a southern thing, is  
13 that growing and has that peaked or what do you see  
14 the future of that?

15 MR. J. ANDERSON: It actually started in  
16 California and moved west. But we still see that  
17 category continue to grow. The consumer is still in  
18 love with the texture of hardwood floorings, and the  
19 hand-scraping is probably less dramatic than it was a  
20 year ago or two years ago, but a slight scraped  
21 hardwood floor seems to be the most popular thing in  
22 the market, and we see that it's going to continue for  
23 a while.

24 VICE CHAIRMAN WILLIAMSON: Okay.

25 MR. LEVIN: Commissioner Williamson, I agree

1 completely with Mr. Anderson. Really started on the  
2 West Coast and then kind of migrated down into the  
3 Southwest, and then has slowly been creeping  
4 throughout the country but we're seeing more and more  
5 markets that like that style of floor. If not for  
6 anything else, from a -- there's a good story there  
7 from a performance perspective, because wood being a  
8 natural product is prone to indentation and things  
9 like that. You get your floor predated for you, so  
10 it is a selling point.

11 I mean, I've got two young boys and a Golden  
12 Retriever, and I've got hand-scraped floors in my  
13 house and they look like the day that they went in, so  
14 as opposed to the original builder's type floor that  
15 was in there.

16 VICE CHAIRMAN WILLIAMSON: Thank you. Thank  
17 you for that insight. I understand it better. And  
18 with that, I have no further questions and I want to  
19 thank the witnesses for their testimony.

20 CHAIRMAN OKUN: Let me see if anyone has  
21 come up with further questions? Let me turn to staff,  
22 see if they have questions for this panel?

23 MR. McCLURE: Jim McClure, Office of  
24 Investigations. Madam Chairman, staff has no  
25 questions.

1           CHAIRMAN OKUN: All right. Well, before we  
2 move to a much needed lunch break, I did want to take  
3 this opportunity again to thank this panel for being  
4 with us this morning. I'm so sorry, thank you.

5           Did counsel for Respondents have questions  
6 for this panel?

7           MR. NEELEY: We have no questions.

8           CHAIRMAN OKUN: Thank you. And thank you,  
9 Former Chairman, for keeping me on track. Anyway,  
10 thank you very much for all responses and cooperation  
11 given. We will look forward to the post-hearing  
12 briefs, and with that we will take a lunch break until  
13 2:40, at which time we will return to hear the next  
14 panel.

15           I would remind everyone that this room is  
16 not secure, so please take any business confidential  
17 information, and with that we stand in recess.

18           (Lunch break at 1:45 p.m.)

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1 A F T E R N O O N S E S S I O N

2 (2:42 p.m.)

3 CHAIRMAN OKUN: This hearing of the U.S.  
4 International Trade Commission will now resume. Mr.  
5 Secretary, I see our panel has been seated. Have all  
6 witnesses been sworn?

7 MR. BISHOP: Yes, Madam Chairman.

8 CHAIRMAN OKUN: I'm sorry.

9 MR. BISHOP: Our second panel, those in  
10 opposition to the imposition of anti-dumping and  
11 countervailing duty orders have been seated. All  
12 witnesses have been sworn, and I also have, with your  
13 permission, an additional witness, E. Livingston B.  
14 Haskel, General Corporate Counsel for Lumber  
15 Liquidators.

16 CHAIRMAN OKUN: Thank you. Without  
17 objection the witness will be added. Mr. Neeley, you  
18 may proceed.

19 MR. NEELEY: Thank you. Again, I'm Jeff  
20 Neeley from Barnes, Richardson & Colburn, and I'm here  
21 today kicking off our presentation on behalf of the  
22 China National Forest Products Industry Association.  
23 Our witness today will be Mr. Wu Shengfu, who will  
24 explain that he's the director of the marketing  
25 department, explain his issues of threat or no threat

1 to the domestic industry. We also are joined today by  
2 seven other witnesses who will not be testifying  
3 because of the short period of time that we have but  
4 who are here and open for any questions that the  
5 Commission may have.

6 This is a very important issue for the  
7 industry obviously, and despite as we now know, all of  
8 us, the low dumping margins and CVD margins that we  
9 found from the Commerce Department, it remains a very  
10 important issue for all the members of the industry,  
11 so I will, without anything further, turn it over now  
12 to Mr. Wu to discuss threat.

13 CHAIRMAN OKUN: Thank you.

14 MR. WU: Good afternoon. My name is Wu  
15 Shengfu, the Director of Marketing Department for the  
16 China National Forest Products Industry Association.  
17 I would like to talk to the Commission today about the  
18 multilayered wood flooring industry in China and  
19 explain why it does not pose a threat to the U.S.  
20 Industry. Our association has worked hard to make  
21 sure the Commission has a completed record of the  
22 industry in China just as we did in the Section 332  
23 investigation in 2007.

24 Members of our association provided 37  
25 questionnaire responses. With the other Chinese

1 responses, we believe that this accounts for  
2 substantial majority of production in China, and more  
3 than 80 percent of exports from China to the U.S. of  
4 multilayered wood flooring. The Commission therefore  
5 should have complete coverage of the industry in  
6 China.

7           The Chinese flooring industry is  
8 increasingly focused on the domestic market where the  
9 demand has been strong and growing. This has been  
10 particularly true in 2011. The economy in China has  
11 not been significantly affected by the global  
12 recession. The building industry in China has been  
13 booming and strong growth is expected to continue for  
14 the foreseeable future as millions of people achieve  
15 middle class lifestyles. China's continued strong  
16 growth is increasing domestic demand for multilayered  
17 wood flooring.

18           The Commission itself found in its Section  
19 332 report that China is the largest market in the  
20 world for wood flooring. Chinese producers have no  
21 need to focus on the markets in the U.S. or other  
22 developed countries where the building remains weak.  
23 We understand that the Petitioners themselves have  
24 partnered with Chinese companies in an attempt to sell  
25 their products in our market and to benefit from the

1 increased Chinese demand. I think that this strategy  
2 by the U.S. companies shows clearly that they know  
3 where the future market expansion and the  
4 profitability will, and that is in China.

5 Numbers that we provided show that housing  
6 starts continue to be strong in China and with an  
7 increased demand for products such as multilayered  
8 wood flooring. As the incomes of middle class Chinese  
9 people have increased, they have turned away from the  
10 laminated and the plastic products to high-quality  
11 multilayered wood flooring. Also, in Northern China,  
12 multilayered wood flooring is being widely used for  
13 the new floor heating systems.

14 I would like to address the issue of  
15 capacity as reported in our members' responses.  
16 Reporting accurate capacity figures for this industry  
17 is difficult and different from many other industries.  
18 For companies that make both multilayered wood  
19 flooring as well as non-subject items such as bamboo  
20 flooring and solid wood flooring, it is often  
21 difficult to assign capacity to each type of product,  
22 particularly because demand for the bamboo flooring  
23 production is increasing rapidly.

24 Also, companies often look at a peak  
25 production month and then multiply it out for the full

1 year, but the practical capacity in this industry, it  
2 is not the same as peak production months multiplied  
3 out for the whole year because demand is not constant,  
4 so there always appear to be some overcapacity in the  
5 industry, but in fact, that is not the case. Chinese  
6 manufacturers, unlike many of their U.S. counterparts,  
7 make only to order, so if there seems to extra  
8 capacity in some months, but no orders, this is not  
9 meaningful because the Chinese factories will not  
10 produce stock hoping for orders.

11 Our members also do not take into account  
12 down time due to the lack of electricity which has  
13 become a significant problem in China. As a result,  
14 the practical capacity to produce will be affected.  
15 Chinese producers have focused largely on the market  
16 segments where the U.S. industry does not compete or  
17 where there is very limited competition such as three-  
18 layered parquet flooring and hand-scraped flooring.

19 Good quality hand-scraping requires people  
20 who are willing to do work all day scraping to get the  
21 desired look. It is very difficult to find the people  
22 in the U.S. or in other developed countries who will  
23 do this work under normal labor conditions. Some  
24 companies try to do this with machine scraping, which  
25 does not give you the same look. You must use human

1 labor.

2           It is commonly known that some U.S.  
3 companies use prison labor. I note that if Chinese  
4 companies used prison labor, the products from China  
5 would be banned under U.S. law because the use of such  
6 labor would be not only an unfair trade practice but a  
7 criminal act. We should not apply one standard to  
8 China and another to the U.S. Both the U.S. and China  
9 have competitive advantages. By far the greatest  
10 competitive advantage of China is in the hand  
11 scraping. This has accounted for the tremendous  
12 growth of product from China, and the U.S. cannot make  
13 this product using fair labor practices.

14           Chinese producers also have developed other  
15 new products for the U.S. market such as three-layer  
16 parquet flooring and new looks with Asian Birch plus  
17 the use of plantation Eucalyptus, tropical woods and  
18 well-managed Acacia. These products are a major part  
19 of the exports from China and there is almost no  
20 similar U.S. production. I also think that the  
21 Commission should compare prices in China or in Europe  
22 to places in the U.S. for the multilayered wood  
23 flooring.

24           While the U.S. is a big market, it is more  
25 fully developed. Prices in Europe and even in China

1 now are higher and more profitable than in the U.S.,  
2 so the incentives to sell more into the U.S. now are  
3 much less than the incentives to expand the sales into  
4 the Chinese market or into Europe. Finally, I should  
5 mention that the exchange rate and the labor costs are  
6 making Chinese products less competitive every day,  
7 and I do not see that changing.

8 In the last few years, RMB has increased in  
9 value against the dollar by over 20 percent and the  
10 labor costs are increasing rapidly by about the same  
11 amount in almost every area in China. In addition to  
12 the other issues that I mentioned, this will make the  
13 home market of China even more attractive in the  
14 future.

15 For these reasons, I ask the Commission to  
16 conclude that China does not pose a threat to the U.S.  
17 industry producing multilayered wood flooring. Thank  
18 you for the opportunity to testify, and I will be glad  
19 to answer any questions.

20 CHAIRMAN OKUN: Thank you. Our next  
21 witness?

22 MR. LUDWIKOWSKI: Madame Chair, members of  
23 the Commission, good afternoon. We appreciate the  
24 opportunity to testify before you today. My name is  
25 Mark Ludwikowski with Sandler, Travis & Rosenberg.

1 With me today are John Jakob, who's the Director of  
2 Merchandising of Lumber Liquidators and Clint Hubbard,  
3 who is the Chief Executive Officer of Home Legend.  
4 These gentlemen are well-apprised of the market and  
5 thought they would be helpful witnesses to the  
6 Commission. Also with us is Livy Haskell, who will be  
7 available for a Q&A session. He's the general counsel  
8 of Lumber Liquidators, and with that, we'll jump right  
9 in, and I'll turn it over to Mr. Jakob.

10 MR. JAKOB: Good afternoon. My name is John  
11 Jakob, and I'm the director of merchandising for  
12 Lumber Liquidators. Over the past 17 years, Lumber  
13 Liquidators has grown from the back of a warehouse in  
14 Boston, Massachusetts, to the largest specialty  
15 retailer of hardwood flooring in the United States.  
16 We have more than 255 stores in 46 states and Canada,  
17 and currently we employ over 1,200 employees in the  
18 United States.

19 Lumber Liquidators' success has been driven  
20 in substantial part by our investment in the  
21 development and maintenance of relationships with  
22 suppliers around the world. These relationships are  
23 vital since they form the foundation of Lumber  
24 Liquidators' value proposition, which is to provide  
25 the selection, service, quality and availability our

1 customers demand. Our suppliers must be flexible,  
2 responsive and willing to adjust to our product and  
3 delivery requirements. It's not easy to find  
4 suppliers that are able to meet these criteria, so  
5 once we do, we tend to stick with them.

6 Over the years, suppliers that have embraced  
7 the Lumber Liquidators' vision have grown as our sales  
8 have increased from \$171 in 2004 to \$620 million in  
9 2010. Over the years, many producers have opted not  
10 to provide products to Lumber Liquidators on the terms  
11 that would allow us to deliver our value proposition,  
12 and that is to the growing do-it-yourself and buy-it-  
13 yourself markets.

14 When the new home construction demand  
15 plummeted, only then did some of these suppliers turn  
16 their attention to the DIY and BIY markets, but they  
17 were kind of late to the game. Rather than transfer  
18 business to suppliers who remained unwilling to  
19 satisfy our criteria, Lumber Liquidators has continued  
20 to work with suppliers with whom they had already  
21 established positive relationships.

22 We have sourced engineered flooring from  
23 manufacturers in the U.S., China, Canada and Brazil,  
24 and we have developed relationships with certain  
25 manufacturers that have consistently met our

1 requirements, and, as a result, we have continued to  
2 source product from them. Further, our Chinese  
3 manufacturers supply species and constructions  
4 unavailable in the U.S. Any contention that price  
5 dictates sourcing decisions by Lumber Liquidators to  
6 the exclusion of other factors reveals a fundamental  
7 misunderstanding of our business.

8 Our average hardwood flooring sale exceeds  
9 \$2,500, and that is not including installation. This  
10 is a significant sum to the average homeowner,  
11 especially today. Furthermore, a large portion of our  
12 business is made up of repeat and referral customers.  
13 Given these factors, and the substantial cost and  
14 inconvenience associated with repairs and  
15 replacements, the quality of the product has to be  
16 exceptional from the start.

17 If a supplier has low pricing but can't  
18 provide the quality, selection and availability that  
19 we and our customers demand, we put our value  
20 proposition at risk, and we will not allow that  
21 happen. If additional duties are imposed, the  
22 American consumer will be left with fewer choices of  
23 quality, more innovative and uniquely-styled products  
24 currently available from China. For these reasons, we  
25 oppose this petition. Thank you.

1                   CHAIRMAN OKUN: Thank you.

2                   MR. HUBBARD: Good afternoon, Commissioners.  
3 My name is Clint Hubbard, and I'm the Chief Executive  
4 Officer of Home Legend, a company that currently  
5 employs over 125 people, primarily in Georgia,  
6 California and Mississippi, and we've been adding jobs  
7 in these difficult times. I've personally been in the  
8 flooring business all of my life having learned the  
9 industry from my father.

10                   Home Legend believes that the accused  
11 imports do not injure or threaten to injure the U.S.  
12 industry. The domestic industry faces difficulties  
13 today because of the decline in the economy, the  
14 decline in the builder market, the growth of the home  
15 center market and the consumer's desire for unique,  
16 alternative products.

17                   Home Legend was founded in 1997 in  
18 California, and in 2009 opened a distribution center  
19 in Georgia to better service our customers. We offer  
20 durable, high-quality, eco-friendly engineered wood,  
21 bamboo, cork and area rug flooring products. Our  
22 design team is committed to offering products which we  
23 believe are cutting edge for the U.S. consumer.

24                   Long before the petition came out last  
25 October, we started a strategy to compliment our

1 imports by acquiring our own U.S. manufacturing. We  
2 began domestic production of engineered wood flooring  
3 this April after we purchased the assets of Baker's  
4 Creek in Mississippi. We believe this approach  
5 provides a complete catalog and can offer more  
6 products to the consumer. This is the same result the  
7 U.S. producers are trying to achieve, only we started  
8 from the other direction and are willing to admit that  
9 we need a global approach to satisfy the consumer.

10 I find it surprising that the Petitioners  
11 accuse Chinese suppliers of pirating or copying their  
12 designs as from my experience, this is not the case.  
13 Click-lock technology, one our largest imports that  
14 domestic industry has been slow to adopt was invented  
15 in Sweden, and Chinese manufacturers were among the  
16 first to introduce engineered wood flooring using  
17 click-lock technology to the U.S. market. I can also  
18 confirm that our company has never copied any domestic  
19 products.

20 Home Legend has been able to weather the  
21 economic downturn primarily because the company is  
22 well-positioned to service remodeling and residential  
23 replacement sector. We also took advantage of the  
24 growth and the market share of the home centers and  
25 this product category. According to *Floor Covering*

1 Weekly, in 2010, the remodeling and residential  
2 replacement sector accounted for 58 percent of the  
3 market while residential new construction only  
4 accounted for 18 percent.

5 Since 2006, the hardwood flooring industry  
6 has dropped from \$2.6 billion in sales to \$1.6 billion  
7 in sales, a 40-percent decline. In that same period,  
8 home centers have increased their market share from 25  
9 percent of the market to 30 percent. If a company  
10 chooses not to sell to the home centers, which now  
11 account for almost one-third of the domestic market,  
12 that company would have reduced the pie available to  
13 which they could sell.

14 The senior management of Mannington have  
15 publicly declared in these two articles that they  
16 refuse to sell to home centers. In fact, the domestic  
17 industry is focused on new construction market, which,  
18 as we all know, has been in decline. Our retail  
19 customers depend more on do-it-yourself products and  
20 remodeling opportunities than on the new construction  
21 market, and remodeling sales have been more stable in  
22 this recession. We expect that engineered wood sales  
23 will improve across both remodeling and builder  
24 sectors as the country comes out of the recession and  
25 new construction picks up again.

1           In summary, we believe that the anti-dumping  
2 order is not warranted. Any injury to the domestic  
3 industry is not caused by subject imports but rather  
4 from the economic downturn and the decisions by the  
5 domestic industry to focus on the residential builder  
6 market rather than the growing DIY/remodeling sector,  
7 in some cases, failure not to sell to home centers.  
8 Thank you for the opportunity to express our views to  
9 the Commission, and I will be pleased to answer any  
10 questions that the staff or the Commissioners may  
11 have.

12           CHAIRMAN OKUN: Thank you.

13           MS. LAWSON: Yes. Good afternoon, Madam  
14 Chairwoman and Commissioners. I am Emily Lawson with  
15 Dorsey & Whitney. With me today are 17 U.S. industry  
16 representatives who have traveled from around the  
17 country to be here to answer your questions about the  
18 positive role imports play in the U.S. flooring  
19 industry.

20           We have several initial speakers who will  
21 identify themselves, but all of those present together  
22 represent several centuries' worth of knowledge about  
23 all aspects of the flooring industry, and they are all  
24 available to respond to your questions as appropriate.  
25 We refer you also to the declarations as presented in

1 our prehearing brief for additional detail to this  
2 testimony. We would like to now begin with Jonathan  
3 Train.

4 MR. TRAIN: My name is Jonathan train, and I  
5 would like to begin by introducing the Alliance for  
6 Free Choice in Jobs and Flooring. The Alliance is a  
7 group of over 100 companies employing over 5,200  
8 people. Today, we have representatives from over a  
9 dozen companies who have made themselves available for  
10 your questions. Thank you. Affirming this petition  
11 would damage the American flooring industry and all  
12 these associated companies.

13 We, along with the other Respondents, are  
14 here to explain how imports help the entire industry  
15 and that new added duties are unfounded and would  
16 create great harm to the wider industry and fail to  
17 benefit the petitioners. As well as serving as  
18 Alliance president, I am Vice President of Swift Train  
19 Company, a flooring distributor based out of Texas.  
20 Swift Train is a family business of over 70 years and  
21 sells both domestic and imported hardwood flooring  
22 products as well as a full-range of other flooring  
23 products. Our major customer base is over 2,000 floor  
24 stores.

25 The key to any business success is to be

1 different and hopefully better than the competitors.  
2 Through imports, we differentiated ourselves by giving  
3 the small retailer and their customer more choice in  
4 fashion, style, product design and function. Ten  
5 years ago, we sold less than 100 total items in wood.  
6 Now we stock over 300 in order to achieve a similar  
7 sales volume.

8           These new products are more advanced than  
9 ever. They can be hand-stained, tropical species,  
10 thick veneers or hand crafted but whatever the  
11 consumer chooses that meets their individual needs.  
12 The Petitioners would have you believe that engineered  
13 wood flooring is a separate, distinct market. In  
14 fact, this market is much wider because numerous  
15 substitutes compete directly with wood flooring.

16           The average consumer is trying to find a  
17 wood look and is not always concerned that it is  
18 actually made of wood. This is a sample presented at  
19 the staff conference last November. Mannington does  
20 an excellent job showing the consumer they can get a  
21 wood look through various new technologies that  
22 provide tremendous realism. If you notice, these do  
23 not show the dividing lines Mr. Levin suggested  
24 earlier.

25           The average consumer looking at this sample

1 would not know the difference between these floors.  
2 They would need to touch and feel a sample to realize  
3 that (a) it's engineered wood floor, (b) is vinyl  
4 plank and (c) is laminate. These substitute products  
5 are huge, and they allow a consumer to pick from  
6 multiple categories. I would also like to discuss  
7 options from non-subject countries. Importers such as  
8 myself know with certainty that added duties would not  
9 result in more U.S. production.

10 Most of us have begun developing third-  
11 country supply to the extent we are unable to buy from  
12 China in the future. Finding alternate sources is  
13 always a chore, but it is very achievable in a  
14 relatively short period of time. Since the petition  
15 was announced, I've made three trips to Vietnam.  
16 We've already purchased from Indonesia and have  
17 located strong prospects in Central America.

18 Our Alliance members tell me they have been  
19 Cambodia, Malaysia, Thailand, Brazil, Eastern Europe,  
20 Mexico and other countries seeking out alternative  
21 supply. Many of us have made great progress already  
22 with sourcing from a third country. Producers in  
23 these non-subject countries are entirely prepared,  
24 willing and able to produce competitively to our  
25 specifications.

1           As we have seen in other industries, third  
2 countries are very motivated to take the place of  
3 China. There will be costs for us in switching, but  
4 the alternative would be to give up markets we have  
5 developed successfully. I would like to present you  
6 with the following samples. These are a pair products  
7 showing production from a third country and a like  
8 product from China. These alternate products show  
9 promise to quickly becoming replacements.

10           We are fully capable of working with these  
11 new suppliers just as we did earlier with our Chinese  
12 suppliers. I'd like you to note that these comparison  
13 samples were sourced from Indonesia, Malaysia, Brazil,  
14 Mexico and Croatia. These samples show that importers  
15 are not limited to supply from China or even just  
16 Asia. We can choose from anywhere in the world to  
17 expand the choices for our consumer. We want to be  
18 free to purchase from the U.S., as many of us do, and  
19 also freely purchase from other countries as we find  
20 or as we create the right product for our specific  
21 market needs.

22           MR. P. ANDERSON: Good afternoon. My name  
23 is Paul Anderson, and I'm President of Metropolitan  
24 Hardwood Floors from Kent, Washington, with additional  
25 locations in Omaha and Denver. My company has a long

1 history of purchasing wood flooring from a wide  
2 variety of sources in many countries including Canada,  
3 Germany, Malaysia, Brazil as well as China and the  
4 United States.

5           Prior to the petition being submitted and  
6 certainly more aggressively since, we have  
7 investigated and tested supply from several other  
8 countries. We originally were a distributor for a  
9 large Canadian producer and then for other  
10 manufacturers. After a number of years, we  
11 investigated options to have the production under our  
12 own brand name.

13           Because of products being provided to us  
14 from our supplies was too limited, they also forced us  
15 to buy products in sizes and grades that weren't  
16 appropriate for our regional market. The U.S.  
17 domestic production is very standardized and is often  
18 hard to see what differentiates one manufacturer from  
19 another, so I was pushed to go to China to find new  
20 suppliers.

21           At first I found dealing with China to be  
22 both frustrating and confusing. My previous  
23 experience was buying off-the-shelf from manufacturers  
24 who told me what my options were and also often told  
25 me what I was required to purchase. I didn't know how

1 to buy from companies that basically said to me tell  
2 me what you want, and we'll make it. Now I've become  
3 a virtual manufacturer and do not want to go back to  
4 being just a distributor or someone else's product.

5 I'm grateful to have the ability to specify  
6 what is important to my customers, and even if an  
7 anti-dumping order is unfortunately issued, and we  
8 decide reduce our imports from China, we won't go back  
9 to buying off the shelf. As necessary, we will source  
10 from other countries, dealing with manufacturers that  
11 do business on a made-to-order basis just like our  
12 current Chinese suppliers.

13 We will move the great majority of our  
14 Chinese imports to multiple third-country sources  
15 rather than purchase from the Petitioners. They do  
16 not produce the products we require, and more  
17 importantly, their marketing strategies and business  
18 structure run counter to our approaches. We long ago  
19 made a promise to our customers. We would no longer  
20 push on them what the manufacturer wanted to sell. We  
21 would ask them what they wanted to buy, and we would  
22 find those products in the worldwide marketplace.  
23 We're here to serve our customers, not the  
24 manufacturer.

25 MR. ELBRECHT: My name is Clyde Elbrecht,

1 President and Owner of Missouri Hardwoods and Real  
2 Wood Floors. I've been in the hardwood industry for  
3 30 years. Missouri Hardwoods has been in operation  
4 for over 100 years producing both lumber and solid  
5 flooring. To expand our market, six years ago we  
6 founded Real Wood Floors to supplement our solid  
7 production with engineered floors. As an American  
8 manufacturer, you may expect me to seek protection.

9           However, I believe that imports support our  
10 domestic production. Without the ability to expand  
11 our product line with imported engineered floor, our  
12 U.S. sales would greatly suffer. I appreciate the  
13 comparative advantage of different business models.  
14 Making solid unfinished flooring in the United States  
15 is the best possible place to perform that process.  
16 Locations worldwide like China, Vietnam or Mexico are  
17 an efficient place to make our type of engineered  
18 floor.

19           We don't purchase floors from Chinese mills  
20 but pay a processing fee for them to produce flooring  
21 from our U.S. lumber. We cut veneers to a heavy five  
22 millimeter thickness to produce high-end product that  
23 is different from the thin-faced product that is mass-  
24 produced by the Petitioners. Our flooring competes  
25 with solid wood flooring, not domestic engineered

1 production. In fact, one of the Petitioners recently  
2 started purchasing our imported thick veneer flooring  
3 to compliment their thin veneer-flooring program.

4 Our reason for producing in China stems from  
5 our ability to control the production by using U.S.  
6 materials as a base, establishing our own  
7 specifications taking advantage of higher yield as a  
8 result of more meticulous handling and processing.  
9 The result is a product that is distinctly different  
10 from the Petitioners' product and appeals strongly to  
11 our customers' base.

12 If anti-dumping goes through, and to the  
13 extent we are unable to produce in China in the  
14 future, we will take our production to a third  
15 country. We have already contacted mills in Southeast  
16 Asia. My partner is in Vietnam today. Because the  
17 program has been designed by us and because all mills  
18 are following our exact requirements, we are able to  
19 duplicate our program elsewhere.

20 Beyond the Asian option, we have already  
21 moved one of our product lines to Mexico. From that  
22 operation, we have been importing approximately  
23 100,000 square feet a month. We consider our product  
24 to be an American product because so much of its value  
25 comes from the intellectual capital we have invested

1 in designing and controlling the production and  
2 because an American intermit inputs. The downstream  
3 insol and stite finishing requirements also employ  
4 many high-experienced professionals.

5 This petition has put on hold our plans to  
6 bring the veneer production process back to Missouri.  
7 We were planning to add more jobs at our plant in  
8 Shannon County, Missouri, a poor rural area which has  
9 one of the unemployment rates in the state. We ask  
10 the Commission in reaching its decisions to be aware  
11 of the significant American interest in maintaining  
12 access to imported engineered floor from China.

13 Let us serve U.S. customers with  
14 distinctive, unique products. Let us employ American  
15 labor downstream and don't prevent us from our  
16 successful implementation of U.S.-created designs and  
17 production controls.

18 MR. HAMER: Good afternoon. My name is Jeff  
19 Hamer. I've been President of the Galleher  
20 Corporation for 25 years. In the past, we've both a  
21 Mannington and Anderson customer. I believe that a  
22 confluence of circumstances led to the deteriorating  
23 conditions of the domestic industry, unrelated to the  
24 emergence of a global network of wood flooring  
25 manufacturers of which China is a participant.

1           Among the transformational changes that have  
2 happened in the past five years was the collapse of  
3 the new home construction, massive changes in the  
4 consumer buying behavior at retail, shifts in consumer  
5 demands for wood species, visual looks and sizes,  
6 changes in distribution strategy by manufacturers and  
7 the lack of willingness of many distributors who  
8 embrace programs and maintain loyalty to their  
9 suppliers.

10           The Petitioners suggest that they are  
11 victims of cloning or design-piracy activities by  
12 Chinese manufacturers. I disagree. There are few  
13 original ideas in our industry, and all manufactures  
14 get their ideas from many sources. The most  
15 successful product in the United States in recent  
16 years has been hand-scraped engineered flooring. My  
17 company, Galleher, actually created, developed and  
18 introduced this product in 1995 after we saw skilled  
19 wood flooring contractors increasingly scraping floors  
20 in high-end homes to replicate the floors of old  
21 European castles.

22           Within a couple of years, like others,  
23 Anderson actively had their employees gather our  
24 samples and then duplicate the product. We worked  
25 with Mannington before they introduced their first

1 hand-scraped product and helped them better understand  
2 the manufacturing process, product style requirements  
3 and market potential before they engaged a factory in  
4 Mexico to make it on an OEM basis.

5 We are currently doing business with four  
6 U.S. manufacturers who have collectively invested more  
7 than \$30 million on new or expanded MLW production in  
8 the United States. Haywood Products, Somerset  
9 Hardwood Flooring, Maxwell Hardwood and Mullican  
10 Flooring have determined that making engineered wood  
11 flooring in the United States can be profitable and  
12 enhance the value of their companies to both customers  
13 and their owners without protective measures.

14 Our company believes that an approach that  
15 utilizes both U.S.-produced products and complimentary  
16 imported products is essential to meeting the demands  
17 of our retailer and contractors and ultimately the  
18 American Consumer. Thank you.

19 MR. SAVOIE: My name is John Savoie, and I'm  
20 the President and Owner of the Adirondack Wood Floors  
21 Incorporation. I have over 20 years experience as a  
22 hardwood flooring installer and site finisher. I've  
23 also designed and custom-produced a specialties line  
24 of solid, unfinished flooring. I think at some point  
25 in my career, I've installed every possible species,

1 size, construction type from every major and not so  
2 major manufacturer out there.

3 I recently opened a small retail store right  
4 in the middle of Main Street in Gloversville, New  
5 York. I sell mostly Canadian and American products  
6 there. However, I opened the store mostly because of  
7 an imported engineered product produced by a company  
8 called Creative At Home. That product has led to a  
9 40-percent increase in my business.

10 There is nothing else like it on the market,  
11 period. I've never found any other manufacturer who  
12 could even make something that was as wide, stable and  
13 long. The floor is a perfect match for my regional  
14 market given the history of the forestry in the  
15 Adirondacks. I've gained business for all the  
16 products I sell because this very special import  
17 opened doors for me. We are now the preferred  
18 installer for local architects no matter what product  
19 we're putting down.

20 About a year and a half ago, I opened a  
21 small, downtown retail store for hardwood flooring  
22 because it became necessary to create a store where  
23 architects and designers would be able to view my full  
24 line of products. Even in this terrible economic  
25 time, I decided to take this risk in opening the store

1 because I knew that bringing in customers and letting  
2 them see everything I could offer would increase my  
3 business, but I was able to do that only because a  
4 high-end imported product became available to me that  
5 complimented by domestic solid lines.

6 Because of the imported engineered floor,  
7 I've moved into a higher-scale market. Frankly  
8 speaking, if I lose access to those imported floors  
9 from a Chinese producer, I might have to close the  
10 store. The domestic material I have available to me  
11 is fairly standard. It's a good product, but it  
12 doesn't need a showroom for display, and our Chinese  
13 product will be replaced by our customers with a non-  
14 engineered flooring product.

15 I'll still install floors but will probably  
16 have to lay off one or two of the employees, and the  
17 store will become vacant again. I am told that my  
18 experience and concerns are just a tiny part of a very  
19 large picture repeated over and over across the  
20 country. Chinese imported flooring greatly expanded  
21 the market for that product and keeps an estimated  
22 1,990 full-time equivalent, mostly blue-colored,  
23 workers employed.

24 If this case goes through, I expect that  
25 some Chinese product would be replaced by other

1 imports since there is a niche to be filled. If that  
2 happens, all my fellow blue-collar workers will keep  
3 working and supporting their families, but if that  
4 doesn't happen and the market for engineered flooring  
5 will get smaller, in this case will add to the  
6 country's unemployment at the worst possible time.

7 I am actually located on Main Street.  
8 Imports are helping are helping me grow not because  
9 they are cheap, but because they are absolutely  
10 distinct from what I could find domestically, and they  
11 are expanding my market reach, and it is true that the  
12 import helps me sell domestic production. People are  
13 coming to my store because I have something so special  
14 and different. Some of them can't afford it, so they  
15 end up buying another item for me, which is often the  
16 solid ash that I produce locally or perhaps another  
17 domestic floor.

18 I need something special, something  
19 different from what everyone else has and can find at  
20 the big box. The specialty engineered flooring import  
21 helped me grow my business. If you take away my  
22 access to it, you'll be directly hurting my business,  
23 and you'll definitely cost at least one of my  
24 employees his job. I respectfully request to the  
25 Commission to put an end to this misguided petition

1 that threatens my livelihood.

2 MR. ERVIN: My name is Ken Ervin. I'm the  
3 hardwood flooring manager for Flooring Services. I've  
4 been involved in the flooring business for over 30  
5 years working as an installer, in the wholesale  
6 distribution and as an agent represented several  
7 American manufactures, including Anderson Hardwood  
8 Floors. Flooring Services directly employees over 400  
9 people in six locations in the Southwest.

10 We also supervise over 200 highly-trained  
11 subcontracting installers whose jobs depend on people  
12 choosing wood for their home. Our principal business  
13 is servicing the new home construction market. We  
14 supply all types of floor covering and labor for  
15 builders of entry-level homes to multi-million-dollar  
16 properties. Our strength lies in our ability to  
17 provide consistent, good service with a wide variety  
18 of quality products and materials. We fight and  
19 struggle to maintain every builder we do business  
20 with.

21 My wood department also competes against  
22 other flooring product categories sold within our own  
23 company. With lesser-priced substitutes offering  
24 impressive imitation wood looks, it's my job to select  
25 genuine, engineered wood products that look so

1 beautiful a home buyer will settle for nothing less.  
2 Without an adequate selection, buyers often leave  
3 engineered wood completely if they don't get the  
4 specific look they were expecting and desire.

5           Flooring Services does not import directly.  
6 I am told by Shaw that we are their largest hardwood  
7 customer in the Southwest. Additionally, we sell  
8 Mohawk, Mannington, Armstrong and Anderson, of course  
9 a Shaw Company, as well as buying other wood flooring  
10 materials from many more independent distributors.  
11 The imports have complimented our domestic product  
12 selection. Ten years ago, my product sales mix was  
13 heavily weighted to the entry-level product.

14           I would estimate that we sold the least  
15 expensive product 60 percent of the time. Today, we  
16 sell that price level 10 percent of the time. The  
17 middle tier now represents 50 percent, and the upper  
18 tier, 40 percent of our engineered sales. The hotter  
19 and sexier design and style improvements have allowed  
20 my wood department to capture more upgrade dollars  
21 away from other building materials such as cabinets,  
22 countertops and appliances.

23           In our wood floor offering, the first three  
24 price levels include five different products. All  
25 five of those products are domestically produced. In

1 1998, you could choose hardwood flooring in brown with  
2 an orange undertone, or you could choose brown with a  
3 green undertone. None of the domestic manufacturers  
4 were listening to the style and color changes that the  
5 flooring contractors and the design community were  
6 asking for.

7 To illustrate that, I'd like to tell you a  
8 quick story. About 10 years ago, flooring services  
9 only offered Bruce Hardwood Flooring products.  
10 Unfortunately, as well as all of the style and color  
11 challenges I just mentioned, we were also having  
12 repeated quality problems. The owner of Flooring  
13 Services as well as the President of the company and I  
14 were asked to attend a meeting with the President of  
15 the Flooring Products Division for Armstrong, which  
16 owned the Bruce business unit.

17 After a brief discussion of the issues, he  
18 told us I don't know if Bruce can make a product good  
19 enough for you. I believe you should find another  
20 supplier. You could hear the air being sucked out of  
21 the room by the BPI folks, the Bruce distributor. We  
22 were shocked and speechless. I was stunned that he  
23 had just told us we could take our business elsewhere.  
24 I felt sorry for the gentlemen from BPI. They are a  
25 find company. They paid a tall price for the business

1 they lost that day.

2 I believe John Anderson, with BPI, who is  
3 also here today, would love to rewrite the events of  
4 that day. The day the increased availability of  
5 engineered imported products has dramatically changed  
6 the domestic manufacturers attitude when it comes to  
7 quality and design. I am convinced that the imports  
8 have helped our entire industry improve as a whole.  
9 All of the brand names I previously mentioned started  
10 importing products from China themselves a number of  
11 years ago.

12 Their product offering would have suffered  
13 terribly had they not augmented their traditional  
14 lines with the newer styles and colors they imported.  
15 Those improvements have allowed me to move my average  
16 sales price up in all products. We don't sell the  
17 cheapest wood flooring products nearly as often as we  
18 did 10 years ago. The domestic wood manufacturers  
19 lack responsiveness. In one case, the domestic  
20 manufacturer brought several design and marketing  
21 people to see me three times over a three-year period,  
22 and they asked the same questions every time. They  
23 never changed a thing.

24 Recently, I asked Shaw to review an exiting  
25 product line. Thirty days later, they came back to me

1 but without any of the information and pricing that I  
2 needed to make a decision. Conversely, I asked a  
3 local import supplier to add a specific color to a  
4 line we were going to take on. I had the exact  
5 product in the exact color in my office in just 10  
6 days.

7 Our business is about responsiveness. We  
8 listen to our customers' needs, and we do our best to  
9 exceed their expectations. Someone is always standing  
10 behind us looking for the opportunity to meet the  
11 customers' needs better than we do. If you are truly  
12 interested in saving jobs, then deny this petition.  
13 Our industry is fragile enough in this economy without  
14 any further business regulation or complication.  
15 Thank you.

16 MR. BOLTUCK: I am Richard Boltuck, Senior  
17 Economic Consultant to Charles River Associates  
18 appearing at the request of the Alliance for Free  
19 Choice in Jobs and Flooring. The Alliance has asked  
20 me to share with you my economic analysis of the  
21 record evidence. Beginning in mid-2007, U.S. housing  
22 starts began a year and a half collapse from an  
23 annualized rate of roughly 1.4 million units to a rate  
24 of roughly 500,000 to 600,000 units, a reduction of  
25 about 60 percent.

1           With modest fluctuations, the rate of  
2 housing starts has remained at that level since the  
3 start of 2009. Similarly, home improvement activity  
4 declined by 10 to 15 percent since the beginning of  
5 the POI, bottoming out and stabilizing at a lower  
6 level by mid-2009. The overall demand for flooring  
7 broadly defined to include all types of flooring  
8 products is derived from demand for newly-constructed  
9 housing and for home improvements. Thus, flooring  
10 demand has remained relatively stable since 2009.

11           Unsurprisingly, the U.S. MLWF industry  
12 performance suffered significantly by 2009 following  
13 the full onset of this housing construction and home  
14 improvements recession. For full-year 2009, the  
15 industry reported an operating loss of 9.9 percent.  
16 Since 2009 however, with overall demand for flooring  
17 products relatively stable, something interesting  
18 happened to the U.S. MLWF industry.

19           The industry's performance improved sharply  
20 as the industry successfully adapted to the shock it  
21 encountered in 2007 and 2008 by right sizing and  
22 rationalizing its cost structure, the very kind of  
23 adjustments that numerous industries have undertaken  
24 since the general economic downturn began. In 2010,  
25 the MLWF industry turned in an operating income loss

1 of 6.5 percent improving further to a loss of just one  
2 percent in first half 2011.

3 Over this same period, since conditions  
4 stabilized in 2009, the U.S. industry increased its  
5 production of MLWF by about nine percent and its U.S.  
6 shipments by about seven percent. Over the same  
7 period from 2009 on, U.S. producer prices for the  
8 eight pricing products for which data were collected,  
9 which represent an important share of U.S. MLWF  
10 production, were very stable, nearly flat, no trend.

11 Coincident with this stability in prices and  
12 improvement in production, shipments and financial  
13 performance, U.S. shipments of subject imports  
14 increased from 2009 to first half 2011 by roughly 26  
15 percent. With U.S. producer shipments and import  
16 shipments both increasing since 2009, apparent  
17 domestic consumption rose by nearly 13 percent.

18 In short, there is simply no evidence that  
19 the increase in subject import volume caused injury to  
20 the industry. The U.S. industry's production and U.S.  
21 shipments increased and its financial performance  
22 improved significantly in full-year 2010 and then  
23 again in first half 2011. Hardly the relationship  
24 between industry condition in subject import volume  
25 one would expect if subject imports are causing

1 injury, particularly given stability in overall  
2 flooring demand.

3           What really happened? As importers and  
4 import distributors have been explaining to the  
5 Commission since the preliminary investigation and  
6 again in testimony today, two crucial characteristics  
7 of the U.S. MLWF market are first that imports from  
8 China differ overall from U.S. production limiting  
9 significantly the intensity of competition and  
10 commercial substitutability between the two and  
11 second, MLWF competes closely with other flooring  
12 products, which are often designed to have a hardwood  
13 appearance that is virtually indistinguishable from  
14 that of MLWF.

15           In the face of large volumes of excellent  
16 economic substitutes, U.S. demand for MLWF is  
17 extremely elastic. Thus, despite stagnant demand for  
18 flooring products overall, shipments of MLWF can  
19 increase significantly without causing perhaps even a  
20 discernable impact on prices as we saw with the U.S.  
21 producer prices reported for the eight products  
22 because these shipments are coming at the expense of  
23 sales of other types of flooring.

24           Don't take my word for it. This is the  
25 straightforward, economically coherent explanation

1 that the record data themselves tell, data that I have  
2 just finished reviewing for you. The evidence in this  
3 case cries out for an honest and logical  
4 interpretation, virtually a classroom example of the  
5 application of Occam's razor, which of course teaches  
6 that the simplest explanation consistent with the  
7 facts is the one that ought to be accepted.

8           Against this overwhelming backdrop of  
9 evidence presented in the staff report, the  
10 Petitioners have been furiously backfilling, offering  
11 instead of a straightforward appraisal of the evidence  
12 a smorgasbord of disparate excuses and asserted  
13 impeachments of the record. Of course, to convince  
14 you that the imports have been injurious, they must  
15 find a whole bucketful of such excuses. That is their  
16 job when pounding the law and pounding the facts just  
17 comes up so short for them.

18           Here's part of the list. Excuse 1, the  
19 Petitioners don't like the underselling data which  
20 yield a weighted average overselling margin of 7.7  
21 percent over all products and periods as explained in  
22 our prehearing brief, so they have altered the data by  
23 removing pricing comparisons even though they haven't  
24 yet presented what the quarterly pricing tables for  
25 each product looked like with their adjustment or

1 documented each adjustment by citation to specific  
2 questionnaire responses.

3 The staff sought pricing on competitive  
4 products that compete head to head, and there is no  
5 demonstration that any of the pricing information  
6 submitted by importers fails to meet this objective.  
7 I guess in the absence of these facts, we should just  
8 accept the Petitioners' claims on faith.

9 Excuse 2, the Petitioners obviously don't  
10 like the improvement and operating performance from  
11 2009 to 2010. In the preliminary investigation,  
12 Petitioners told the Commission that an expiring  
13 federal tax credit accounted for the improvement. Now  
14 the evidence is in. During the first half of 2010,  
15 the rate of housing starts increased by 54,000 units a  
16 year over the 2009 rate, and the industry's operating  
17 income ratio improved by 6.8 percentage points from  
18 minus 9.9 percent to minus 3.1 percent.

19 Compare that to the decline from 2008 to  
20 2009 when the rate of housing starts dropped by  
21 346,000 units a year yet the operating income ratio  
22 dropped by just 2.9 percentage points from minus 7  
23 percent to minus 9.9 percent, so according to  
24 Petitioners, a modest increase in housing starts led  
25 to a huge jump in operating income in 2010, but a

1 large decrease in housing starts led to a much smaller  
2 decline in operating income in 2009. Does this really  
3 make sense?

4 Here's an alternative. The industry was  
5 adapting successfully to the market reality it faced  
6 after the recession hit and was improving its  
7 performance and increasing imports from China were in  
8 no way interfering with this progress. Excuse 3,  
9 similarly, the Petitioners really don't like, in fact  
10 they hate, the continuing steady improvement of  
11 operating results to a loss of just one percent in  
12 first half 2011, so time for another excuse.

13 This time they misapply the concept for  
14 survivor bias, an exercise in supreme hand waving as  
15 we will explain in more detail in our post-hearing  
16 brief because their fairytale involves APO  
17 information, but for now suffice it to say if the cost  
18 rationalization, which is normal in a recession, is  
19 itself evidence of injury as the Petitioners claim,  
20 how then did it coincide with increasing U.S.  
21 production of MLWF.

22 The industry is producing more with less  
23 cost. That's called efficiency in most textbooks, and  
24 it's a good thing. When there is no obvious evidence  
25 that imports are causing injury, the Commission

1 sometimes finds a link in the tabulations of  
2 questionnaire responses about the role of price and  
3 other factors and the interchangeability of subject  
4 and domestic product. A fair reading of these  
5 questions given the market context in which responses  
6 were prepared casts a lot of doubt on how enlightening  
7 these data are.

8 For instance, one question asks about  
9 physical interchangeability which is in no way the  
10 same thing as commercial substitutability based on  
11 customers and end users choices in the market. As  
12 Respondents have said repeatedly, all flooring  
13 products, including MLWF, carpet, solid hardwood,  
14 laminate and luxury vinyl are physically  
15 interchangeable in the vast majority of potential  
16 applications, so of course subject imports in U.S.  
17 MLWF are physically interchangeable as well, and yet  
18 they are not close economic or commercial substitutes.

19 Similarly, those responding to  
20 questionnaires are unlikely to be aware of the  
21 Commission's concern about the role of price in  
22 shifting sales from the like product to the subject  
23 import, but here's what they do know about price.  
24 Price is important in selling their particular MLWF  
25 products because if they charge too much, customers

1 will buy laminate or other non-engineered flooring  
2 instead, so they will tell you in a number of  
3 instances that price is important, but the Commission  
4 needs to consider what those simple tabulations really  
5 mean.

6           Even if the Commission concluded erroneously  
7 that imports from China have harmed the U.S. industry,  
8 importers are already actively planning to replace as  
9 much of the Chinese product is necessary with non-  
10 subject imports from third countries. Jonathan Train,  
11 Paul Anderson and Clyde Elbrecht have described that  
12 effort and its success. There is plenty of third-  
13 country replacement capacity. In 2010, over 20 times  
14 as much MLWF was exported by countries other than  
15 China and the United States as was imported into the  
16 United States from China.

17           Moreover, mills around the world are willing  
18 and able to meet importer specifications and replicate  
19 as closely as needed product currently imported from  
20 China. Respondents' prehearing brief provides further  
21 evidence that this replacement process is well under  
22 way. As the Commission knows, subject imports that  
23 will be replaced by non-subject imports cannot cause  
24 injury.

25           Once again, the record evidence confirms

1 that regardless of whether imports from China were to  
2 be replaced or not, they have not caused injury, so  
3 replacement of these imports by non-subject imports is  
4 simply another reason to reach that conclusion. The  
5 Commission should also recognize since this petition  
6 was filed last October, importers have advanced their  
7 planned imports ahead of the DOC, AD and CVD  
8 preliminary determinations in late March and May 2011,  
9 respectively, in order to protect themselves against  
10 unknowable retroactive liability for duties.

11 As a result, the volume of imports has been  
12 artificially inflated over the past year and will  
13 necessarily be offset by lower levels of imports in  
14 coming months. Finally, you have heard compelling  
15 testimony on growing demand for MLWF in China, which  
16 indicates that imports from China are likely to  
17 stabilize or decline in the future.

18 Equally important in evaluating threat is  
19 the simple fact that even increases in import volume  
20 from China over the POI haven't kept this industry  
21 from nearly reaching the break-even point just three  
22 to four years after housing starts collapsed by  
23 roughly 60 percent and have stayed depressed.  
24 Certainly, there is no basis for concluding on this  
25 evidence that stabilizing future imports will cause

1 injury.

2 This is an industry on a trajectory to  
3 profitability even under today's market conditions as  
4 MLWF sales continue to grow and take share from other  
5 flooring products. When housing returns to  
6 sustainable normal construction rates, this industry  
7 will really take off, so over a full product cycle,  
8 there is no reason to doubt its profitability. Thank  
9 you.

10 CHAIRMAN OKUN: Thank you.

11 MS. LAWSON: Yes. Thank you, Madame  
12 Chairwoman and Commissioners. We'd also just to like  
13 respectfully request that any remaining time be  
14 reserved for rebuttal.

15 CHAIRMAN OKUN: All right. Thank you. That  
16 will be done. Well, before we begin our questions  
17 this afternoon, I want to take this opportunity to  
18 thank the many witnesses who are here today both for  
19 the testimony and for the willingness to answer  
20 questions. In addition, I want to express  
21 appreciation for the questionnaires that have been  
22 submitted.

23 If there are any remaining questionnaires to  
24 be submitted, we obviously would like to have those  
25 for the final staff report as well, so thank you for

1 all the cooperation, your willingness to be here and  
2 in particular for those industry witnesses and for  
3 those who have traveled from overseas to take the time  
4 to be here to respond to questions. I very much  
5 appreciate it.

6 We obviously have a very large group. The  
7 Commissioners have in front of them a list of the  
8 different witnesses and where you're sitting, but just  
9 for the benefit of the court reporter, if you're asked  
10 a question, please restate your name for the record so  
11 the court reporter will have that, and then also I  
12 wondered for the China National Forest Product  
13 Industry Association, Mr. Wu, I know you testified and  
14 are willing to take questions, and you had indicated  
15 that the other representatives that are here would be  
16 willing to take questions as well.

17 Can you identify where they are sitting?  
18 I'm just trying to make sure on this chart that we  
19 know. Okay. Okay. Thank you, and then, Mr. Wu or  
20 Mr. Neeley, would any of those witnesses require  
21 translation if we were to ask a specific question?

22 MR. NEELEY: Some might, and we've got a few  
23 people here who can do that.

24 CHAIRMAN OKUN: Okay. Great. Well, with  
25 that, then we will ask Commissioner Pearson to start

1 our questions this afternoon.

2 COMMISSIONER PEARSON: Thank you, Madame  
3 Chairman, and allow me to express appreciation for the  
4 unusually broad interest that we have here in this  
5 investigation on the Respondents' side. We don't  
6 often get to host this quite large a group, so welcome  
7 all of you. We have now the updated Commerce  
8 decisions regarding margins. How should we interpret  
9 that? What's there that we should be mindful of as we  
10 go through the discussion this afternoon?

11 MR. BOLTUCK: Well, we understand that one  
12 company is de minimis on both antidumping and CVD and  
13 of course the volumes ought to be adjusted in  
14 consideration of imports and effect associated with  
15 subject imports to account for that company's volume.

16 COMMISSIONER PEARSON: Okay. Any thoughts  
17 on the commercial significance of the duties that will  
18 be in place on the other firms?

19 MR. BOLTUCK: Well, they're very small, and  
20 I think that's something to focus on. There is a  
21 larger all-other rate, but that is commercially  
22 irrelevant in the marketplace. We won't be seeing  
23 imports actually at that rate, so I think the smaller  
24 rates are the ones that are relevant for consideration  
25 of the impact in the U.S. market, but I would add,

1 Commissioner, I can't help but add, that the imports  
2 are not having an effect. That's what we've  
3 demonstrated, and we think the Commission's own data  
4 shows that, so probably have of zero is still zero in  
5 terms of impact.

6 COMMISSIONER PEARSON: Right.

7 MR. NEELEY: If I could just add one thing,  
8 Commission?

9 COMMISSIONER PEARSON: Please, Mr. Neeley.

10 MR. NEELEY: I think, and I'm agreeing very  
11 much with Mr. Boltuck. If you want to look at the  
12 average of the companies that were not de minimis,  
13 you'll see that in the separate rate numbers, which  
14 are 3.31 percent as I understand for the dumping and  
15 1.5 for the countervailing duty side. The all others  
16 rate of course are higher, but that's basically a rate  
17 for people who didn't participate.

18 Any of the major exporters from China from  
19 my understanding are going to be in that separate  
20 rates category, so, I mean, you've captured it there.  
21 I mean, effectively the individual rates, which for my  
22 client was zero fortunately, but for some others,  
23 which were very low, are going to be the applicable or  
24 the separate rates.

25 COMMISSIONER PEARSON: Okay. And so I'm

1 correct to understand that combined subsidy margin and  
2 dumping margin for most firms would be five percent in  
3 that neighborhood, is that correct?

4 MR. NEELEY: Yes, that's correct.

5 COMMISSIONER PEARSON: For those of you in  
6 the business end of things, what's the commercial  
7 significance of the five percent duty? How would the  
8 marketplace respond to that? Would we see a reduction  
9 in imports from China or would adjustments be made  
10 such that there would continue to be active imports.  
11 Mr. Train?

12 MR. TRAIN: Yes, sir. This is Jonathan  
13 Train. I think that's a good question that none of us  
14 know for certain. I think all of us have different  
15 plans for what might happen. I think one thing you're  
16 going to see regardless of what the rate was going to  
17 come out as today, there will be a shift to these  
18 other countries for certain products, and I think that  
19 some of what Mr. Wu said as well is that the market  
20 for the Chinese producers is they're kind of at a peak  
21 in the U.S. market.

22 There's other developing countries that are  
23 going to be competitive, have competitive advantages,  
24 especially when we talk about the hand-scraped  
25 products, so I still think you're going to see a

1 shifting away to these third countries regardless, but  
2 I think because the rate is as low as it is, I think  
3 whatever shift you see, it will be gradual. It won't  
4 be this sudden shift in any direction, and that's  
5 true. It's definitely small. Actually, most  
6 companies got a reduction compared to what it was back  
7 in May, so many people are happy about that.

8 COMMISSIONER PEARSON: Okay. Well, in the  
9 morning panel there was some comment that this isn't a  
10 pure commodity market as we would see commodity  
11 markets, and so given that it is a market that has at  
12 least some degree of specificity in the product or  
13 differentiation from one product to another, will a  
14 five-percent margin be sufficient to overwhelm  
15 whatever individual differences might exist among  
16 Chinese producers and product coming out of that  
17 country?

18 MR. BOLTUCK: Everything is on a continuum,  
19 and the question is will some importers reduce their  
20 imports from China and to what extent, so you're  
21 absolutely right imply, I believe, by your question  
22 that that reduction may not be very large, but I think  
23 the important thing is that these importers are  
24 distributors who have a customer base that they've  
25 developed and they plan to satisfy that customer base

1 not just 97 percent or 95 percent or 94 percent, but  
2 they plan to satisfy them 100 percent.

3 To be able to do that, they will develop  
4 third-country sources for whatever the increment is  
5 that they need, and you're absolutely right. There is  
6 product differentiation, significant variation and  
7 many different dimensions of features of this product,  
8 the appearance, durability, veneer thickness, you name  
9 it, but notwithstanding that, it's not a rock science  
10 to be able to produce this product.

11 Many countries of the world have an industry  
12 capable of producing the kind of hardwood plywood that  
13 underlies the product, and they have very eager  
14 producers in mills who will meet specification. It  
15 won't happen overnight, but it won't take too many  
16 overnights for it to happen. They will tweak it, they  
17 will monitor it, and they will match it.

18 COMMISSIONER PEARSON: Okay. Any other  
19 burning comments on the significance in the  
20 marketplace of a five-percent duty rate? Okay. Well,  
21 seeing none, let me ask a different question. You of  
22 course are requesting that we vote in the negative and  
23 not impose a duty, but it's not too hard on this  
24 record to see that there has been some meaningful  
25 increase in import volume from China, particularly if

1 we go back to 2007 or before.

2 If we don't have an order, what's to prevent  
3 that volume trend from continuing in such a way that  
4 the U.S. industry continues to downsize and suffer  
5 harm in the future?

6 MR. BOLTUCK: May I respond to that? The  
7 U.S. industry hasn't been downsizing. In 2008, it  
8 suffered from the housing collapse and the reduction  
9 in home improvement sales, so yes, from 2008 to 2009  
10 like all the industries related to construction, it  
11 suffered. Since 2009, the market stabilized, the  
12 overall market stabilized, and U.S. producers have not  
13 downsized.

14 Overall, they have been shipping more. They  
15 are shipping seven percent more. They produced nine  
16 percent more at the end of the POI than in 2009, so I  
17 think you have to benchmark this in a way that's fair  
18 with respect to holding other things unchanged, and  
19 the other key thing to hold unchanged is the state of  
20 the market with respect to this very dramatic and  
21 remarkable collapse in housing starts and home-  
22 improvement expenditure, and to do that, you need to  
23 focus on the beginning point of the recovery for this  
24 industry as being 2009.

25 That was when they bottomed out. Since

1 then, you're right, imports did increase, but it  
2 didn't keep the U.S. industry from improving  
3 dramatically. Moreover, they could have sold more  
4 product into this market just as the Chinese producers  
5 did without affecting their prices. Their prices have  
6 been flat. How do we know that? From the eight  
7 specific narrowly-defined pricing products that  
8 account for a very large share of their production.

9           There's not problem with that data. Quite  
10 the contrary, that data tells a story the Commission  
11 should listen to, and it shows that the increase in  
12 consumption in the market, the increase in the import  
13 sales and their own increase in shipments into this  
14 market did not result in price degradation since 2009  
15 when the market stabilized, when housing starts began  
16 fluctuating between 500,000 and 600,000 units and home  
17 improvement stabilized or may even be declining a  
18 little bit now, and it still didn't result in further  
19 degradation of narrowly-defined prices, so that's what  
20 the data show.

21           I know you heard something different this  
22 morning, but I think you should rely on your own data.  
23 You shouldn't second guess it. It's very reliable.  
24 That's what all of the producers reported, and it  
25 covers a lot of their sales and production, and that's

1 what it shows.

2 COMMISSIONER PEARSON: Okay. Well, I may  
3 have more questions on the data. Ms. Lawson, I have  
4 15 second remaining. Shall I wait until next time?

5 MR. TRAIN: This is Jonathan Train, I'd like  
6 to also respond to that. I think you touched on a  
7 real important point is commodity versus unique,  
8 fashion-driven business. Twenty years ago, this was  
9 much more of a commodity business. Now it's much more  
10 fashion driven. There are plenty of more options  
11 available, and I think if you go back even further  
12 into 10, 12 years ago, the whole multilayered wood  
13 flooring market has expanded because of all these  
14 complimentary items, and I think the question where  
15 would we be today during that downturn if we didn't  
16 have these complimentary items because the real  
17 competition here is not just my flooring against  
18 somebody else's flooring. As Ken mention earlier,  
19 it's flooring versus anything else you put in your  
20 home. You get a home equity loan for \$50,000, you  
21 have to choose where you're going to spend that money,  
22 or if you're building a house, and you're going to do  
23 \$30,000 in upgrades, where is that \$30,000 going to  
24 go? Is it lighting? Is it landscaping? Is it  
25 flooring? What will it be? Because we have this wide

1 range of products, it brings it to the forefront.

2 COMMISSIONER PEARSON: Yes, yes. We're a  
3 bit over time here. I don't want to be on the wrong  
4 side of the Chairman, so thank you, Madame Chairman,  
5 for your indulgence.

6 CHAIRMAN OKUN: Commissioner Aranoff.

7 COMMISSIONER ARANOFF: Thank you, Madame  
8 Chairman. I want to join my colleagues in welcoming  
9 this impressively large panel of witnesses here this  
10 afternoon. We really appreciate this degree of  
11 participation. It really helps us as we try to  
12 complete our record and make a decision in this case.  
13 I had an extensive discussion with domestic industry  
14 witnesses this morning about some of the products that  
15 are offered by Chinese manufactures including the  
16 Acacia wood and Asian birch I guess it was, and I  
17 wanted to circle back to some of those questions.

18 Is Acacia just sort of another substrate  
19 that you can put a stain on, and it looks just like  
20 something or other that the domestic industry could  
21 also make out of oak or maple or some other domestic  
22 species, or is there something unique about it?

23 MR. ELBRECHT: My name is Clyde Elbrecht,  
24 and let me say my primary industry is the hardwood  
25 lumber industry. I've been in it all my life. Let me

1 give you a little bit of an idea of Acacia is. If you  
2 look in the old testament, you discover that the Arc  
3 of the Covenant was actually made out of Acacia wood,  
4 and when I went to Egypt in King Tut's tomb, his chair  
5 was made out of Acacia, so Acacia is actually a very,  
6 very rare wood. I would think King Tut would call it  
7 exotic.

8 Acacia, it's in the species of what we call  
9 locust, and there's a variety woods within the Locust  
10 family. The only other place other than the Middle  
11 East where I know that Acacia grows is in the forests  
12 that separate Romania from Bulgaria. Now, when China  
13 opened up, most of us in the lumber industry were  
14 fascinated to find out that Acacia existed in China.  
15 Primarily, it exists in Hainan Island, which is in the  
16 Southern part though it is in a few other places.

17 In the Locust family in which Acacia is  
18 found, you have some very high-quality, valuable  
19 woods. Acacia wood would be within that. It has a  
20 lot of variety in color, some nice reds and blacks,  
21 and we would call that an exotic wood in the same way  
22 that in China they call our American Red Oak and  
23 American Walnut and American Hickory exotic because  
24 quite frankly they don't have it, so we don't --

25 COMMISSIONER ARANOFF: Okay. Well, I

1 understand that from a species standpoint it's  
2 different.

3 MR. ELBRECHT: Okay.

4 COMMISSIONER ARANOFF: But if I'm looking at  
5 it on a floor, what am I going to see that's  
6 different? A different grain, an ability to accept a  
7 different range of stains? What am I going to see?  
8 Does it wear differently? What is the different thing  
9 that a consumer gets?

10 MR. WEST: My name is Dave West. I'd like  
11 to comment that --

12 COMMISSIONER ARANOFF: Can you just state  
13 your name for the court reporter?

14 MR. WEST: My name is Dave West, and the  
15 product is very exotic-looking in the sense that it  
16 has a lot of color variation. It's very unique on the  
17 marketplace. One thing that I've noticed in my retail  
18 store in Seattle, Washington, is that most of my  
19 customers have never seen it before, and when they  
20 walk in, they immediately fall in love with it saying  
21 that it's one of the most beautiful produced they'd  
22 ever seen on the market, and it turns out to be  
23 roughly 60 percent of my engineered flooring sales  
24 there.

25 It does tremendously well in both the smooth

1 and the hand-scraped version. It's durable. It's  
2 going to be almost twice as hard as oak or maple, and  
3 it's got a lot of performance things going for it that  
4 a lot of the American species do not. It can also be  
5 stained, and so you can get a lot of different looks,  
6 and that's one of the reasons why it has so much  
7 demand.

8 MR. WU: Yes, Commissioner, may I just add  
9 on top of that?

10 COMMISSIONER ARANOFF: Please do.

11 MR. WU: Acacia is one species which is  
12 bold-leaf hardwood, which is dark color. It's not  
13 easy for the staining actually, but Acacias always  
14 have a good grain, and the knot is quite good for this  
15 purpose for flooring. That's what it is used, but  
16 it's quite unique.

17 MR. JAKOB: This is John Jakob from Lumber  
18 Liquidators. One other thing I'd like to add is it  
19 was mentioned earlier that American Walnut could be  
20 considered an alternative for Acacia from a domestic  
21 wood species. Well, I would offer that the hardness  
22 of Acacia is much harder than American Walnut, so from  
23 a functional standpoint, Acacia's going to be a better  
24 choice and a harder wood for a homeowner.

25 COMMISSIONER ARANOFF: Okay. I have to tell

1 you I just went through a big home renovation, and  
2 I've been in like every flooring supplier in the  
3 metropolitan Washington area and seeing a lot of  
4 different kinds of floors, and I'm still bewildered,  
5 and I'm still learning more today even though my  
6 floors are done, so let me turn to another related  
7 question.

8           There's really a sort of a he-said/she-said  
9 going on on the record today about the extent to which  
10 domestic producers have been willing to sell to large  
11 home center retailers and those kind of customers, and  
12 the domestic producers did put a great deal of  
13 information on the record, much of which is  
14 confidential that consist of emails and other sorts of  
15 contemporaneous documents about their effort to sell  
16 product to these kind of customers.

17           Now, maybe there's something on the record  
18 that I haven't noticed, but if not, is there anything  
19 that Respondents can put on the record which would  
20 tend to support the alternate version that I'm hearing  
21 today that the domestic industry either wasn't  
22 interested in those customers or wasn't interested in  
23 supplying the products that those customers actually  
24 wanted?

25           MR. HUBBARD: This is Clint Hubbard with

1 Home Legend. I can provide you with these two  
2 articles where the senior management of one of the  
3 Petitioners has made declarations that they continue  
4 to be committed to their independent retailers and  
5 their policy, their long-standing policy to not sell  
6 to home centers. I have two articles here that I can  
7 submit to you.

8 COMMISSIONER ARANOFF: Okay. I mean, my  
9 understanding is that to the extent that may be true  
10 for some or maybe only one large domestic producer,  
11 it's not true for everyone, is that your understanding  
12 as well?

13 MR. HUBBARD: That's true. It's not true  
14 for everyone.

15 COMMISSIONER ARANOFF: Okay.

16 MR. HUBBARD: Well, most of those people are  
17 here today too, though.

18 COMMISSIONER ARANOFF: I wanted to turn to  
19 another issue that's gotten some play in this case,  
20 and that has to do with the number of plies that are  
21 contained in a piece of engineered wood flooring. The  
22 domestic industry was very emphatic in testifying that  
23 it depends on your manufacturing process. You could  
24 have a variety of numbers of plies, but the product  
25 you get at the end is just about the same in terms of

1 the consumer experience with the product.

2 My understanding is that at least some of  
3 the respondents have argued that's not true, that more  
4 plies are better than fewer lies. Is there anyone who  
5 wants to speak to that issue?

6 MR. TRAIN: This is Jonathan Train. I'll  
7 speak to that issue. As far as the number of plies,  
8 there's probably 20, 30 different product features  
9 somebody could discuss, and there's some people that  
10 will focus on that particular item of the number of  
11 plies, so I think some of what we heard this morning  
12 made it seem like that was the biggest argument we  
13 had.

14 Well, I mean, that's something that some  
15 people use. Most U.S. products started off as 3-ply,  
16 so when it jumped up to more than that, it added  
17 stability. The difference between one and the other,  
18 it depends on what products are being used, which what  
19 they're using for their plywood core, it can vary, so  
20 if you're using a particular type of wood, so many  
21 plies is better in that situation than another, so I  
22 think it gets down to some specifics. Does that kind  
23 of answer what you were asked?

24 COMMISSIONER ARANOFF: It does actually, and  
25 thank you, and so my next question goes to the face

1 ply. There's also been some discussion about whether  
2 a thicker-faced ply is better than a thinner one, and  
3 I'm trying to figure out whether that's true and  
4 whether that has changed because I understand that it  
5 depends on whether you are going to refinish the floor  
6 by sanding it, or my understanding is there may be a  
7 newer refinishing method where you don't have to sand,  
8 and so now maybe it doesn't matter how thick the face  
9 ply is?

10 MR. TRAIN: I'd like to answer that also,  
11 Commissioner, but I don't want to get you in trouble  
12 either because I see that we're at yellow.

13 COMMISSIONER ARANOFF: Well, go ahead and  
14 answer, and if we run over, I'll take the heat from  
15 the Chairman.

16 MR. TRAIN: All right. Fair enough. Well,  
17 you mentioned that you recently purchased floor, so  
18 it's just like anything else. I would qualify you as  
19 a customer, so I would ask you how long do you plan on  
20 living in your house? What things are important to  
21 you? What are you looking for? All those questions  
22 make a difference.

23 If this is a rental house, and you don't  
24 want to necessarily put in the investment of a thick-  
25 faced product, a thinner-faced product might make more

1 sense because you that six, seven years from now,  
2 you're going to have to change it out anyway because  
3 of whatever condition you're living under, so a  
4 thicker ply offer certain features and benefits as  
5 mentioned during the testimony is that with that  
6 thicker ply, you can sand and refinish it instead of  
7 taking it out and making a whole new floor and selling  
8 a whole new floor, so a lot of it just depends on your  
9 needs. Did I get to where you need it?

10 COMMISSIONER ARANOFF: Close. I'll come  
11 back for the last piece, but thank you very much.  
12 Thank you, Madame Chairman.

13 CHAIRMAN OKUN: Commissioner Pinkert.

14 COMMISSIONER PINKERT: Thank you, Madame  
15 Chairman, and I join my colleagues in thanking all of  
16 you for being here today, all of you going all the way  
17 to the back of the room. I want to begin with  
18 something that Mr. Boltuck said in his testimony. You  
19 said that the downturn in housing construction began  
20 around mid-2007, and I'm wondering was there a surge  
21 in subject import market share around the time of the  
22 downturn, and, if so, can you explain that?

23 MR. BOLTUCK: I would have to look at the  
24 data again from 2007, which I haven't been focused on  
25 for this investigation because the POI begins in 2008

1 now, and I'm happy to do that in the post-hearing  
2 brief. What I will say is that the decline in housing  
3 and home improvement, they didn't entirely coincide  
4 month by month in terms of the indicators of that, but  
5 they came pretty close so that by end of first  
6 quarter, certainly second quarter of 2009, the decline  
7 portion of the impact was over, and at that stage,  
8 things did stabilize.

9           The market became a lot more predictable  
10 again, but at a much lower level, and that's for the  
11 broader housing market. See, the problem is that I  
12 think Petitioners have with the data in the staff  
13 report, and you have to look at several things  
14 together is that with the increase since 2009 in  
15 consumption in the market came from a variety of  
16 sources, came from the imports from China but also  
17 came from their own increase in shipments.

18           With the increase in consumption by 13  
19 percent, if the staff were right in its estimate of  
20 the demand elasticity for multi-layered wood flooring  
21 of roughly minus one, roughly unit elastic, that means  
22 that a 10-percent increase in volume with a stable  
23 demand curve is associated with a 10-percent reduction  
24 in price, but we had a 13-percent increase in  
25 consumption, and we had a stable market because you

1 know what the driver's are.

2           They're in the staff report incidently, but  
3 this is where demand comes from, and we did not get a  
4 13-percent decline in price. We didn't get any  
5 observable decline in price. if you look, for  
6 instance at one of the Petitioner's biggest products  
7 among the eight products, Product No. 2 and the data  
8 the for their price is not APO in that product because  
9 a lot of them must be producing it, so it's a  
10 combination, the prices from 2009 onward varied  
11 between \$1.85. \$1.82, \$1.80, \$1.82, \$1.86, \$1.91,  
12 \$1.91, \$1.91, \$1.79, \$1.85, so it was flat.

13           It didn't go down by 13 percent, so how can  
14 you reconcile the idea of a sort of a fix-size market  
15 with a unit elastic demand curve with this record  
16 data. You can't, but there is a way of doing it.  
17 Give up the unit elastic demand curve, recognize that  
18 demand is extremely elastic as it would be if there  
19 are excellent substitute products around, that's what  
20 makes demand elastic, and there are.

21           There all kinds of other things people can  
22 put on floors. As Jonathan said, there are other ways  
23 people can spend money on finishings in a house, so  
24 there is immense substitutability from a consumer,  
25 from an end-user standpoint being reflected in the

1 nature of market demand, and the Petitioners  
2 themselves could have sold more, but they probably  
3 would have been cannibalizing their sales of other  
4 kinds of flooring, and they may have chosen not, but  
5 with that kind of elastic demand, that's what we did.

6 We sold more into this market, and it didn't  
7 tank prices after the market stabilized in 2009.  
8 That's what the view of the data taken together right  
9 from the staff report really is.

10 COMMISSIONER PINKERT: Thank you. When you  
11 look at this issue of what happened to subject import  
12 market share in 2007, coincidental or roughly  
13 coincidental with the decline in the housing  
14 construction or home construction market. I'd also  
15 ask you to look at whether the new market share for  
16 the subject imports after this change was stable or  
17 unstable and then please explain what you find.

18 MR. BOLTUCK: Okay. I mean over to this POI  
19 our market share went up, but because our shipments  
20 increased proportionately more than the domestic  
21 shipments increased. We were both increasing and it  
22 was not being reflected in lower prices for the  
23 products that they reported. So that's the key thing.  
24 Volume taken alone means nothing if you don't  
25 associate it with an affect. It has to be through

1 price.

2 COMMISSIONER PINKERT: Now, that's a good  
3 segue into my next question, which is to refer to  
4 Petitioner's argument at page 42 and Exhibit 14 of  
5 their brief that instances of underselling account for  
6 a significant and disproportionate share of sales of  
7 the Chinese imports represented in the pricing data.

8 In other words, although there is  
9 overselling in the pricing data, is it, in fact  
10 accurate that where you see underselling is where you  
11 see the more significant volumes of the subject  
12 imports?

13 MR. BOLTUCK: You know, I'm not sure. I  
14 will definitely respond to the question. What I would  
15 say is that where you see the big volumes for the  
16 domestic producers, you tend to see overselling. That  
17 was what was reflected in the weighted average margin  
18 that we calculated.

19 So there were a number of products for which  
20 the volumes for the domestic producers and for us were  
21 comparatively small. There were a couple of products  
22 for which their volumes were really large throughout  
23 the whole period. No matter how you look at them,  
24 Product 2 is one of them. That's one word and they -  
25 to say it with more specificity.

1                   And those are the products that were  
2 characterized by overselling. That's why I reject  
3 what I heard this morning about a weighted average  
4 somehow concealing information about individual  
5 margins or something like that because that's exactly  
6 what it's not doing. It's really enlightening you  
7 about where those overselling individual margins are.  
8 They're bigger and they're on products that are more  
9 important to the Petitioners. That's how you get a  
10 positive average margin.

11                   COMMISSIONER PINKERT: Let's see if we can  
12 tap some of the expertise on the panel from the  
13 business end. I would ask specifically with regard to  
14 Red Oak Face product. Is there any particular reason  
15 why we would see overselling with respect the Red Oak  
16 Face?

17                   MR. TRAIN: Would you mind defining  
18 overselling?

19                   COMMISSIONER PINKERT: I realize that some  
20 of the data that I'm referring to is business  
21 proprietary. But the point is that if you see that  
22 the subject imports are actually selling at a higher  
23 price than the domestic producer's prices, is there  
24 any particular reason to think that Red Oak Face would  
25 be a product where that would happen?

1           MR. HAMER: John Hamer. Red Oak does not  
2 grow in China. So any Red Oak has to be exported from  
3 the United States, processed in China, and then sent  
4 back to the United States whereas US manufacturers  
5 have an enormous advantage because all their raw  
6 materials are sourced here in this country.

7           MR. TROENDLE: John Troendle. Crescent  
8 Hardwood. The difference is that the Chinese will  
9 slice Saw Face where the Americans are going to rotary  
10 peel it. To saw it takes more effort and costs more.  
11 To bring the lumber over the China and to bring it  
12 back, it will cause it to sell for more. We do it  
13 every day in our market with products we bring in from  
14 overseas, not just China.

15           COMMISSIONER PINKERT: Thank you. Our last  
16 question this round will take us over or time  
17 allotment, but maybe you can give me a quick answer to  
18 the question of whether the domestic industry's  
19 improved performance in 2010 is partly attributable to  
20 the stimulus created by the home buyer tax credit?

21           MR. TROENDLE: I addressed that directly in  
22 my testimony. And it isn't that the home buyers tax  
23 credit was not reflected in housing starts. The  
24 channel or the mechanism through which that might have  
25 benefitted the domestic industry has to be reflected

1 in housing starts.

2 But the problem is the magnitude of the  
3 improvement in housing starts in the first half of  
4 2010 compared to 2009 is very small. That's the  
5 period over which they had a 6.8 percentage point  
6 improvement in their operating income ratio, and how  
7 do I know that?

8 You have to have something to compare it to.  
9 I compared it to the decline in housing starts from  
10 2008 on average for the full year compared to 2009.  
11 That was huge. That was like 386,000 units instead of  
12 54,000, and yet the effect that had on their operating  
13 income ratio was very small. It was just two  
14 percentage points.

15 So here they had a 6.8 percentage point  
16 improvement in the first half of 2008 they want to  
17 attribute to the effect of the federal tax credit  
18 which can only have an impact to the extent it affects  
19 housing starts and the impact on housing starts if it  
20 really was attributable to that entirely, was modest  
21 in the first half of 2010. But they had a big  
22 improvement in their performance in the first half of  
23 2010.

24 COMMISSIONER PINKERT: Thank you. Thank  
25 you, Madame Chairman.

1                   MR. NEELEY: I'm sorry. Could I add just  
2 really one quick thought on that issue?

3                   CHAIRMAN OKUN: A lawyer with a quick  
4 thought?

5                   MR. NEELEY: Yes, I mean as quick as it  
6 could be okay? I never understood why the domestic  
7 industry thinks this argument helps them. Okay? If  
8 housing starts are having this fantastic positive  
9 effect on them, doesn't it tell you that it's housing  
10 that is driving the profit and loss and not imports?  
11 That's a quick thought.

12                   COMMISSIONER PINKERT: Thank you. Thank  
13 you, Madame Chairman.

14                   CHAIRMAN OKUN: Thank you. I guess I would  
15 start this question to the witnesses of the alliance,  
16 but others feel free to jump in because it's this  
17 question of where there is competition in the market.  
18 I guess I would start with at the - stage and then  
19 reading arguments for this case from Respondents about  
20 the attenuated competition that the domestic industry  
21 wasn't producing the same products, they weren't  
22 selling in the same place.

23                   And if we look at pricing, we can see all  
24 that. I guess I would have expected to see a similar,  
25 I would have expected to see Table 2(1) in the staff

1 report which was Exhibit 4 in Petitioners' brief this  
2 morning like where the channels of distribution are  
3 and where the domestic industry is selling, where the  
4 subject imports are selling.

5 I would have expected that to look different  
6 than it did based on this attenuated competition  
7 argument. I wanted to get your response on how I  
8 should view that information in the staff report.  
9 Again, we often look at that table for where there is  
10 competition between domestics and subject imports. So  
11 who would like to start with that question?

12 MR. ERVIN: Everyone is ponging at me.

13 CHAIRMAN OKUN: Just restate your name for  
14 the record.

15 MR. ERVIN: Ken Ervin.

16 CHAIRMAN OKUN: I can see, Mr. Ervin.

17 MR. ERVIN: I will also state that I'm not  
18 the economist.

19 CHAIRMAN OKUN: That's okay. I would like  
20 to hear from non-economists.

21 MR. ERVIN: Okay. Would you please be a  
22 little bit more concise from a floor guy's perspective  
23 on exactly what you're asking.

24 CHAIRMAN OKUN: So one of the arguments I've  
25 heard you make today and I've read in all the

1 information is that in the big box stores, for  
2 example, or in other places that the domestic industry  
3 isn't interested and isn't selling.

4 So, therefore, I would expect to look at the  
5 information the staff gathered on channels of  
6 distribution and say the domestic industry is selling  
7 all to builders and subject imports are all competing  
8 here for sells to Home Depot, and that's not what the  
9 record reflects.

10 Is that more helpful from an industry  
11 perspective? See. Now you have your economists  
12 whispering in your ear.

13 MR. ERVIN: He was translating for me.

14 CHAIRMAN OKUN: I'm a lawyer. What am I  
15 going to say? There you go.

16 MR. ERVIN: Thank you, Richard. I  
17 appreciate that. As I stated earlier, the first three  
18 levels of my program, and we put a program together  
19 specifically to present to builders, has five domestic  
20 items in it. We also have products that end up being  
21 imported. I buy those from a domestic supplier, but  
22 it's an import product.

23 So both of those are very important to me.  
24 They both have filled certain places in my channel.  
25 When I look at products, I'm looking for specific

1 things to plug into a program and each program costs a  
2 little bit more money to a homeowner.

3 CHAIRMAN OKUN: So a new homeowner going in  
4 maybe has a good, better, best choice. Would that be  
5 something like that.

6 MR. ERVIN: It's really more complicated  
7 than that. What I've tried to do is make selection  
8 much more retail while being builder friendly. So we  
9 built a line of product that the entry level product,  
10 which admittedly is not the prettiest product we've  
11 had because we don't really want people to buy the  
12 product.

13 Then next step up is a product that has a  
14 feature in benefit. The next product up may have a  
15 different width or a different species. So we would  
16 use either species or width or colors to step up.

17 By the time you start getting up into the  
18 mid-level, then you start seeing some of the wider  
19 widths maybe with a hickory hand-scraped product or  
20 different items like that. I use the import products  
21 to complement the other products that I start with so  
22 each product has a particular story to tell.

23 CHAIRMAN OKUN: Would the imported product  
24 and the domestic product be in each of those  
25 categories you're talking about or each of those

1 levels? Would I see both?

2 MR. ERVIN: No. Because there are some  
3 things the domestic manufacturers do extremely well.  
4 In this case, these particular products happen to be  
5 domestic in manufacture, they happen to be an oak  
6 product and a hickory product, and they're smooth in  
7 nature.

8 So the domestic manufacturers do very well  
9 at that, and we've great success with that. But then  
10 when we move up to some of the other products, they  
11 don't do as well. I've had to search for products.  
12 My testimony also said that homeowners now are looking  
13 for design and color.

14 That is the very most important thing for  
15 anyone in the floor covering business is design and  
16 color. Those are the things that we try and introduce  
17 at higher price points because our business is to sell  
18 a product and make a profit from that and we want them  
19 to buy more expensive products. Did I answer your  
20 question?

21 CHAIRMAN OKUN: You did. Can I have some  
22 other industry witnesses. So Mr. Irvin in the  
23 builder's zone. Who could talk to big box home  
24 centers or Lumber Liquidators?

25 MR. JAKOB: John Jakob here from Lumber

1 Liquidators. I believe you used the term "sexy"  
2 before in his testimony. Basically, what he's talking  
3 about is a very similar process that we utilize where  
4 you have a base grade opening price point and opening  
5 style product and you add more design and style and  
6 color and features as you move up through the value  
7 chain. Basically, the same premise is use.

8 CHAIRMAN OKUN: Where in the value chain are  
9 the domestics for purposes of the big box and home  
10 centers, and where are the subject imports?

11 MR. HUBBARD: This is Clint Hubbard with  
12 Home Legend. In our case with our business with the  
13 home centers, it's very specific to what I've talked  
14 about is a click-lock technology and our focus on the  
15 DIY consumer with the home centers and their focus on  
16 the DIY consumer, and incorporating click-lock  
17 floating floor technologies. And that's been our  
18 primary focus, that category.

19 CHAIRMAN OKUN: Your testimony, I recall, is  
20 just that the domestics were not offering that  
21 technology. So it didn't really have to do with the  
22 wood finishes. Yours is more on the laying it down  
23 side.

24 MR. HUBBARD: The domestics were offering it  
25 in a very limited way. Shaw has a product they call

1 epic, which is a very old technology click/lock  
2 profile that really does actually allow them to have a  
3 true floating floor technology.

4 It's a click/lock that actually requires  
5 glue as opposed to ours which is a true floating  
6 floor, a newer Swedish technology that we've employed,  
7 to meet the needs of the DIY consumer. It's important  
8 to also know that when you're talking about price too,  
9 these DIY floating floor products have also brought  
10 installation down dramatically for the consumer that  
11 wants to buy it themselves or to have it  
12 professionally installed. So that category has  
13 allowed a price point including installation, not just  
14 the flooring, that is more attractive to a consumer.

15 MR. ERVIN: Ms. Chairman, if I could answer.

16 CHAIRMAN OKUN: Yes.

17 MR. ERVIN: You asked a specific question  
18 there at the end. I have domestic product in my  
19 starting area, and then I move to some import product,  
20 and then I have also have domestic product above that.  
21 So I have domestic throughout the program.

22 CHAIRMAN OKUN: Then, Mr. Jakob, did you  
23 have any other follow up on that?

24 MR. JAKOB: Yes. With regards to the  
25 subject imports, they do find themselves in the value

1 chain. Just as you get further up the chain and the  
2 style becomes more abundant and the features become  
3 more abundant, the consumer is engaged at that.

4 CHAIRMAN OKUN: Other? Yes.

5 MS. LAWSON: Yes. I'd like to say we have a  
6 distribution and retailer that would like to speak.

7 CHAIRMAN OKUN: That would be great.

8 MS. LAWSON: Okay. Paul Anderson.

9 MR. P. ANDERSON: Paul Anderson from  
10 Metropolitan Hardwood. So the one thing that's a  
11 little bit confusing on here, they have the domestic  
12 manufacturer and then the importer. But often, as  
13 represented at this table, the importer is the  
14 distributor. So it's that one level of selling to the  
15 next level.

16 So as a distributor, we can get the products  
17 that we want. When we need to make specialty  
18 products, we go other places because we need to  
19 satisfy the retailer. That's why the segment below  
20 the distribution chain gets higher.

21 CHAIRMAN OKUN: Yes?

22 MR. LUDWIKOWSKI: I'm not in the industry,  
23 but I just want to make one comment.

24 CHAIRMAN OKUN: Restate your name for the  
25 record.

1                   MR. LUDWIKOWSKI: Mark Ludwikowski. There  
2 was a question actually earlier this morning asked to  
3 Mr. Anderson, who is a distributor, on where some of  
4 the domestic products fall into, actually where the  
5 products fall into the distribution category and  
6 basically if some of that is going to builders, if  
7 some of that is going to remodeling sector. I think  
8 the way he had answered that was not much was going to  
9 big box stores, but quite a bit was going to home  
10 builders. I think perhaps that question--

11                   CHAIRMAN OKUN: Right. Except if I look at  
12 the builders, the builders are a small proportion of  
13 the data that we collect. I understand that there may  
14 be, I think what you're saying is some of this is,  
15 it's not quite as broken out as we have it here. So  
16 perhaps for post-hearing it might be worthwhile for  
17 you to address that. But again, from my perspective,  
18 what it showed me is it does look to me as if  
19 domestics and subject imports are in all of those  
20 channels. That's why I'm trying to further break that  
21 out, but now my time has come up. I'll have a chance  
22 to come back to that and give any additional  
23 responses. But I will turn it back to Vice Chairman  
24 Williamson.

25                   VICE CHAIRMAN WILLIAMSON: Thank you, Madame

1 Chairman. I too want to express my appreciation to  
2 all the witnesses who have come today. It's very  
3 helpful to have such a wide range of expertise. It's  
4 almost overwhelming in a sense.

5 I'll start with Botoc. The Exhibit 2 that  
6 Domestic Energy presented this morning which holds  
7 their US market share, assuming the US market share  
8 had been fixed from 2008-2010. And then they show  
9 that the industry would have done better if that had  
10 been the case. I was wondering whether you would like  
11 comment on that and what is your perspective on that?

12 MR. BOLTUCK: Thank you for the opportunity,  
13 Commissioner. I would. This analysis, this equal  
14 market share income statement analysis that was  
15 presented this morning is predicated on what I would  
16 call a fixed-pie view of the market. In other words,  
17 if you look at the top line, apparent US consumption,  
18 has been held unchanged in each period.

19 So, in other words, what this analysis is  
20 based on is shifting sales from imports,  
21 undifferentiated whether it's Chinese or excluded  
22 Chinese or non-subject, but from imports to the  
23 domestic producer and keeping the pie the same size.  
24 And yet, that's not the way this market works because  
25 as we've been pointing out, there were all of these

1 additional sales into this market that did not affect  
2 price.

3 That means that it's not the case that this  
4 market is of a fixed size. We sold more without  
5 having this affect on the domestic producers. They  
6 sold more. They could have sold even more if they  
7 were prepared to cannibalize their own sales of other  
8 flooring products.

9 How do we know this? Because the only  
10 possible explanation for the data we do see that the  
11 Commission collected is that demand for this single  
12 flooring product. As opposed to all flooring products  
13 together, demand for this single flooring product is  
14 very, very elastic which means you can sell more  
15 without affecting the price.

16 Now prices went down from 2008 to 2009  
17 because of the housing collapse, but after that demand  
18 conditions stabilized at a much lower level than they  
19 had been prior to that during the boom or bubble  
20 years, but they did stabilize. And, therefore, a  
21 fixed-pie analysis that assumes that the only way the  
22 Petitioners could have sold more product is that we  
23 sold less, is not accurate.

24 VICE CHAIRMAN WILLIAMSON: Aren't they  
25 talking about their market share?

1           MR. BOLTUCK: Yes. But see they lock down  
2 the amount sold each year to match that in the staff  
3 report that actually took place. That means that the  
4 only way we equal market shares is for them to shift  
5 sales that we made to sales that they made, and that  
6 was their premise.

7           What I'm saying is that data about how this  
8 market operates doesn't require shifting sales. You  
9 don't have to say that one more of their sales in this  
10 market requires one less of our sales. And yet that's  
11 what they've done.

12           They've shifted it unit for unit from sales  
13 that we actually made to sales that they made in order  
14 to equalize the market shares. So that's an invalid  
15 characterization of the way this market works based on  
16 the evidence of increased sales into a stable, overall  
17 market for housing not affecting price.

18           That's a key fact that has to be reconciled  
19 or integrated into an understanding of how this market  
20 works, that somehow since 2009, when all of the  
21 drivers of demand for all kinds of construction  
22 materials, but including flooring stabilized.

23           In this 500,000-600,000 range for housing  
24 starts and with relatively stable, even possibly  
25 declining home improvement demand, how is it that both

1 the Petitioners, not just the Petitioners, but the  
2 full US industry and imports increase their sales into  
3 this market and prices didn't go down.

4 That has to be in some way explained or  
5 integrated. There is an economic explanation for it  
6 that's consistent with microeconomic 101. That is  
7 very elastic demand for this flooring particular  
8 flooring product. That's inconsistent with the  
9 premise behind this analysis.

10 VICE CHAIRMAN WILLIAMSON: Petitioners this  
11 morning sort of indicated that there wasn't really  
12 much competition between the multi-layer wood flooring  
13 and other things like laminates and other types of  
14 flooring. Do you disagree with that? I go some  
15 impression that some --

16 MR. BOLTUCK: Very much so. We all disagree  
17 with that. Moreover, they disagreed with themselves on  
18 that point. They did say that their laminate sales  
19 were declining. Why is that in a stable market just  
20 like why are sales of this product increasing?

21 They also said a consumer goes into a store  
22 and wants hardwood and they were a little muddled  
23 about what that means. Does that mean a hardwood  
24 veneer on an engineered wood flooring product or does  
25 that mean solid hardwood? Or in some cases, in many

1 cases for many consumers, they're interested in the  
2 appearance and weighing advantages and disadvantages  
3 and then looking at cost, they may be considering both  
4 when they walk into the store.

5           They don't really know about engineered  
6 flooring products. They do know what appearance they  
7 want. Why is it, for instance, that many produces as  
8 we documented in a very lengthy exhibit comprised of  
9 copied Web pages from producer's Web sites, many  
10 producers advertise, market their engineered hardwood  
11 products and their solid hardwood products with  
12 stickers or labels that say "also available as' the  
13 other product.

14           In other words, if you want solid hardwood,  
15 but you like this appearance, buy this one. Or if you  
16 want the advantages associated with engineered wood  
17 products, but you like the appearance of this solid  
18 hardwood product, buy the other one.

19           I think that the way the market actually  
20 operates and these gentleman can tell you all of their  
21 own experiences, belies the claim that there is no  
22 substitutability between all these other products and  
23 engineered wood flooring.

24           VICE CHAIRMAN WILLIAMSON: I don't think  
25 there is no substitutability. I think they were sort

1 of saying it was limited.

2 MR. BOLTUCK: Their claiming that as an  
3 assertion, but it's inconsistent with the record  
4 evidence because the record evidence still has to  
5 account for the fact that consumption of this product  
6 increased and prices did not go down.

7 What I'm saying is, from an economic standpoint,  
8 there is one explanation for that fact. It's that  
9 you get led to that almost as a matter of economic  
10 mechanics. In other words, if you know nothing about  
11 the product, you still could infer demand must be  
12 elastic.

13 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
14 I will invite the Petitioners if they want, to  
15 comment, if they sort of disagree with this analysis  
16 in post-hearing. They can address it. Okay. Thank  
17 you.

18 I also wanted to go to the question of the  
19 distribution channels. The Chairman had some  
20 questions on this. I guess what I'm wondering is--  
21 I'm sorry-- let me come back to this later. I have to  
22 go back and rethink that one.

23 Respondents argue that the Chinese market  
24 for MLWF is booming relative to the US market. I was  
25 looking at the Table 743. Why is it that the share of

1 exports going to the US, really seems not to have  
2 changed that much. If the domestic market is growing  
3 so fast, you seem like you're still exporting,  
4 percent-wise, as much to the US as before and also  
5 exporting to other markets the same. Mr. Wu?

6 MR. WU: Thank you. Sorry for a little bit.  
7 The industry in China is continuously growing as well  
8 as the whole market in China is growing even faster.  
9 China export products to outside. And also we import  
10 products to China from outside as well. That's both  
11 way of working now.

12 Also we are coming from different places.  
13 They export it to America in recent years. It is  
14 increased because the market and this product. It is  
15 a newer product in the worldwide.

16 There is something about the product in the  
17 morning I heard is not quite true is three layer  
18 pocket flooring was eventually invented in Sweden and  
19 Europe. Modular flooring was invented in Japan. As I  
20 testified already in 2007 on the sections here.

21 That's where I chased lots of materials  
22 which is definitely truth on the data. Also nowadays  
23 in China, especially in recent years like last year  
24 and this year, the flooring capacity was increased a  
25 lot, but the local market was even increased bigger.

1           Those are the comment. There is a whole  
2 market especially in 2011 this year. So the portion  
3 ratio of the export to outside of China actually is  
4 not increased. As the data this morning show --

5           VICE CHAIRMAN WILLIAMSON: I know it hasn't  
6 increased, but it hasn't gone down.

7           MR. WU: Relatively the ratio is going down.  
8 Last year, the capacity in China for wooden flooring  
9 is about 400 million sq meters total as you can find  
10 in the data. The portion, the ratio is going down  
11 because as capacity goes up, local market also goes  
12 up.

13           VICE CHAIRMAN WILLIAMSON: Let me take  
14 another. My time has expired. Thank you for that  
15 answer.

16           MR. NEELEY: We'll address that in the post-  
17 hearing if that's all right with you.

18           CHAIRMAN OKUN: Commissioner Lane?

19           COMMISSIONER LANE: Good afternoon. I  
20 really hate being the last questioner. Could you do  
21 something about that, Madam Chairman?

22           CHAIRMAN OKUN: Wait for another hearing and  
23 you won't be last.

24           COMMISSIONER LANE: Thank you. Mr. Boltuck,  
25 I have some questions for you. I admit to being a

1 little confused so let me see if I can state things as  
2 I understand it and then you can tell me why I'm  
3 wrong. This morning, I said or I asked about this  
4 non-overlapping competition.

5 The domestic industry says, we're talking  
6 about wood flooring, engineered wood flooring. There  
7 are a whole lots of varieties and the domestic  
8 industry makes a whole lots of varieties. The Chinese  
9 make a whole make a whole lot of varieties.

10 And when customers go to buy wood flooring,  
11 they have all sorts of choices and they make their  
12 choices. That seems to me to say that when we're  
13 talking about wood flooring, one domestic-like product  
14 and the customer has all sorts of choices, that there  
15 is competition between the domestic and the subject.  
16 Am I misunderstanding that?

17 MR. BOLTUCK: I wouldn't presume to  
18 characterize what the Petitioners intended you to  
19 understand, but all I can speak to is what the data  
20 actually show. And what they show is that increasing  
21 sale of Chinese product in the US market since 2009  
22 when all of the drivers of demand for flooring  
23 stabilized, did not adversely affect the prices of the  
24 products they received.

25 The Petitioners told you this morning that

1 there were all of these hundreds and hundreds, maybe  
2 they said thousands of different skews. There are  
3 just immense varieties of products they make and all  
4 of that. But they also complained about the  
5 definitions of the pricing products. They thought it  
6 excluded too many. I just want to point out that if  
7 you add up the volume that they reported for the  
8 pricing product--

9 COMMISSIONER LANE: Okay. But we're not  
10 really just talking about those pricing products.  
11 We're talking about the entire consumption and we  
12 divided it into the domestic industry and the subject  
13 imports.

14 MR. BOLTUCK: Why I came back to the pricing  
15 products is I just wanted to point out that the share  
16 of their total production accounted for by the pricing  
17 products, which I don't want to give an exact number  
18 for because there is a lot of bracketing of volumes on  
19 the pricing products, but if you look at that, you'll  
20 see it's a very important share of their total  
21 production.

22 So this idea that there are just hundreds  
23 and hundreds and products important to them and the  
24 definitions of the pricing products in terms of  
25 capturing competition and overlap of competition was

1 much too narrow.

2 COMMISSIONER LANE: Let me jump to something  
3 else. Mr. McClure, I'd like for you to stand up and  
4 yell at me if I'm wrong. But I'm looking at the C  
5 Tables, and nothing is marked business proprietary.  
6 Is that right?

7 MR. BOLTUCK: Neither of us can see.

8 COMMISSIONER LANE: So, Mr. Boyd. It looks  
9 to me like the subject imports have, since 2008, going  
10 up the domestic industry end product has gone down as  
11 far as market share. And then it looks to me like,  
12 when you look at the quantity of sales, the Chinese  
13 quantity has gone up from 2008 to 2010.

14 The value between 9 and 10 has gone up and  
15 then it looks to me like the quantity of the domestic  
16 industry has gone down and the value has gone down and  
17 the unit value has gone down, and it also looks as if  
18 the cost of goods sold has also gone down.

19 So I'm having a hard time understanding when  
20 the projectory is the imports going up, the domestic  
21 industry going down, but there is still relatively  
22 almost half and half.

23 MR. BOLTUCK: Look, here's what I think is  
24 going on. The domestic industry isn't going down.  
25 The domestic industry and imports declined in 2009

1 because there was a housing collapse.

2 COMMISSIONER LANE: You know, let's not talk  
3 about why. Let's just talk about the numbers.

4 MR. BOLTUCK: Look, what has happened is  
5 that since the market stabilized, yes, import share of  
6 the Chinese product increased because the imports from  
7 China increased proportionately faster than shipments  
8 by US producers. That's what it means to say the  
9 market share changed.

10 But the domestics didn't go down. They're  
11 producing more and they're shipping more and moreover,  
12 they improved their margins on the products they're  
13 producing. Their unit value went down which is  
14 something you mentioned and the reason is they changed  
15 the mix of the products they're selling in the US  
16 market.

17 They're actually selling more of them and  
18 those are higher-margined products which is why  
19 they're turning in an operating income ratio of only  
20 minus one percent after almost two-thirds of the  
21 market disappeared just three years ago. In the first  
22 half of 2011, they're loss is only minus one percent.  
23 That means their margin actually improved really a lot  
24 since they were hit just like imports and everyone  
25 else selling into construction was hit in 2009. So

1 they really aren't going down.

2 Their market share went down because they  
3 chose not to increase their production into a market  
4 in which anybody can sell more as long as you're  
5 taking share from other flooring products which must  
6 be going on because there is no other way to explain  
7 how consumption in this market did increase by 13  
8 percent in a stable market.

9 COMMISSIONER LANE: The values went down.

10 MR. BOLTUCK: Yes. The unit values went  
11 down. Look. There is a spectrum of products that  
12 have widely varying prices. You can see that in the  
13 pricing products for instance. When you shift the mix  
14 or products that underlie that unit value, then you  
15 get a change in unit value.

16 Consumers are more cost conscious now in a  
17 recession with a lot of unemployment, less new housing  
18 demand. They are not buying as much of the high-end  
19 product. They're buying a somewhat lower-end product.  
20 They adjusted their mix.

21 This wasn't injury. This was brilliance.  
22 This allowed them to sell more and to improve their  
23 margin on every product they sold. So now they've  
24 improved their operating income ratio just since 2009  
25 by 8.9 percentage points which is huge.

1 COMMISSIONER LANE: Let me ask you another  
2 question. 2010, the operating income is minus 6.5.

3 MR. BOLTUCK: That's correct.

4 COMMISSIONER LANE: So is that good?

5 MR. BOLTUCK: Yes. Because it was on a path  
6 after the housing collapse drove domestic industries  
7 like many industries in the country, especially  
8 related to the construction sector, that drove the  
9 industry to an operating income ratio of -9.9. Since  
10 then, it has steadily improved.

11 MR. NEELEY: If I could just add one thing.

12 COMMISSIONER LANE: I'm not being flip here,  
13 but Mr. Bollick, if your 401K is showing a -6.5  
14 percent return, are you happy?

15 MR. BOLTUCK: Of course not.

16 COMMISSIONER LANE: Okay. That's all I  
17 wanted to say.

18 MR. BOLTUCK: I just want to say, it's not  
19 because of the imports because as you point out, the  
20 imports increase their sales while the domestic  
21 industry was improving its financial performance. So  
22 while they may not be happy with that as a stopping  
23 point, they didn't stop there.

24 They then went on to improve in the  
25 following year by another 5.5 percentage points. So

1 that now they're only losing one percent. They may  
2 not be happy with that, but look at the direction  
3 they're headed. They're headed towards making money in  
4 this market after the market declined by 60 percent.  
5 That's pretty good.

6 COMMISSIONER LANE: Mr. Neeley, go ahead.

7 MR. NEELEY: I'm sorry. I think what Mr.  
8 Bollick said a the end kind of summarized it the best  
9 way. It's not that they're absolutely doing well.  
10 Obviously, if it they're losing money, they would like  
11 to do better and anybody would.

12 It's really a question of causation, what's  
13 causing that. If we just look at 2008 to 2009, then  
14 you could scratch you head and say, is that because of  
15 the recession, the collapse in the housing market or  
16 is that because of imports?

17 I think that when we then look at 2009 to  
18 2010, we have our answer. That answer is that the  
19 domestic industry is shipping very substantially more.  
20 Imports are also shipping substantially more and the  
21 profitability of the US industry is increasing  
22 substantially.

23 It hasn't gotten back to where everybody  
24 wants it probably anyplace in the world, but it's all  
25 changes. So I think that that causal link, which is

1 ultimately what you're looking for, and not just  
2 whether the US industry is doing fantastically well or  
3 not, I think we all agree surely they could be doing a  
4 lot better, is the problem. That's really what our  
5 focus is here.

6 COMMISSIONER LANE: Okay. Thank you. I'll  
7 turn it back to the Chair.

8 CHAIRMAN OKUN: Commissioner Pearson.

9 COMMISSIONER PEARSON: Thank you, Madame  
10 Chairman. Is this a product in which labor costs are  
11 important enough to give a distinct advantage to  
12 China?

13 MR. TRAIN: I'd like to answer that. I  
14 think the nature of the labor has less to do with the  
15 cost where China has the distinct advantage because  
16 they can do the labor and they can do the volume of  
17 the labor that's needed more so than can they do the  
18 labor cheaper. The labor doesn't exist here to do it  
19 in the quantities that the consumer demands.

20 COMMISSIONER PEARSON: You're talking  
21 particularly about the hand scraping or everything?

22 MR. TRAIN: The hand scraping. Hand scrape  
23 is a big part of it, but I think there are other  
24 product categories, especially and that's the thing.  
25 This industry so fragmented in terms of styles and

1 design and type and even you're trying to make sense  
2 of the distribution channels.

3 It's hard to really know where everything is  
4 going and how it's sliced. But there are a to of  
5 products where that labor advantage, the ability to do  
6 the labor really gives them an advantage for a certain  
7 set of products.

8 COMMISSIONER PEARSON: Mr. Wu, Mr. Chou, did  
9 you have thoughts on this?

10 MR. WU: May I ask in two way. Mainly it's  
11 important with the modular flooring. First,  
12 comparably, we eliminate flooring and the wooden  
13 flooring with our flooring. The multi-layer floorings  
14 is more labor-intensive product. Second, the multi-  
15 layer flooring needs more skilled and hardworking  
16 people to do it where available. China, it is.

17 COMMISSIONER PEARSON: We also have  
18 available a distributor. Jack, would you like to  
19 speak?

20 MR. HAMER: As I understand it, roughly 80  
21 percent or a little bit more than 80 percent of the  
22 manufacturing cost of the multi-layer flooring is raw  
23 materials, SG&A and things like that. Less than 20  
24 percent is actually labor.

25 I think that the one are that China has an

1 advantage would be in hand scraping because literally,  
2 ti's a very labor-intensive process. In the United  
3 States, as some have testified, they can't even find  
4 enough people to do this in the open labor markets.  
5 They have to essentially go to prisons to find a  
6 captive audience of employees.

7 I think that it's not significant. It's not  
8 the real reason why there is a difference between US  
9 dn Chinese products sold in the United States. I  
10 think what really drives it are the product selection.

11 To an earlier question, there is like a  
12 bifurcation taking place right now. There is a fair  
13 amount of activity at the lower end of the market, the  
14 DIY area where people are trying to fix up their homes  
15 as inexpensively as they possibly can.

16 The other area where there is high level of  
17 activity is people who have money, the upper end. If  
18 you look at the results of Nordstoms and Bloomingdales  
19 and Saks. They're doing really quite well right now  
20 versus the Wal-Mart's who are struggling to get even  
21 any same store sales growth.

22 So the high end of the market is really  
23 doing pretty well right now. Parts of the highly  
24 styled, highly unique, have very different t kinds of  
25 species tend to do very well. So the middle of the

1 market really is what's been damaged, and historically  
2 that's been the biggest strength of US manufacturers  
3 is that there is a middle point product. Think that's  
4 what is driving a lot of the results that happen right  
5 now.

6 COMMISSIONER PEARSON: Would the inference  
7 be that further recovery in the economy would rebuild  
8 demand for the middle price points?

9 MR. HAMER: Absolutely. Right now, you've  
10 got a situation where in most of your major areas  
11 where multi-layer floors are, Florida, Southern  
12 California, Nevada and Arizona, the housing market in  
13 those specific geographic regions have been absolutely  
14 devastated. The majority of homes are now selling for  
15 less than what the mortgage value of those homes are.

16 Those people are in no position to invest in  
17 their homes right now. So as the market recovers, you  
18 will increasing demand for new home activity as job  
19 creating accelerates, but I think you'll also see a  
20 surge in activity due to pent up demand.

21 This year in California, for instance,  
22 you've got 35 million people. There's probably 10-11  
23 million existing homes. They're going to build 25,000  
24 new homes in California this year. The number of  
25 existing homes dwarfs the new construction, but what's

1 happened is there is a paralysis in the market.

2           People are just not spending any money until  
3 there is greater clarity on the direction of the  
4 economy. When the economy begins to strengthen and  
5 recover, there is going to be a surge in activity as  
6 all these parts have been really delayed for 2, 3-- 4  
7 years kick in.

8           I think as we talked about this morning,  
9 through a full economic cycle, you'll see robust  
10 activity and significant profitability to those  
11 manufacturers and distributors who have been able to  
12 survive through this unprecedentedly difficult time.

13           COMMISSIONER PEARSON: Thank you for that.  
14 Allow me now to shift gears, and ask about the direct  
15 competition in the marketplace between US product and  
16 Chinese product. The domestic producers have  
17 indicated that they face quite intense competition  
18 from imports from China.

19           Those of you who are selling product, do you  
20 at times find yourself competing with US origin  
21 product or is that somewhat rare? There has been an  
22 argument that we don't really compete with American  
23 stuff, but I want to hear more about that.

24           MR. SAVOIE: My name is John Savoie. I've  
25 got a small retail store in Upstate New York. The

1       only Chinese product I carry is a high-end product.  
2       That is \$3-\$4 sq. ft. above my highest domestic  
3       product. So we're not competing with the domestics.  
4       We're competing with that high-end market that's out  
5       there that is a unique distinctive product to what I  
6       can get from the Chinese producer.

7                   COMMISSIONER PEARSON: You would almost be  
8       competing against solid hardwood flooring then?

9                   MR. SAVOIE: My pricing on that is higher  
10       than solid flooring. The level up here with the  
11       Chinese engineered flooring, there is no solid to be  
12       found. It's a very unique distinctive product, It's  
13       11 inches wide and 12 feet long reclaimed plank that's  
14       engineered. That's why we use it.

15                   COMMISSIONER PEARSON: Does anyone have  
16       experience competing at lower or middle price points?

17                   MR. TRAIN: Jonathan Train. I'd like to  
18       first give a quick analogy to explain how in my eyes,  
19       how competition works.

20                   COMMISSIONER PEARSON: Please.

21                   MR. TRAIN: If you don't mind, I'll kind of  
22       compare it to ice cream. If you have an ice cream  
23       store that just sells three flavors, chocolate,  
24       vanilla, and strawberry, you like those, but how often  
25       are you going to visit the ice cream store?

1           If you have all the other flavors, you have  
2 Ben & Jerry's, HaagenDazs and everything else, you're  
3 going to go to that ice cream. You're much more  
4 interested in buying ice cream. That kind of  
5 describes wood flooring in a hole.

6           Yes, me wanting to buy a Ben & Jerry's item  
7 versus just standard vanilla or even other flavors.  
8 They do compete against each other. But I think the  
9 reality is allowing more items into the store,  
10 elevates the whole category.

11           You're also having to compete against other  
12 flooring types and do people even want to have dessert  
13 tonight. That's kind of I think for Commissioner Lane  
14 what you had asked earlier to kind of give an example  
15 of how these products compete. They compete, but I  
16 think that kind of gives an idea of how they compete.

17           COMMISSIONER PEARSON: Okay. Let me try to  
18 focus a little bit more. Let's say that you are  
19 trying to sell Chinese product to a distributor, and  
20 that distributor has a supplier who is trying to sell  
21 US produced. How does that competition work. Are you  
22 aware of the pricing that is being offered by the  
23 competitive supplier. Does the distributor try to  
24 leverage down whatever price you might be offering  
25 based on what his other supplier is able to do?

1           MR. TRAIN: I think for my answer, I am a  
2 distributor that imports directly. So my customer base  
3 is the dealer. So, we carry domestic product as well  
4 as import product. When we do that, we're looking for  
5 import product to complement our domestic produce. We  
6 truly do. So we try to find things that fit into gaps  
7 the domestic product doesn't fit. Maybe the answer to  
8 that somebody else can answer.

9           COMMISSIONER PEARSON: I'm down below 9  
10 minutes. I have about 40 seconds. Who wants to  
11 comment in the limited time?

12           MR. HUBBARD: I'll make a comment on that.  
13 This is Clint Hubbard with Home Legend again. When  
14 you're bidding on business with a Home Depot and a big  
15 box, there are some limits in that competition.  
16 Anderson said earlier, they only sell to distributors.  
17 Mannington doesn't sell to big boxes.

18           There are some others. Then you further  
19 limit your competition by virtue of the fact that I'm  
20 bidding on a click-lock product for instance. We do  
21 not know what the domestic competitors are bidding.  
22 We do not know their pricing. You just put your best  
23 foot forward.

24           There are domestic companies that we're  
25 losing bids to every day. QEP has some similar

1 products to ours. Ours are generally hand scraped.  
2 So we have an advantage there. But otherwise we're  
3 losing. We lost a significant bid to Mohawk this week  
4 which was domestically produced, Columbia.

5 We don't know what the pricing was. We just  
6 know we lost the business. Price isn't the only thing  
7 that they're looking at. They're looking at the  
8 aesthetics, the service, the relationship, the  
9 quality, they're looking at all kinds of things when  
10 they're making a purchasing decision.

11 COMMISSIONER PEARSON: Thank you very much.

12 CHAIRMAN OKUN: Commissioner Aranoff.

13 COMMISSIONER ARANOFF: Thank you, Madame  
14 Chairman. One of the domestic industry's primary  
15 assertions is that when a customer enters the showroom  
16 or goes out looking for a wood flooring product, that  
17 person is looking for a certain color, a certain  
18 texture and maybe a certain species of general  
19 appearance more or less in that order of importance.  
20 Would you agree with that description of what the  
21 purchaser is looking for?

22 MR. ERVIN: Ken Ervin. I heard it stated  
23 this morning from the Petitioners that the people  
24 walked in not really knowing what they wanted. And  
25 then later, we heard that. People have ideas of what

1 they want when they come in.

2 You have to really go through and ask the  
3 questions about which room it's going in. Do you have  
4 kids, Do you have a dog. I heard that same thing  
5 mentioned and so we definitely go through all those  
6 things with a homeowner.

7 They may tell you, "I really have my heart  
8 set on wood. There are a number of people that put  
9 it in. We've been very successful with wood doing  
10 that because of the better style and color that we see  
11 now.

12 But you also have people who from a budget  
13 perspective may have to drop down to a laminate  
14 product or a vinyl plank product. So we see that from  
15 time to time. We also have people that will come in  
16 and not find what they're looking for and have to move  
17 to a solid product as an example.

18 We have a very large sand and finish  
19 division. So I can make anything out of a solid  
20 product and do it custom on the job site. We have to  
21 qualify early what they're asking when they come in. Of  
22 course our goal is to sell them something that, it's  
23 our job to sell product. We want to sell them the  
24 nicest product that we can get into their budget.

25 COMMISSIONER ARANOFF: I had a discussion

1 with domestic producers this morning about the extent  
2 to which the market for wood flooring is kind of a  
3 fashion-driven market. Their assertion was that's  
4 important to people, but things don't change as  
5 quickly as they do for clothing or for some other  
6 areas of home decor that change yearly or even  
7 seasonally. Would you agree with that  
8 characterization?

9 MR. ERVIN: No. Style and color change  
10 very, very quickly. One of the things you heard early  
11 in my testimony was that years ago, you could buy a  
12 brown floor with a red or orange undertone or you  
13 could buy one brown with a green undertone. That is  
14 not an exaggeration.

15 You might be able to find it in 2.25, 3.00  
16 inch and maybe 3, 5, and 7 but it was very, very  
17 limited. Over the past several years, we've had the  
18 ability to change things very quickly and keep up with  
19 styles and trends and change them as we see.

20 When I see people, and we see literally  
21 thousands of people through our showrooms each year  
22 that are building homes and we're able to see what  
23 they want, what excites them. I can't believe I  
24 actually introduced the word sex here into testimony.

25 But I did because we've been able to change

1 products in such a way and manufacturers have reacted  
2 so quickly that we can, in fact, and in some cases be  
3 ahead of some of the trends that are out there.

4 COMMISSIONER ARANOFF: One of the things I'm  
5 trying to understand then is when a new product comes  
6 along that for some reason catches on in the market  
7 because it's the current design craze, and demand may  
8 go up for it for some period of time maybe a couple of  
9 years, and then people move on to the next design  
10 craze and you've got to be there with whatever that  
11 is, right?

12 MR. TRAIN: This is Jonathan Train. When  
13 you say products don't move in and out quickly, that's  
14 a relative term, but just to give you an exact  
15 example, we found a product. This goes back about  
16 four years ago. From the time we saw it first to the  
17 time we time we had it on the streets ready to  
18 deliver, Probably about a six to eight-month cycle.

19 Then I would say it had about a two year  
20 life cycle of being a very strong product and now I've  
21 already dropped four out of six colors, and it's  
22 probably going to go away by January. We all  
23 experience those types of products. It's very common.

24 I think that cycle, it's faster today than  
25 it's ever been. I think everybody can attest to that,

1 that that's really come into fashion and out of  
2 fashion. It's much faster than in this business than  
3 it used to be.

4 COMMISSIONER ARANOFF: How much of the  
5 market do you think that is versus how much of the  
6 market still wants a tried and true medium brown oak  
7 sort of floor?

8 MR. P. ANDERSON: I was going to answer a  
9 little bit of that, but I can answer a little bit of  
10 this. I think taste is very regional. That's often  
11 not obvious that what sells in the Pacific Northwest,  
12 what sells in California, what sells in the Northeast  
13 is quite different .

14 As a distributor, we have to be able to  
15 respond to very regional tastes and those might change  
16 quickly. What sells in a rural retail store, what  
17 sells downtown is different. We have to ability and  
18 flexibility to have a wide range of products, and we  
19 don't show all those products in all those locations.  
20 You have to regionalize the offer based on the tastes  
21 of that particular community.

22 COMMISSIONER ARANOFF: Let me flip to  
23 another topic while I still have time. For people who  
24 are distributors or retailers, when domestic producer  
25 comes to you or you're talking to a domestic producer,

1 is the conversation with the domestic producer offers  
2 you their line and you have a choice of carrying their  
3 line or not carrying their line? Or can you go to  
4 them and say, I want product "x". Can you make it for  
5 me? Also can you answer the same question with  
6 respect to Chinese producers if it's different.

7 MR. HAMER: My name is Jeff Hamer. Over the  
8 25 years I've been running Gallagher, we've been in  
9 and out of a number of relationships with US  
10 suppliers. Generally, most manufacturers want just  
11 one or two distributors in a regional area.

12 It's not an open anyone-can-have-my-line  
13 kind of thing. One of the biggest things that's  
14 happened over the last 15 years is there has been a  
15 tremendous consolidation in the number of domestic  
16 supplier partners you can actually align with.  
17 Whereas 15 years ago, there may have been 15 separate  
18 companies you could have essentially represented,  
19 today largely it was basically four companies that  
20 control the domestic market: the Shaw group, the  
21 Mohawk group, the Armstrong group, and the Mannington  
22 group.

23 If you're not an Armstrong distributor, you  
24 don't usually have access to their products. If  
25 you're not a Mannington distributor, it's very

1 difficult to get access to those products. Shaw and  
2 Mohawk sell most of their product to the direct  
3 channel.

4 One of the realities of the last decade has  
5 been since manufacturers have consolidated and created  
6 their own specific channels of distribution that they  
7 want to control and they want to have great influence  
8 in, it's limited the number of options for US  
9 distributors to align themselves with, which to a  
10 large degree has forced many distributors to look to  
11 alternative partners in other parts of the world  
12 whether it's Europe, South America or Asia. In many  
13 ways, where we are today is a result of decisions that  
14 were made in the domestic industry over the last  
15 decade.

16 COMMISSIONER ARANOFF: That's an interesting  
17 point and somewhat different from the question that I  
18 was asking although maybe it obviates the question  
19 that I was asking. If you have in mind that there is  
20 a particular product that you think would be  
21 interesting to your customers, can you go to a  
22 domestic producer and ask him to make that product for  
23 you or are they only going to sell you what they  
24 already make or maybe not sell to you at all because  
25 they already have a distributor in your region? How

1 does that work?

2 MR. ERVIN: Ken Ervin. We're fortunate,  
3 very blessed, that business is very good. So we're  
4 always looking to increase product and have the newest  
5 things available. There are several times over the  
6 past 13 years since I've been in flooring services  
7 that we've asked for specific products to be made to  
8 no avail until 3-4 years ago when we could ask a  
9 question about a specific product and we had samples  
10 show up very quickly.

11 So for a long time, as you mentioned a  
12 minute ago, those manufacturers moved at a snail's  
13 pace. They weren't really interested in making the  
14 products we wanted. They were interested in making  
15 the products that they wanted to make.

16 So their production was driven by  
17 manufacturing people not by sales people who knew what  
18 would sell. We've seen a total switch in the market.  
19 Now we have people who want to make what we want to  
20 sell. That's been the benefit.

21 COMMISSIONER ARANOFF: It would be very  
22 helpful to us to have on the record any sort of  
23 documentation that anybody can provide of those kinds  
24 of conversations where you went out and were looking  
25 for a specific product and can document that the

1 domestic industry was not willing to supply it for  
2 reasons unrelated to price because they've obviously  
3 got some documentation in the record to the contrary.  
4 With that, my time is up. Thanks for those answers.  
5 Thank you, Madame Chairman.

6 CHAIRMAN OKUN: Commissioner Pinkert.

7 COMMISSIONER PINKERT: Thank you, Madame  
8 Chairman. Is it true that once a sale is made to a  
9 big box retailer based on relatively low price that to  
10 compete for sales to that retailer, to that big box  
11 retailer, you have to come in with even lower prices?  
12 Is there a sort of a de-escalator going on once there  
13 is a sale made to a big box retailer based on low  
14 price?

15 MR. BOWEN: This is Kevin Bowen from Custom  
16 Surface. We sell predominantly to cash-and-carry  
17 which is kind of big box where you can walk in and pay  
18 it.

19 COMMISSIONER PINKERT: Are you next to the  
20 microphone?

21 MR. BOWEN: I'm trying to be. My name is  
22 Kevin Bowen with Custom Surface. We sell  
23 predominantly to cash-and-carry customers which is big  
24 box retailers. The way the process works, the buyer  
25 decides to put product out for a line review.

1           In a line review, he invites everybody in.  
2           Most of the people in here would end up showing up for  
3           the line review. You would bring in what you think  
4           should go on their shelves. That buyer is judged by  
5           his employer as to whether or not the products you put  
6           on their shelves actually sell.

7           So line review happens annually, every 18  
8           months, whenever they feel that the line needs to be  
9           refreshed. They need to look for new products.  
10          That's happening more and more on a regular basis on  
11          an annualized basis.

12          When they select products, when you go in  
13          and you lay your products out, there is a whole range  
14          of products that you think they ought to carry and you  
15          have to justify why they should carry that. That is  
16          based on market trends, what's hot and what's going on  
17          on the West and East coasts, what are people buying.

18          That buyer makes a decision as to what he  
19          can sell off that shelf. Yes, every line up always  
20          includes one or two or three oak colors, gun stock and  
21          natural oak because those are the traditional colors.  
22          But lately our line ups are turning into 60 and 70  
23          percent of what we call exotics or hand-scraped.

24          MR. CHIAN: This is Jim Chian. My company  
25          experience, we don't sell to big box store. We only

1 sell to leading distributor and we understand that  
2 this is totally different market as we understand. We  
3 never compete in big box.

4 MR. HUBBARD: Clint Hubbard with Home  
5 Legend. We do not have any de-escalators when we sell  
6 them.

7 COMMISSIONER PINKERT: You mean as far as a  
8 contract clause?

9 MR. HUBBARD: There is no de-escalating  
10 pricing when we sell them.

11 COMMISSIONER PINKERT: I understand your  
12 answer to that, but I'm also asking the question  
13 whether as a practical matter, once that sale is made  
14 to the big box retailer based on price that subsequent  
15 sellers who wish to compete for that business would  
16 have to come in with even lower prices.

17 MR. HUBBARD: Not necessarily. First of  
18 all, they wouldn't necessarily buy just on price. It  
19 would be aesthetics and what sells, service. There is  
20 high cost barrier to entry to doing business with the  
21 big boxes as well from a technology standpoint. There  
22 is a huge investment in technology you have to make  
23 just to do that. That limits a lot of people who can  
24 even bid on the business. There are many other  
25 factors that go into that decision. Once that product

1 is in place, as long as it's selling, generally there  
2 are no changes in the pricing and you're not going to  
3 get knocked off on a lower price because you've made  
4 an investment in the samples and so on as well.

5 You might spend a million dollars, for  
6 instance, launching a product in the store. So  
7 generally once the product has served its cycle from a  
8 sales standpoint is when they would start looking at  
9 it.

10 COMMISSIONER PINKERT: Does anybody else  
11 wish to comment on that issue?

12 MR. TRAIN: This is Jonathan Train.  
13 Surprise.

14 One thing I think is important when you talk  
15 about who is the low-cost provider, I think bringing  
16 product from A to B, from China to the U.S. border is  
17 not where the differentiating factor is. It's from  
18 the border to the consumer. Going back traditionally  
19 we had what we refer to as two-step distribution. It  
20 would be manufacture, sell to the distributor, the  
21 distributor would sell to the dealer, the dealer to  
22 the consumer. What's really evolved over the last 10  
23 to 15 years is that cycle has been shortened by many  
24 people. They found more efficient ways to market.

25 So getting it from China to the U.S. hasn't

1 changed a whole lot. Where the big change is, once it  
2 gets here and once it's produced in the country, how  
3 it gets to the consumer. I think Lumber Liquidators  
4 is a great example of that. They've really shortened  
5 that cycle and have positioned themselves very well  
6 because of it, but it's because of that latter end of  
7 getting the product to the consumer.

8 COMMISSIONER PINKERT: Thank you.

9 Oh, go ahead.

10 MR. ERVIN: Ken Ervin. Being at the dealer  
11 level, I'm at the end of that chain. What Jonathan  
12 said is very true. The gentlemen that spoke this  
13 morning, I know them all. I've done millions of  
14 dollars of business with them over the years. But the  
15 business model has changed.

16 Now Shaw has changed that as well as the  
17 things Jonathan is referring to. So you have people  
18 who import product that are now selling, they're the  
19 distribution for the product and importing the  
20 product, so they've cut out one of the steps. So two-  
21 step distribution is what Mannington does and what  
22 Anderson does, so they're selling to a distributor.  
23 For instance, selling to BPI, a distributor. So  
24 there's that margin, then they sell it to me.

25 Now if you eliminate one of those margins,

1 I'm in a better position. So we're removing some of  
2 the margin out of the system by having one less  
3 middleman.

4 So Shaw does that, a number of importers now  
5 distribute their product, so they've also removed one  
6 of those levels of margin, and that's made it much  
7 more attractive for me to use that particular system  
8 instead of using two-step.

9 COMMISSIONER PINKERT: Thank you.

10 Mr. Chian?

11 MR. CHIAN: A few more words about this.

12 I feel that we don't, the customer going to  
13 the box store or going to the retail store, they have  
14 different budgets, different preference, style.  
15 Someone in big box store they like to do it yourself,  
16 and many going to retail store actually they want  
17 professional installer to install for them.

18 Also there are regional differences.  
19 Petitioners also agreed in the morning. In the Texas  
20 area, 70 percent the style, people like hand scraping  
21 style and especially hickory. But if you sell hand-  
22 scraped product on the East Coast or North, it's very  
23 difficult.

24 So it's not like we can provide everything  
25 on every market, competing with each other. The

1 reason we focus on the regional distribution network  
2 is that we know we cannot win in the big box. These  
3 are just different markets.

4 COMMISSIONER PINKERT: Thank you.

5 A question for the post-hearing. When we  
6 think about this Bratsk analysis, I understand the  
7 testimony today on the panel was that the amount of  
8 non-subject imports that might be available to replace  
9 subject imports in the event that the subject imports  
10 left the U.S. market, that amount is not limited by  
11 the amount of non-subject imports that were coming in  
12 during the period of investigation.

13 So I'm wondering, can we get some estimate,  
14 some sort of quantification of the amount of non-  
15 subject imports that would have been available during  
16 the period of investigation to replace the subject  
17 imports had the subject imports left the U.S. market?  
18 I know that's a long question, but I'm grappling with  
19 the issue of quantification of those non-subject  
20 imports that would be available during the period.

21 Is that something that you can address in  
22 the post-hearing?

23 MR. BOLTUCK: Yes, we'll be pleased to  
24 address that.

25 I would just note right now that there is a

1 table that for some reason I'm having a terrible time  
2 putting my finger on in the staff report that  
3 identifies a whole long list of countries around the  
4 world that export MLWF and -- Fortunately I gave it to  
5 one of our people and he gave it back to me.

6 It's Table 7-5 in the staff report on page  
7 711. It shows for each year of the POI and thousands  
8 of dollars the value of their export. So we did try  
9 to quantify that by subtracting out exports from China  
10 and exports from the United States, adding up  
11 everything else and looking at that in relationship to  
12 the magnitude of current imports from China. For 2010  
13 the amount of exports from countries around the world  
14 was over 20 times the amount of imports from China in  
15 2010 in the United States. And that doesn't count  
16 production for home markets that isn't exported around  
17 the world which is also available for diversion to the  
18 United States.

19 COMMISSIONER PINKERT: Thank you.

20 For the post-hearing when you answer the  
21 question, please try to indicate whether the quality  
22 of the non-subjects is comparable and whether they  
23 could easily penetrate the U.S. market in the event  
24 that the subject imports have left.

25 MR. BOLTUCK: We'll directly address that,

1 but the take-away message from the testimony you heard  
2 from three of our witnesses today is that they find  
3 the mills around the world outside of China are eager  
4 to meet their specifications. In other words,  
5 regardless of whether they're currently making exactly  
6 the product they would want to import to replace the  
7 Chinese product, they know they can work with those  
8 mills and obtain the product from those mills.

9 COMMISSIONER PINKERT: I understand. But  
10 again, and I'm going to have to conclude here, I'm  
11 talking about what would have been available during  
12 the period of investigation.

13 MR. BOLTUCK: And we also have a lot of  
14 samples of exactly that that we presented to the  
15 Commission that show identical product that is  
16 available from third countries even today.

17 COMMISSIONER PINKERT: Thank you. I'm going  
18 to have to stop you there.

19 Again, it's just that I'm talking about what  
20 would have been available during the period.

21 Thank you.

22 CHAIRMAN OKUN: One point on that.

23 Perhaps the samples, if you leave them with  
24 staff, if they can all be identified. I looked at  
25 what came by but there were only a few of them I think

1 that actually had the countries, or maybe we just  
2 couldn't see them.

3 MS. LAWSON: I'll identify the samples.

4 CHAIRMAN OKUN: If you can do that, that  
5 would be great.

6 And I don't know if any of the Chinese  
7 manufacturers from the China National Forest Products  
8 Industry Association could comment on some of the  
9 other countries that are, for purposes of post-  
10 hearing, that they are familiar with and know anything  
11 about in terms of capacity and ability to get things  
12 to market.

13 MR. NEELEY: We'll take a look and see if we  
14 have that information.

15 CHAIRMAN OKUN: That would be great.

16 I think I'm going to start with Mr. Bowen  
17 from BR Custom. You had responded in one of the  
18 questions in talking about the offerings and how it's  
19 changed and I think I heard you talk about what used  
20 to have been a traditional market might now be 60 to  
21 70 percent exotic, the line being offered.

22 I guess one of the things that I feel like  
23 we don't have in the staff report yet is a better  
24 understanding of where the different product is in  
25 terms of, if it's an exotic coming from China what

1 proportion of exports from China are acacia, are what  
2 would be called an exotic? What proportion are hand  
3 scraped? And Mr. Bowen, I'm not thinking you know all  
4 those figures, but since you had started with that I  
5 thought that might be a helpful way to start, is have  
6 you talk about what you're purchasing, if you could.  
7 And if anything is business proprietary, obviously it  
8 can be offered post-hearing.

9 MS. LAWSON: I just was going to comment, if  
10 you'd like to ask other than --

11 CHAIRMAN OKUN: Right.

12 MS. LAWSON: I think they know their  
13 individual --

14 CHAIRMAN OKUN: And would it be business  
15 proprietary? Would anyone want to share it, kind of  
16 the breakdown? Or no.

17 MR. TRAIN: I think we'd rather provide that  
18 to you post-hearing. We can accumulate what everybody  
19 does and try and put it in segments that make sense  
20 based on the different categories discussed today.

21 CHAIRMAN OKUN: I think that would be very  
22 helpful. And it may be that some of the information  
23 is in the questionnaires and so Mr. Wu, I don't know  
24 if you or others from the China National Forest  
25 Products Industry Association could comment on what

1 proportion or what percentage of your products are in  
2 some of the different categories that we have talked  
3 about today that the hand scraped or acacia, or if you  
4 could respond post-hearing with that.

5 MR. NEELEY: We'll try to put them in  
6 categories for you.

7 CHAIRMAN OKUN: Okay.

8 And some of the problem, of course, asking  
9 that for purposes of post-hearing is I'm not sure if  
10 there's a good definition of out there, but if you  
11 could also perhaps work together to make sure that  
12 we're getting consistent responses that would be  
13 extremely helpful.

14 I know Commissioner Aranoff had asked about  
15 how much of the market is still in the traditional,  
16 and I think one of the comments from one of the  
17 industry folks was just that it is very regional in  
18 terms of what sells in one place doesn't sell in the  
19 other, and what we may see out here is thinking that's  
20 got to be the majority of the market really isn't. So  
21 any breakdown of that I think would also be helpful  
22 for purposes of our record, to help us understand  
23 what's being sold in the markets and how it's  
24 described and how that does or doesn't compete with  
25 the U.S. line of products.

1           Maybe this is something you could do without  
2           it being business proprietary, but could any of you  
3           comment just in terms of for your lines what types of  
4           species and finishes are your most popular right now?  
5           I understood the comments about styles change and what  
6           you might be selling now might not be what you're  
7           looking at in the future, but can you just help me  
8           understand generally? It sounds like some of you are  
9           pretty specialty. I think our Adirondack gentleman,  
10          you have a very specialized niche. So I'm not sure,  
11          I'm just trying to understand, generally what the  
12          differences are and if anyone could share that with me  
13          from the industry, I think that would be helpful.

14                 MR. TRAIN: This is Jonathan Train.

15                 I think one thing for us would be to kind of  
16                 quickly go through based on some key sellers, but one  
17                 thing we did in our own preparation was just go down  
18                 the line, and everybody pretty much was anywhere I'd  
19                 say there's about 14 different companies, 12 different  
20                 companies, 18. Out of those 18 I think about 16 of us  
21                 were at least over half hand scraped, and many upwards  
22                 of 70 and 80 percent. I think that gives a pretty  
23                 good summary of that.

24                 We'll poll, and I think we'll come up with  
25                 three, four, five categories and break it down. Half

1 hand scraped or this percent hand scraped, this  
2 percent smooth, then we'll do it by species and so  
3 forth in post-hearing. I think that will give you a  
4 good summary.

5 CHAIRMAN OKUN: That would be useful.

6 The other thing I'm trying to understand  
7 from those conversations and some of the different  
8 things that you've already testified to, so I  
9 apologize if I'm making you repeat some things, but  
10 I'm trying to understand which of those types of  
11 species or finishes you would believe have a price  
12 premium associated with them. So if it's the consumer  
13 going in and seeing the range and I know our friend  
14 from the builders, Mr. Ervin, you have talked about  
15 that, how you try to move people up. I'm just trying  
16 to understand what gets a price premium in this  
17 market?

18 MR. ERVIN: Ken Ervin.

19 As I said earlier, we start with domestic  
20 products that are just traditional oak product and  
21 hickory product. And when we move up, we move to a  
22 hickory product, a scraped product. So hickory scrape  
23 is very, very strong for us and we have several  
24 varieties of it. Within those scrapes we also have  
25 one birch item. The only reason it's birch is because

1 we can get the color in birch. We can't get the same  
2 color with hickory or oak or anything else.

3 So the majority of those scrapes are hickory  
4 products. Again, some birch. We don't really do what  
5 would be called tropicals or exotics, different things  
6 like that. We generally have stayed away from those  
7 kinds of products. We would call maybe walnut an  
8 exotic when it's truly a domestic product here. So  
9 we'll do some walnut as well.

10 CHAIRMAN OKUN: And the price premium  
11 associated with that?

12 MR. ERVIN: The hand-scraped products are  
13 more expensive than the smooth products obviously  
14 because of the labor to make them that way.

15 CHAIRMAN OKUN: I think you put information  
16 in there but I wanted to ask the domestic industry and  
17 I forgot to have them respond to it, which is, I think  
18 there were some comments about hand scraped has to be  
19 hand scraped, you can't do it by machine. At least  
20 one of our industry witnesses had talked about going  
21 through a lot of iterations to invest in a machine  
22 scraping that they think is comparable. Can anyone  
23 comment on that?

24 MR. ERVIN: I would like to comment on that  
25 because I'm the person they're trying to sell it to.

1           I had my assistant, and I'd be happy to pass  
2           it around, send me some pictures because it came up in  
3           our discussions yesterday, so I can show you four  
4           photographs of a machine scraped product and I was not  
5           happy with it. We sell some, but only because it  
6           happens to be in a builder's national program. That's  
7           why we sell it. But I have pointed out the problems  
8           with the machine and what they're doing. They've made  
9           some changes, but of course they already had 20,000  
10          samples made the wrong way, and I can show you that if  
11          you'd like to see it. But there are definite  
12          differences.

13                 CHAIRMAN OKUN: And in terms of  
14                 documentation of either emails or anything that is  
15                 contemporaneous with any decisions made, that is very  
16                 useful in our record to analyze and evaluate.

17                 MR. ERVIN: Sure.

18                 CHAIRMAN OKUN: I appreciate that.

19                 Mr. Boltuck, I'm not sure if this would then  
20                 be a question to you, but to the extent that some of  
21                 this conversation and exchange has been about products  
22                 that the purchasers see as bringing value-added or a  
23                 premium to the market, where is that reflected in our  
24                 record? And also if you could comment on the use of  
25                 AUVs in this particular, with this particular product.

1           MR. BOLTUCK: As many people have noted,  
2 there are many different features and characteristics.  
3 There's a matrix, really, of features and  
4 characteristics. It results in many, many different  
5 prices per square foot for different products. When  
6 the mix changes of those products you get changes in  
7 AUVs, even when individual prices for the underlying  
8 products are stable. So we know that's been going on,  
9 that we have more price conscious consumers in the  
10 recession, and that AUVs have declined because product  
11 mix has shifted toward the lower end overall. That  
12 hasn't hurt the domestic industry because those are  
13 now, there are now high margin products for the  
14 domestic industry, so they're actually doing better  
15 financially with the mix that better matches consumers  
16 in the marketplace. That's really AUVs.

17           The Petitioners' economist submitted a chart  
18 or a graph this morning that showed export AUVs and  
19 domestic AUVs and I'm not sure what they intended to  
20 prove with that but they only export about two percent  
21 of their production, something in that range. So  
22 those are obviously higher priced products. The mixes  
23 were not controlled for in making that comparison, so  
24 I don't know what inference you could possibly draw  
25 from that.

1           The main thing is that we know what happened  
2 with properly specified narrow product prices over the  
3 period of investigation because we have the eight  
4 pricing products. They were well defined, they cover  
5 a large share of domestic production.

6           We have separate prices for the imports and  
7 the domestic products. Setting aside the fact that we  
8 were over-selling more than under-selling when you  
9 count values by quarter to the point we made earlier.  
10 But setting that aside, just looking at the price  
11 trend since the market stabilized after the housing  
12 collapse and the home improvements collapse in 2007,  
13 2008, those prices have been flat.

14           That is really important information for the  
15 Commission because that tells you that, since the only  
16 way we could conceivably injure them is through price,  
17 because it's in a market and there's allegedly  
18 competition taking place, we say it's less than some  
19 other people say, but in any event it would have to be  
20 through price and yet we sold more product and the  
21 price didn't go down. So that is a really important  
22 fact.

23           CHAIRMAN OKUN: My time is well over, so I  
24 will turn to Vice Chairman Williamson.

25           VICE CHAIRMAN WILLIAMSON: Thank you, Madame

1 Chairman.

2 The Chairman has asked you for a lot of  
3 data. I would just like to add a couple of other  
4 things to factor into that.

5 One is, is there any machine hand scraped  
6 product coming out of China? and how significant is  
7 that? And how significant is the domestic production  
8 of machine hand scraped?

9 MR. WU: In China, we do by hand. Made by  
10 machine is different.

11 VICE CHAIRMAN WILLIAMSON: So -- In the back  
12 there?

13 MR. CHIAN: I add on this. Since I am  
14 apparently one of the factories. The machine scraping  
15 is not like automatic machine. It's just make more  
16 straight groove. Still takes a significant amount of  
17 labor, so there's lots of factories in China, indeed  
18 they do use machines or sometimes a mixture of 100  
19 percent hand scraping and part of machine scraping.  
20 And they all, actually even machine scraping, I don't  
21 think we can find enough labor in the United States.

22 VICE CHAIRMAN WILLIAMSON: Are you saying  
23 the domestic manufacturers are not producing any?

24 MR. TRAIN: This is Jonathan Train.

25 I think there's a clarification there.

1 There's a difference between machine scraping where it  
2 goes through a stand-alone machine that's scraping it,  
3 versus using hand-tools that are power tools. Some  
4 factories use absolutely no power tools, all hand  
5 tools, but some will use power tools that are by hand.  
6 So there's kind of a -- There's an in-between. I  
7 think that's some of what he's describing is that in-  
8 between. Am I making that clear?

9 But I think in terms of a stand-alone  
10 machine doing all the scraping, I'm not aware of that  
11 coming out of China and I'm not buying any of that,  
12 and I don't know if many in our alliance are, if any  
13 are.

14 VICE CHAIRMAN WILLIAMSON: Is that what's  
15 being done in the United States?

16 MR. TRAIN: Some.

17 MR. CHIAN: Having said that. In our  
18 factory it's 100 percent hand scraping. In Lashing.  
19 It's totally by scraping by hand.

20 VICE CHAIRMAN WILLIAMSON: What I'm getting  
21 at, I think like 70 percent of the flooring that's  
22 sold in the South now is the hand-scraped style. I'm  
23 trying to figure out, is all of that literally hand  
24 scraped? Is some of it done by U.S. manufacturers  
25 using machines?

1           MR. NEELEY: Commissioner, we can look into  
2 that and see if we can poll people. I know from  
3 personal experience, because I did a verification at  
4 Zhejiang Uhua which is one of the three largest  
5 companies, and I don't think it's any secret.  
6 Everything was hand scraped. There are just a lot of  
7 people out there in a workshop scraping away. I think  
8 that's pretty typical.

9           We can do kind of a poll of people to get a  
10 better answer for you.

11           VICE CHAIRMAN WILLIAMSON: The reason I'm  
12 thinking about it, because is there a lower price  
13 point hand scraping style that's significant in the  
14 U.S. and that's where the domestic manufacturers are  
15 competing or not?

16           MR. NEELEY: The company I'm talking about  
17 is one of the really major exporters. If they're  
18 doing it, my expectation is that's the typical way to  
19 do it because they do a lot of volume.

20           VICE CHAIRMAN WILLIAMSON: Thank you.

21           If the domestic industry wants to comment on  
22 that competition post-hearing, it would be welcomed.  
23 Thank you.

24           Mr. Boltuck, as I understand your argument,  
25 increased consumption of the MLWF came at the expense

1 of other flooring products such as solid wood flooring  
2 and laminates. Post-hearing can you provide industry  
3 data that supports this argument and had demand for  
4 other flooring products decreased since you're saying  
5 basically MLWF has increased?

6 So post-hearing I would appreciate --

7 MR. BOLTUCK: We don't have perfect  
8 information on that, but we did hear testimony this  
9 morning that laminate actually has decreased.

10 VICE CHAIRMAN WILLIAMSON: If you can pull  
11 all that together. Thank you.

12 Petitioners alleged this morning that  
13 certain importers improperly reported pricing data  
14 regarding the eight products the Commission used for  
15 price comparison purposes and asked the Commission to  
16 remove this data from the pricing comparisons. Post-  
17 hearing, could you comment on their request?

18 MS. LAWSON: Would you mind repeating your  
19 request?

20 VICE CHAIRMAN WILLIAMSON: Okay.

21 The Petitioners have argued that the  
22 Respondents' information on the pricing products, what  
23 they provided, was improperly done. And so I'm really  
24 asking for your response to that.

25 MR. NEELEY: We'll do that.

1 VICE CHAIRMAN WILLIAMSON: Thank you.

2 Do you want to comment on whether or not the  
3 Chinese manufacturing firms are able to provide more  
4 flexible terms in meeting or customizing a U.S.  
5 purchaser's design specification and are they taking  
6 smaller runs than domestic manufacturers? And any  
7 evidence to support that?

8 MR. ELBRECHT: Let me give you some  
9 specifics. Sometimes we do major -- my name is Clyde  
10 Elbrecht. I'll give you some specifics. Sometimes we  
11 do major projects. Maybe we do a museum, maybe we do  
12 a college campus, maybe we do a whole condominium  
13 complex that's maybe 40,000, 50,000 square feet.  
14 They're asking for a four inch walnut floor, a five  
15 inch rift and quarter white oak floor. We can go to  
16 our Chinese manufacturer and have them specifically  
17 make the exact volume of the exact floor for that  
18 project.

19 VICE CHAIRMAN WILLIAMSON: Whereas you could  
20 not get that from a domestic manufacturer?

21 MR. ELBRECHT: It would be extremely  
22 difficult to find anybody who could do that for us.

23 VICE CHAIRMAN WILLIAMSON: You talked a lot  
24 about, Mr. Elbrecht, about exporting raw material from  
25 the U.S. that you're bringing back. I just wonder how

1 significant is that? And if you want to do it post-  
2 hearing you can, just to get an idea of, in terms of  
3 the size --

4 MR. ELBRECHT: We make almost all of our  
5 flooring out of our own lumber, with a little bit out  
6 of Brazil and a couple of places, but the vast  
7 majority of it is our own lumber. Walnut, hickory,  
8 red oak, white oak, American cherry, these types of  
9 woods. We send the lumber over, we oversee the whole  
10 manufacturing process. Rip it to dimension, make it  
11 into the saw cut veneer, make the finished product,  
12 bring the finished product back to the United States.

13 VICE CHAIRMAN WILLIAMSON: Would you call  
14 that a top of the line or upper end as opposed to --

15 MR. ELBRECHT: We would call that the top of  
16 the line.

17 VICE CHAIRMAN WILLIAMSON: By the way,  
18 having grown up in St. Louis, what big town is your  
19 factory near in Missouri? Out of curiosity.

20 MR. ELBRECHT: Where is our factor in the  
21 U.S. or in China?

22 VICE CHAIRMAN WILLIAMSON: In the U.S., in  
23 Missouri.

24 MR. ELBRECHT: It's in the town of  
25 Birchtree, Missouri.

1                   VICE CHAIRMAN WILLIAMSON: Which is near  
2 what big town?

3                   MR. ELBRECHT: We're not near any big town.  
4                   (Laughter.)

5                   VICE CHAIRMAN WILLIAMSON: Thank you. I  
6 won't go any further than that.

7                   MR. ELBRECHT: We're about a third of the  
8 way between St. Louis, Memphis and Little Rock.

9                   VICE CHAIRMAN WILLIAMSON: Thanks. Having  
10 grown up in St. Louis, I was just curious. Thank you.

11                   I think that's all the questions I have  
12 right now, Madame Chairman.

13                   CHAIRMAN OKUN: Commissioner Lane?

14                   COMMISSIONER LANE: Thank you.

15                   Mr. Wu, in looking at your testimony you  
16 said that Chinese manufacturers, unlike many of their  
17 U.S. counterparts, make only to order. So does that  
18 mean that you do not consider your product a commodity  
19 product?

20                   MR. WU: Is not exactly the same meaning  
21 because we are the manufacturer in China. If we do it  
22 on order, it will be in storage because the fashion  
23 goes away if your products are in storage. You cannot  
24 sell again for that. So, in principle, the mills,  
25 when they make production, it's based on orders.

1 COMMISSIONER LANE: Okay. Thank you.

2 Mr. Boltuck, I have a few questions. The  
3 pre-hearing report estimates that the supply  
4 elasticity of domestic production is fairly high, in  
5 the range of five to ten. Do you agree with that?

6 MR. BOLTUCK: I would say that is plausible  
7 based on the fact that they are reporting some excess  
8 capacity, yes.

9 COMMISSIONER LANE: The pre-hearing report  
10 estimates that the demand elasticity is minus .75 to  
11 minus 1.25. Do you agree with that estimate?

12 MR. BOLTUCK: No, and we stated so in our  
13 pre-hearing brief. We believe that is much too low.  
14 So in other words what my theme today has been is that  
15 the demand elasticity for this particular sub-product  
16 of all flooring is very, very large because it's  
17 really in a much, much broader economic market that  
18 includes other flooring. And you've also heard  
19 testimony that for many purposes it includes other  
20 finishes for homes, too, because people can upgrade  
21 their home with better cabinets and better countertops  
22 and other things that might lead them to do something  
23 different in flooring.

24 COMMISSIONER LANE: Did you come up with a  
25 different demand elasticity?

1 MR. BOLTUCK: Yes. I suggested that it was  
2 greater than 10.

3 COMMISSIONER LANE: I'm not quite sure I  
4 understand your argument. Do you mean if somebody has  
5 \$50,000 to spend, they might spend it on flooring or  
6 they might spend it on countertops, but you're not  
7 suggesting that the manufacturers of flooring could  
8 also make countertops.

9 MR. BOLTUCK: No. I'm just saying that yes,  
10 the budgets can drive --

11 COMMISSIONER LANE: That's what I thought  
12 you mean.

13 MR. BOLTUCK: Yes.

14 COMMISSIONER LANE: The pre-hearing report  
15 estimates a substitution elasticity of 3 to 5. Do you  
16 agree with that estimate?

17 MR. BOLTUCK: I didn't specifically include  
18 an alternative. I will say, based on your invitation,  
19 I think that is too high, but from a technical  
20 standpoint as the economists know, drive demand depends  
21 on both the elasticity of substitution and the demand  
22 elasticity, so the elasticity of substitution between  
23 the domestic and the imported product on the one hand,  
24 and the broader demand elasticity for the whole product  
25 on the other. And when the demand elasticity if

1 greater in absolute value than the elasticity of  
2 substitution, the two sub-products, the imports and the  
3 domestic product, become net complements. We think if  
4 ever there was a case where that is at least possible  
5 here, because we do see shipments of both the domestic  
6 and the imported product increasing simultaneously  
7 without prices going down. Very elastic demand and  
8 movements along that demand curve. I'm referring to  
9 the period from 2009 to the end of the POI, the reason  
10 being that 2009 is after the big drops in housing  
11 demand and so on and the market restabilized. So we  
12 now have what in the morning Commissioner Pinkert I  
13 believe referred to as a natural experiment. We have  
14 that natural experiment because we're controlling for  
15 demand conditions in that period, then we can see what  
16 increased imports did with respect to the condition of  
17 the domestic industry.

18 COMMISSIONER LANE: Do you have another  
19 number for the substitution elasticity other than 3 to  
20 5?

21 MR. BOLTUCK: I think it's too high, so I  
22 would say it may be in the 1 to 2 range. It is not  
23 below 1. But on the other hand, my point is that even  
24 if it were as high as 3 to 5 with a demand elasticity  
25 of 10 or greater, the imported product from China and

1 the domestic product become net complements, not  
2 substitutes. So more sales of the domestic product  
3 actually help, or more sales of the imported product  
4 actually help the domestic product.

5 As surprising as that may seem, you have an  
6 ample amount of testimony from our witnesses today that  
7 that's how they regard the role of product imported  
8 from China in their product line or full catalog of  
9 products. They see the two as complimentary, one helps  
10 the other.

11 COMMISSIONER LANE: Thank you.

12 Madame Chair, that's all I have. I want to  
13 thank this panel for your answers this afternoon.

14 CHAIRMAN OKUN: Commissioner Pearson?

15 COMMISSIONER PEARSON: Thank you, Madame  
16 Chairman. I believe I just have two questions. One is  
17 of an administrative nature.

18 Ms. Lawson, staff advised that a couple of  
19 your clients have not yet filled out questionnaires.  
20 Do you have the ability to commit to getting them to do  
21 that?

22 MS. LAWSON: Yes, definitely. We were aware  
23 of one and they were not aware of the, they did not  
24 appreciate the need to, but they are prepared to fill  
25 that out.

1                   COMMISSIONER PEARSON: Any questions,  
2 contact the staff and they'll help with that.

3                   MS. LAWSON: Thank you.

4                   COMMISSIONER PEARSON: You're welcome.

5                   The remaining question that has to do with  
6 the broader issue of the extent to which domestic  
7 producers see themselves as producers with plants that  
8 they need to run efficiently, and they're focused on  
9 production versus your panel which appears to be much  
10 more closely focused on customer satisfaction.

11                   I'm not sure that my comments about the  
12 domestic industry are actually correct, but there has  
13 been some allusions to that, so I wanted to go back and  
14 address it.

15                   I know that both Mr. Anderson and I think  
16 Mr. Ervin, have made some comments along these lines.  
17 Is the domestic industry focused largely on production?  
18 Or are they evolving over time to more of a customer  
19 focus?

20                   MR. ELBRECHT: I might could answer that  
21 because I have to do both. Clyde Elbrecht. We have a  
22 solid mill. Production is real important. So we're a  
23 very high production mill. And yet the specific  
24 product that we make in China we could not make in our  
25 own high production mill. It has steps, unique steps

1 to it, detailed steps, and we wouldn't be able to  
2 accomplish it in our high production mill.

3 MR. HAMER: Jeff Hamer. I think U.S.  
4 factories and suppliers are certainly committed to  
5 meeting customer service levels. I think one of the  
6 big issues they have, though, is they produce products  
7 for a national audience. They have a display. They  
8 have 100 products in the display. They introduce three  
9 or four or five or six new products every year. It's  
10 the success of those products that determine how much  
11 they run their factories.

12 Whereas importers or distributors that have  
13 private label products can identify specific products  
14 that will do well in their unique geographical market  
15 and bring in products that meet those specific needs  
16 that their local retailers, contractors, and ultimately  
17 consumers may want to have, which may give them an  
18 advantage versus a person, a manufacturer, who's trying  
19 to do a national program, trying to meet the needs of  
20 all people and not being able to be specifically  
21 focused on any one particular niche or market.

22 COMMISSIONER PEARSON: Mr. Ervin?

23 MR. ERVIN: Some of the major manufacturers  
24 have made some strides in the past couple of years.  
25 we've had input on several products. One from

1 Mannington is called American Oak. It's one of their  
2 leading sellers on a Mohawk product, I've forgotten the  
3 name of it. They came to the field and they asked me  
4 questions, I went to the Mannington plant and we worked  
5 through product. I told them what I wanted to see.  
6 Our design people worked on colors for them. And it's  
7 been a very good product for them. But it's things  
8 that they could make in their plant. It was things  
9 that their machinery could run through quickly. So  
10 they're willing to make some changes, to a certain  
11 degree. But they have become a little bit more  
12 accessible in some of the things that again physically  
13 they can accomplish.

14 COMMISSIONER PEARSON: Is this driven in  
15 part by economies of scale on the part of the  
16 manufacturers? That if they're going to set up a line  
17 and run something they need to run a lot of it?

18 MR. ERVIN: Yes. A typical run, and  
19 remember, I'm the wood flooring installation contractor  
20 guy, I'm not the manufacturing guy. The typical runs  
21 I've been told are 25, 30, 35,000 feet. That machine  
22 needs to run, run, run. There are things that I can  
23 order other places and order much shorter runs on an  
24 import product, as an example.

25 So yes, they want something they can run a

1 lot of.

2 COMMISSIONER PEARSON: Is there something  
3 different about the economics of production in China  
4 that allows smaller lots to be made economically?

5 MR. TRAIN: Jonathan Train.

6 I think some of it comes back to the labor  
7 side of it, that you have the workers willing to do  
8 some of the work that it requires to run the shorter  
9 runs. What I typically see in the U.S. factory, the  
10 line is continuous, whereas the Chinese factories are  
11 typically doing it stage by stage and they'll do more  
12 reworking of the product along each stage, getting more  
13 yield out as they go through each stage. I think that  
14 requires a certain labor force to be able to do that,  
15 but it allows them to run shorter runs.

16 COMMISSIONER PEARSON: Ms. Lawson?

17 MS. LAWSON: I was going to say Allen here  
18 would like to also speak.

19 MR. CHOU: My name is Allen Chou and I'm a  
20 little bit different. I'm an American citizen who owns  
21 a plant in China. So I can address that question.

22 When we run, talk about labor intensive. We  
23 are able to employ people to do the hand scraping much,  
24 much easier, and the people, I can run much, much less.  
25 I can run product, I have done projects for people for

1 500 square feet. My plant. In fact we're doing two  
2 boxes right now for a customer that's in Canada that is  
3 two boxes short. I'm able to air ship it, two boxes,  
4 and have a run over there. It's impossible to do that  
5 here.

6 COMMISSIONER PEARSON: Those of you who buy  
7 directly from the domestic industry, would it be fair  
8 to say that they do provide good customer service for  
9 those products that they can produce with reasonable  
10 economies? What's your experience dealing with the  
11 domestic industry?

12 MR. HAMER: Jeff Hamer.

13 I've dealt with many for many, many years.  
14 They're wonderful people and they generally do a very  
15 good job. I think there's a real commitment by them  
16 toward customer service. I think if there are any  
17 limitations it's the fact that their factories need to  
18 be -- Let me say one thing.

19 In the past when volumes were higher U.S.  
20 manufacturers typically shipped from finished goods  
21 inventory, so one of the advantages for a distributor  
22 was a very quick turnover. You could order a truck  
23 today, it would ship in a couple of days, you'd get it  
24 in a week. A huge disadvantage from China is three and  
25 four month lead times which requires significantly

1 higher inventory investments, much lower inventory  
2 turns. So it's a more costly endeavor to import  
3 products from Asia versus use domestic suppliers. But  
4 as I understand it now, they're now doing more  
5 producing to order which may impact their current  
6 levels of customer service because they're not able to  
7 respond as quickly as they used to to demands by either  
8 distributors or retailers. So it may be shifting,  
9 their levels may be diminishing versus what they were  
10 several years ago. But you'd have to find out from  
11 them specifically what's going on.

12 COMMISSIONER PEARSON: Other comments?

13 MR. TRAIN: This is Jonathan Train.

14 We also buy from a domestic supplier. Have  
15 over the years. Overall I'd say their service is very  
16 good also. But as you said, it's still with the  
17 limitations of products they're capable of making.

18 COMMISSIONER PEARSON: Mr. Hubbard?

19 Mr. HUBBARD: Just a little bit different  
20 perspective on that from doing business with home  
21 centers. They require a service level that is very  
22 difficult for some domestic manufacturers to achieve.  
23 It does require a significant amount of inventory and  
24 lower turn to meet a minimum of a 98.5 percent fill  
25 rate at all times. You can be penalized if you don't

1 do that. So you do have some domestic manufacturers  
2 that would choose not to participate in some of those  
3 programs as a result of that, because of the inventory  
4 carrying cost.

5 COMMISSIONER PEARSON: Let me for purposes  
6 of the post-hearing invite the domestic industry to  
7 comment further on this if you wish. I did not ask  
8 about it this morning, and I'd be interested to know  
9 how you might have seen your business evolve in terms  
10 of the customer service focus and the inventory issue  
11 that was just referenced, how much you have to carry in  
12 order to provide good customer service, and what the  
13 cost might be of doing that.

14 If you have something to add for the post-  
15 hearing, by all means do so.

16 COMMISSIONER PEARSON: With that, Madame  
17 Chairman, I have no further questions so I would like  
18 to express my deep gratitude to this panel for the  
19 diversity of your experience that you've brought and  
20 for your patience in putting up with us through the  
21 afternoon into the evening.

22 CHAIRMAN OKUN: Commissioner Aranoff?

23 COMMISSIONER ARANOFF: Thank you, Madame  
24 Chairman.

25 A few questions that go to the threat

1 issues.

2 First of all, the Chinese Producers  
3 Association estimated that Chinese multi-layer flooring  
4 producers sell about 70 percent of their production to  
5 the home market. But the data actually supplied to the  
6 Commission by Chinese producers showed that only about  
7 a quarter of what the Chinese producers make is sold in  
8 the Chinese home market.

9 Can anyone on the panel help us to decide  
10 which of those figures is the more accurate? Is there  
11 any additional information that can be offered?

12 MR. NEELEY: I think we need to discuss the  
13 data when we go back this evening and we'll get it to  
14 you in the post-hearing as opposed to try to do it now.

15 COMMISSIONER ARANOFF: Thank you.

16 As you know, Mr. Neeley, I think our  
17 inclination would be to go with the certified  
18 questionnaire data unless there's a good reason not to.

19 MR. NEELEY: I understand.

20 COMMISSIONER ARANOFF: Mr. Wu testified  
21 first thing this afternoon that Chinese producers can  
22 get better prices in the home market than they can in  
23 the U.S. market for this product. We will certainly  
24 give weight to his testimony. But I wondered if there  
25 are any price series or other documentary information

1 that you can supply covering some reasonable portion of  
2 the period of investigation that could support that  
3 assertion.

4 For the record, Mr. Neeley is nodding.

5 MR. NEELEY: I'll even answer verbally.  
6 Yes, we will do that.

7 COMMISSIONER ARANOFF: Thank you.

8 Similarly there has been testimony today and  
9 multiple references in the Chinese producers' brief and  
10 in other Respondents' briefs to the fact that there is  
11 strong home market demand in China, and that this  
12 market is going to be able to absorb additional Chinese  
13 production.

14 As you know, the Commission typically looks  
15 for something a little bit more concrete than that in  
16 terms of evidence. We can accept that demand is  
17 growing in China, but we also see significant exports,  
18 excess capacity, increasing production capacity in  
19 China. So if there's anything that can be added to the  
20 record that can really document that there are, I don't  
21 know, sometimes we ask people to show us contracts for  
22 committed customers or committed sales volume or  
23 anything else that can make it a little bit more  
24 concrete where all that Chinese capacity is going to be  
25 going in the imminent future. I think that would help

1 us when we are weighing the threat argument.

2 MR. NEELEY: We'll look beyond what we've  
3 already submitted.

4 COMMISSIONER ARANOFF: Thank you. I  
5 appreciate that.

6 At the risk of getting into a big argument  
7 at the end of the day, I can't resist going back to the  
8 argument about replacement of subject import volume by  
9 non-subject imports. This may be a post-hearing  
10 briefing issue.

11 First of all, assuming the Commission wanted  
12 to ally a Bratsk-like analysis, and with due deference  
13 to Commissioner Pinkert who I know does, that only  
14 applies when there's a commodity product, and my  
15 understanding of the testimony today from this panel at  
16 a minimum has been this is a product with an infinite  
17 number of varieties and probably would be one of the  
18 last things I'd characterize as a commodity product.

19 So I guess my first question for post-  
20 hearing would be how can this possibly be a commodity  
21 product? So how could that kind of analysis ever  
22 apply?

23 But second, I guess I would challenge the  
24 notion that as a matter of law, even if the Commission  
25 concluded that it's true that all of the volume could

1 be replaced quite quickly in the event that an order  
2 were in place, I would challenge the notion that  
3 legally that has any weight at all in the Commission's  
4 determination.

5 The Commission has found on a number of  
6 occasions that if there in fact subsequently is  
7 replacement and the domestic industry is denied the  
8 expected improvement that would have come with an order  
9 being in place, that that's grounds to bring a petition  
10 with respect to additional countries, but not a reason  
11 to find that subject imports did not in fact cause  
12 injury in the present period.

13 I don't know if anyone wants to touch that  
14 right now. If not, I'd just ask you to take a look at  
15 it post-hearing.

16 MR. BOLTUCK: Very briefly, Commissioner  
17 Aranoff.

18 I come at this as an economist, not as a  
19 lawyer or certainly not as a judge. But what I see  
20 when I read the three opinions, Bratsk and the  
21 following opinions from the Court of Appeals, is that  
22 they had an economic logic in mind. And their economic  
23 logic was basically that it doesn't benefit the  
24 domestic industry to deter unfairly traded imports from  
25 a single country, for instance, if the benefits really

1 go to non-subject countries instead of to the domestic  
2 industry. If there's just a change in trade patterns  
3 in the world that replaces that product in the U.S.  
4 market. That's the economic logic.

5 The significance about it being commodity is  
6 clearly that that takes a step out of it as an economic  
7 question because you know if it's like an element, then  
8 there's no difference in what's going to be imported  
9 subsequently.

10 So there is an added step where you don't  
11 have a commodity in terms of determining that the  
12 replacement will fill the same role that the subject  
13 imports did fill. That is an added step. But we have  
14 gone far out of our way, we conducted an internal  
15 survey, for instance, that we reported on in our pre-  
16 hearing brief of our members in the alliance which  
17 account for a very large share of the subject imports  
18 and documented what they are doing so that they can be  
19 confident that they are able to replace the product  
20 they're currently importing from China to the extent  
21 necessary subsequent to this case, if it goes  
22 affirmative, with product that they know will meet  
23 their current Chinese specifications.

24 You've heard over and over again that they  
25 monitor specifications. They provide specifications

1 and then the plants in China make to those  
2 specifications. you've also heard that they can do the  
3 same thing some place else. They can pick up those  
4 specifications and send them to a mill in Indonesia or  
5 Vietnam. Those mills can produce the same product. In  
6 many cases they've already been doing sampling. That's  
7 what you see in terms of the samples we provided to  
8 you.

9 So we think there is an extraordinary amount  
10 of evidence that exists at this stage. Our survey, the  
11 samples, the testimony that that's exactly what will  
12 happen, plus in response to Commissioner Pinkert's  
13 earlier question, the ample amount of capacity that  
14 exists around the world is documented in the staff  
15 report.

16 When you put it altogether we think we've  
17 overcome the burden of establishing as an economic  
18 matter that what would be automatic in the case of a  
19 commodity will still be met here, where you do have a  
20 differentiated product but you don't have one that  
21 can't be replicated at similar foreign facilities  
22 outside of china pursuant to specifications.

23 COMMISSIONER LANE: I have a great respect  
24 for economic analysis. My economics professor in  
25 college always told me that I had wasted my mind by

1 going to law school. (Laughter.)

2 I'll leave it to the post-hearing to have  
3 the lawyers respond on the legality of the issue.

4 With that, I do want to thank all the  
5 witnesses for your answers. I don't have any more  
6 questions. Thank you, Madame Chairman.

7 CHAIRMAN OKUN: Commissioner Pinkert?

8 COMMISSIONER PINKERT: Just a question or  
9 two.

10 I want to go back to this issue of survivor  
11 bias or alleged survivor bias. I understand that  
12 you're going to address it in the post-hearing and that  
13 you can't get into the details of your critique of the  
14 arguments on survivor bias because of the problem of  
15 business proprietary information. I get that.

16 But I still want to ask the question, what  
17 in your view is a proper understanding of the concept  
18 of survivor bias? Not the improper understanding that  
19 you allege Petitioners have embraced, but the proper  
20 understanding of the concept of survivor bias?

21 MR. BOLTUCK: Thank you for the opportunity  
22 to address that question.

23 Survivor bias means that you have a set of  
24 producers, for instance, with a distribution of  
25 financial performance. Some are above average, some

1 are below average. That market that they sell in is  
2 hit by some kind of a shock. It could be the kind of  
3 shock we saw here in 2007 and 2008 or it could be the  
4 kind of shock the Petitioners allege, that somehow it's  
5 related to the imports. But that's a shock.

6 If that occurs, and it knocks the producers  
7 at the bottom out of the market entirely, so those  
8 financial performances disappear from the sample, and  
9 then the average of the remaining producers goes up, is  
10 it proper to infer from that that the industry has  
11 improved when actually some producers disappeared?

12 I'm saying that's not what's driving the  
13 result that the Petitioners are alleging here. What we  
14 will show is that this is just a very conventional cost  
15 rationalization given new market conditions after the  
16 recession hit. And it can't be a contraction of the  
17 industry by firms dropping out that is anything other  
18 than just a conventional rationalization because look,  
19 production increased over this period. They were  
20 producing more, the industry as a whole was producing  
21 more with less cost. That's not survivor bias. That's  
22 just making the industry better.

23 COMMISSIONER PINKERT: Thank you.

24 Back to this issue of replacement during the  
25 period. I understand that you gave us a lot of

1 information about what could happen in the future, and  
2 then I asked you to go back and look at what might have  
3 happened during the period of investigation if the  
4 subject imports had exited the U.S. market.

5 But I want to give that a tweak. Perhaps  
6 there's somebody on the panel who can help me to  
7 grapple with this issue.

8 Assuming as Mr. Neeley testified earlier,  
9 that one of the hither to subject producers is excluded  
10 or has been excluded by the Commerce Department.

11 How does that affect the ability of the non-  
12 subject imports to have replaced the subject imports  
13 during the period had the subject imports left the  
14 market? Is that question clear?

15 In other words, we have testimony that the  
16 Commerce Department has excluded one of the subject  
17 producers, so I should be treating them as a non-  
18 subject producer for purposes of this Bratsk issue.  
19 Correct? So how does that affect the way I should  
20 think of the analysis?

21 MR. BOLTUCK: That's now a non-subject  
22 producer, just like a producer in Indonesia or Vietnam  
23 would be, and their production is available.

24 The only thing I would emphasize is that  
25 we're taking a view of this going forward, not during

1 the POI, because that's completely conjectural or  
2 hypothetical. We can't rewrite history.

3 COMMISSIONER PINKERT: Sometimes you have to  
4 in terms of addressing the specific counterfactual  
5 issue.

6 MR. BOLTUCK: Yes, I agree. You have to  
7 look at what we learned historically, but we want to  
8 apply it prospectively. And say what will happen in  
9 the future.

10 But you're absolutely right. One of the  
11 facts that we learned today with the decision on  
12 margins, is that one of the producers is now  
13 effectively in the same role as a producer in a third  
14 country. And their production is available for that  
15 replacement purpose for the subject producers.

16 MR. TRAIN: I think another answer to that  
17 is the producer that is now not going to be included in  
18 the analysis because they receive the euro rates, that  
19 doesn't necessarily mean all of us are going to go run  
20 to him to go look for product. If we were interested  
21 in produce from them to begin with, we would have.  
22 Plus, what they produce has a different value  
23 proposition than what a lot of us are already doing.

24 So it might fit for some people, but I  
25 wouldn't say it's by any great numbers. As we said,

1 there's no single producer that has that great of a  
2 volume.

3 Plus, If I understand it correctly, they  
4 still have limitations on growing their business  
5 anyway, in order to maintain that rate.

6 MR. BOLTUCK: Which is another way of saying  
7 that while that is true, that there's another producer  
8 out there who's fairly trading, still the volumes from  
9 Indonesia, Malaysia, Russia and so on, are still much,  
10 much greater, and that remains as true as it ever was.

11 COMMISSIONER PINKERT: I would just ask for  
12 the post-hearing that you think about whether there are  
13 specific characteristics of the now excluded producer  
14 that make that producer particularly useful for  
15 purposes of this kind of analysis that we're talking  
16 about. Unavoidably hypothetical, unavoidably counter-  
17 factual, but are there specific characteristics of that  
18 producer that lend themselves to this sort of analysis?

19 With that, I thank the panel. We've kept  
20 you pretty late, and I appreciate all the information  
21 you've given us.

22 CHAIRMAN OKUN: Mr. Neeley and Mr. Ervin and  
23 colleagues, I think that Commissioner Aranoff asked a  
24 number of the questions about threat that will be  
25 helpful in the post-hearing.

1           I did want to just add to that request that  
2 with respect to talking about pricing series in the  
3 home market, if you have an information that's  
4 available either generally or specific to your company  
5 about pricing in third country markets, I think you had  
6 mentioned the EU in your opening testimony, I think  
7 that would be also helpful to see.

8           Then for Ms. Lawson, for your clients I know  
9 that we have declarations and questionnaires and you'll  
10 work on the additional questionnaire that's out there.

11           I think it would be helpful for me to have  
12 just quickly put down which of the responding companies  
13 currently are purchasing both domestic and imported and  
14 just helping me understand their testimony in the  
15 context of that. That would be helpful.

16           Also for those companies, and I'm not sure,  
17 I can't remember if it applies over here for Lumber  
18 Liquidators and the other which is how much, there is  
19 single sourcing going on versus dual sourcing for a  
20 particular line or however you want to characterize it.  
21 I'm still again just trying to analyze how the  
22 competition works in the market. So if you can lay  
23 that out again, that would be great.

24           Finally, again, we still have some time to  
25 go and it's late to be wading into non-attribution and

1 all those things, but while I don't look at a Bratsk  
2 analysis the way that Commissioner Pinkert does, and I  
3 spend a lot more time on the Mittal case than I do on  
4 Bratsk because I think that's where they actually gave  
5 us a better indication of what they really meant, I  
6 think a lot of these questions are about causation. So  
7 Mr. Boltuck, whether it's during the period of  
8 investigation or you trying to look in this imminent  
9 future, I think it's relevant to a legal analysis, if  
10 not an attribution, to understand what role non-  
11 subjects played including the Chinese non-subject.

12 So I would ask you to analyze, the lawyers  
13 to look at it, not as yes it's a Bratsk case or it's  
14 not a Bratsk case, because for me that's not the  
15 question. The question is how do we look at causation  
16 and what role do all these factors play including non-  
17 subjects. I think that is, for me that's a relevant  
18 inquiry.

19 With that I will turn to Vice Chairman  
20 Williamson and see if he has questions.

21 VICE CHAIRMAN WILLIAMSON: I have no further  
22 questions, and I also want to thank the witnesses for  
23 their testimony.

24 CHAIRMAN OKUN: I don't believe there are  
25 any questions from the dias. Let me turn to staff to

1 see if they have questions for this panel.

2 MR. MCCLURE: Jim McClure, Office of  
3 Investigations.

4 At the risk of having these thrown at me,  
5 I've got one housekeeping chore.

6 Are any of these hand scraped? If you could  
7 afterwards point out which ones. And do the non-  
8 subjects have the ability to do the hand scraped?

9 (No response.)

10 MR. MCCLURE: Is hand scraping a reasonably  
11 new phenomenon, or has it been around forever?

12 MR. TRAIN: It goes back hundreds of years,  
13 the idea of hand scraping, but I think part of the  
14 reason you're seeing those more smooth products versus  
15 hand scraped is the time to develop a hand scraped  
16 takes a little bit longer. So when you consider the  
17 amount of time we've had to proceed in this direction,  
18 those haven't been achieved as quickly. but I would  
19 tell you if you give me another 35 days I can probably  
20 get you a lot more samples.

21 MR. MCCLURE: I guess what I'm getting at,  
22 is it a phenomenon new to the period we're examining?  
23 Is it that recent?

24 MR. HAMER: I can answer that question.

25 We actually sent one of our employees to

1 Vietnam this year and in a matter of four days he  
2 trained 15 supervisors on how to hand scrape, and that  
3 person in turn has trained additional people. So it's  
4 not that difficult to train people how to do the  
5 process. It's labor intensive, but it's not  
6 complicated.

7 And in terms of hand scraping, it's been  
8 around for decades. It was done on a very limited  
9 basis in very high end homes in the '60s and '70s to  
10 create this European castle effect. If you've been to  
11 a 500 year old castle in Europe you'll see kind of the  
12 worn floors.

13 It was essentially done to duplicate that  
14 look and it has just really taken off in the last 12 or  
15 14 years in the United States.

16 MR. MCCLURE: In short, so easy an  
17 international trade analyst could do it.

18 (Laughter.)

19 CHAIRMAN OKUN: Are you looking for a new  
20 career, Mr. McClure?

21 (Laughter.)

22 MR. MCCLURE: My colleague from the General  
23 Counsel's Office, Jeff Carlson, has two questions.  
24 That should wrap us up.

25 MR. CARLSON: Thank you, Madame Chairman. I

1 just have two issues.

2 First, for all the parties and the second  
3 for the domestic producers in the morning panel.

4 For all the parties, in your post-hearing  
5 briefs can you please discuss prior cases where the  
6 commission has evaluated injury based on a longer  
7 period of investigation and whether it would be  
8 appropriate to do so here.

9 And for the domestic producers and the  
10 morning panel, if you could please try to provide a  
11 breakout of your U.S. market sales by species, the hand  
12 scraping, et cetera, similar to what the foreign  
13 producers and the other Respondents promised to submit  
14 in their own post-hearing briefs. That would be very  
15 helpful. Thank you.

16 MR. MCCLURE: Madame Chairman, that's all  
17 the questions the staff has.

18 I too would like to thank all the folks who  
19 came here. The testimony has been very useful.

20 CHAIRMAN OKUN: Do counsel for those in  
21 support of imposition of duties have questions for this  
22 panel?

23 MR. LEVIN: No, we do not, Madame Chairman.

24 CHAIRMAN OKUN: Okay. Before we turn to our  
25 closing and rebuttal let me again take this opportunity

1 to thank all the witnesses for being here, for  
2 traveling great distances to answer our questions, and  
3 for staying into the evening. I hope you have safe  
4 journeys back.

5 I'll go through the time remaining and then  
6 we'll let the witnesses return go the back of the room.

7 Petitioners have a total of 12 minutes  
8 remaining, 7 from their Direct and 5 for Closing.

9 Respondents have a total of 13 minutes  
10 remaining, 18 from their Direct and 5 for closing.

11 Our practice has been to, if there's no  
12 object, for counsel to combine those times so that you  
13 can present your closing and rebuttal at the same time.

14 We will proceed to do that. We'll give  
15 everyone a couple of minutes to switch around all the  
16 witnesses and to bring counsel up here. Thank you.

17 (Pause.)

18 CHAIRMAN OKUN: Mr. Levin?

19 MR. LEVIN: With the Commission's leave I've  
20 asked Jim Dougan to join me and the two of us are going  
21 to do a combined rebuttal and closing statement. Once  
22 again we'll spare everybody doing this in the form of  
23 an interpretive dance, but we'll move ahead.

24 First of all, let me speak for a moment  
25 about the Commerce Department determination. As

1 everybody knows, all but one company has been found to  
2 be engaging in unfair trading.

3 We had gone through the numbers under the  
4 several different contingencies, who may be in, who may  
5 be out. Without going into business proprietary  
6 information let me just state a few quick things.

7 First of all with the one company out, the  
8 volume of subject imports, and I'm going to stay away  
9 from the percentages, but it's still a huge volume.  
10 It's certainly a significant volume. It's a vast  
11 majority of the imports.

12 I'll say two other things on that. first of  
13 all the volume trends are the same as they would be if  
14 all the Chinese imports were included, a third of all  
15 the underselling patterns, notwithstanding the  
16 particular issues that were discussed at length on the  
17 pricing data, but the underselling patterns are the  
18 same.

19 The removal of the one company does not  
20 impact any of the major factors, any of the major  
21 statutory factors that this Commission is directed to  
22 examine.

23 I also want to note, again not going into  
24 confidential information, and I'm going to go back and  
25 double check this, but I believe I am correct, and I'll

1 apologize in advance if it turns out that I'm not,  
2 there is at least one major Chinese producer whose data  
3 are not yet on the record. So the volume of imports  
4 that we're looking at would be even higher than we are  
5 looking at right now. Again, not to name names.

6 Second of all, I anticipated, we all  
7 anticipated the cheap shot on the prison labor thing  
8 and the fair labor practices. I'm not sure if anybody  
9 in the Respondents' panel has ever taken the time to  
10 review the background of the Prison Industry  
11 Enhancement Program which is actually the brain child  
12 of Former Chief Justice Warren Berger. It's a  
13 federally authorized program, 18 USC Section 1761 and  
14 41 USC Section 5. It's been authorized in I think 44  
15 states at this point. We'll provide a lot more  
16 detailed information about this.

17 The way it's characterized and the way I've  
18 seen it characterized in some of the media releases is  
19 that this is tantamount to slave labor. It's not.  
20 this is a federally statutory program. The workers are  
21 paid prevailing wage.

22 I compared prevailing wage to minimum wage  
23 in some of the counties in South Carolina in which this  
24 program operates. They're the same. more than that,  
25 I've gone back to my clients and asked okay, what are

1 these workers actually paid? They're paid more than  
2 the minimum wage.

3 There are pronounced financial benefits to  
4 this program for the state in terms of tax base, in  
5 terms of restitution for victims, in terms of savings  
6 that the workers need to put aside for the time when  
7 they're released.

8 It also has a tremendous societal benefit.  
9 There have been studies to show that the rate or  
10 recidivism for workers that go through this program is  
11 substantially less than the prison population at large.  
12 Many of these workers then go on to work for the  
13 company. In fact some of the companies involved here  
14 say that actually this program helps grow their  
15 business in the civilian world because it is allowing  
16 the companies to participate in a portion of the market  
17 that they may not otherwise be able to.

18 So just a little umbrage because I knew the  
19 cheap shot was coming, and hopefully the Respondents  
20 will go back and educate themselves a little bit about  
21 this program.

22 Third of all, I think the bottom line for  
23 what the Respondents were saying in their afternoon  
24 panel is that price is not relevant in this market. It  
25 all seemed to come back -- customer services, quality,

1 availability of different styles and products. A  
2 couple of things on that.

3 First of all I do note Lumber Liquidators'  
4 slogan that they use in their media ads -- Hardwood  
5 floors for less. That would seem to indicate that  
6 price is relevant.

7 One of the companies, one of the domestic  
8 industries, was told in a meeting with the VP of  
9 Merchandise of Lumber Liquidators, and we can spell  
10 this out in a sworn affidavit in 2009 that if the  
11 domestic price was only five center higher than the  
12 Chinese alternative, they won't pay it. Lumber  
13 Liquidators won't pay it.

14 The conversation also went on. Lumber  
15 Liquidators has plenty of money and it's all about  
16 price. Faster lead times and local inventories mean  
17 nothing if it's at a premium.

18 I'm not quite sure what Lumber Liquidators  
19 was saying about the domestic suppliers don't meet  
20 their criteria. I think their criteria is a value  
21 proposition and a value proposition is a euphemism for  
22 a lower price.

23 I note that the witness for Lumber  
24 Liquidators was not able to provide a response for who  
25 was the low cost supplier. I think they are.

1           The whole bit about there would be fewer  
2 choices for consumers if orders go into effect.

3           Domestic manufacturers make, as I said this  
4 morning, hundreds of SKUs. Hundreds of different  
5 styles and designs. I have too much choice when I go  
6 to the grocery store to begin with. I sort of get  
7 brain lock in the cereal aisle. I'm not sure how much  
8 choice we're looking to bring to this market that's not  
9 already there and that's not already supplied by  
10 domestic manufacturers.

11           Next point. Domestic manufacturers don't  
12 sell to home centers. Well, they do. Not only do  
13 they, but they have made repeated attempts, as we've  
14 indicated in the pre-hearing brief referring back to  
15 email exchanges and PowerPoint presentations where the  
16 attempts were made for further sales to the home  
17 centers.

18           The block is price.

19           Let me also speak and then I'll pass it on  
20 to Jim. This whole thing about if an order goes into  
21 effect, we're just going to get our supply from a third  
22 country. We can have stuff set up in Vietnam and the  
23 Philippines and all that sort of stuff.

24           First of all, if price is not a determining  
25 factor, then why would you do that in the first place?

1           Second of all, as some of the Commissioners  
2 noted this afternoon, what may happen in the future is  
3 legally irrelevant. The Bratsk analysis, the Mittal  
4 analysis, the Gerald Meadows analysis, that's all going  
5 back to the period of investigation, not forward.

6           Really what I hear, I've heard plenty and  
7 I've ready plenty out in the media, and especially by  
8 the alliance, that if orders go into effect we're just  
9 going to shift our supply lines.

10           That tells me not only that price is a  
11 determining factor but it tells me that if we are  
12 forced to pay a fair price for the imports, we'll go  
13 some place else.

14           Jim?

15           MR. DOUGAN: Just to build on what Jeff is  
16 saying.

17           There was talk about elasticity and  
18 responsiveness to price of demand and things like that.

19           The fact that many of the folks on the panel  
20 this afternoon are willing to make investments to  
21 relocate their supply chain to entirely different  
22 countries and develop new suppliers and new, teach them  
23 how to make the products they want. Which they  
24 themselves admitted was a fairly significant  
25 investment.

1           If they're willing to do this because of  
2 what they feel would be the commercial impact of a 3 to  
3 5 percent dumping margin, that speaks volumes about  
4 sensitivity to price in this market, more than any  
5 other measure, frankly.

6           But related to that, and we'll go into  
7 elasticity and the other side , the economist, spoke  
8 about how -- I'm running out of time. We'll skip that  
9 point.

10           One of the comments was this industry has  
11 not been downsizing. Just between the part year  
12 periods, 200 in production and related workers were  
13 laid off. That's 8 percent of the work force. And 2  
14 plants were closed. This led to depletion of the asset  
15 base here. So you could consider it a rationalization  
16 of bloated costs or however you will, but laying off  
17 workers and closing plants is injury and that's kind of  
18 what our perspective is on that.

19           Finally with respect to the elasticity of  
20 the product with respect to other competing products,  
21 it was mentioned that if you have a certain amount of  
22 money available for renovation, you can put countertops  
23 and all these other things. If you follow that  
24 rationale you could expand elasticity to anything.  
25 I've got \$50,000 to spend, maybe I won't spend it on

1       countertops and floors, then demand is infinitely  
2       elastic and that doesn't make sense to me.

3               CHAIRMAN OKUN: Thank you.

4               MR. LEVIN: Madame Chairman, Commissioners,  
5       thank you.

6               CHAIRMAN OKUN: Can we have those in  
7       opposition to the order come forward to make their  
8       rebuttal and closing remarks?

9               MS. LAWSON: Thank you.

10              I will ask that Richard Boltuck who was also  
11       with us today provide you our remarks.

12              MR. BOLTUCK: I'd like to focus mainly on  
13       what we've just heard. I think we had plenty of  
14       opportunity in our panel in response to your questions  
15       to address the direct affirmative points we wanted to  
16       discuss ourselves.

17              First, prison labor. It's a cheap shot. I  
18       want to say that we're not disparaging the program.  
19       Our view is that it's relevant for the Commission to  
20       consider the fact that the industry can't produced hand  
21       scraped product, ramp it up elastically in supply  
22       adequate to serve the demands of consumers in the  
23       marketplace. That's the role that imports play,  
24       satisfying all that residual demand for the hand  
25       scraped product.

1           The evidence of that is they need prison  
2 labor and special programs to produce what they  
3 produce. So yes, the domestic industry produces some  
4 hand scraped product. That's the only way they can  
5 produce it in the United States, and this is not  
6 something you can replicate over and over and over  
7 again.

8           As was stated by the Petitioners, it allows  
9 companies to participate in a portion of the market in  
10 which they otherwise couldn't. So yes, they  
11 participate in that but they can't serve the full  
12 market.

13           Respondents are saying price is not  
14 relevant. No, we didn't say that. In my statement  
15 specifically I pointed out that many participants on  
16 our side of the aisle do believe price is relevant  
17 because if they charge too much for their MLWF product  
18 their customers will go to laminate, solid hardwood or  
19 other products. So price is relevant for that purpose.  
20 But if it was relevant for competition directly between  
21 disparate products produced by the domestic industry  
22 and this new variety of products that are being  
23 imported that are satisfying consumers, then we would  
24 see dominance of underselling, we'd see underselling  
25 resulting in prices going down for the domestic

1 industry since after the recession hit and stabilized  
2 in 2009 we'd see the 26 percent increase in the sale of  
3 Chinese products since 2009 resulting in those 8  
4 product prices that account for a large share of  
5 domestic production going down. We don't see any of  
6 that.

7 So we're looking at the evidence and then we  
8 have the direct market place experience our guys  
9 brought to the table and testified about.

10 So we think that kind of competition is  
11 limited, yes.

12 Get our supply from third countries. Why  
13 would we do it if price isn't a determining factor?

14 We didn't say we're not going to import from  
15 China given these very tiny margins. We said that to  
16 the extent necessary, if there is any reduction at all  
17 in imports from China consequent to this case, they  
18 will be replaced by imports from other countries.  
19 That's all we've said. We haven't quantified the  
20 effect on imports from China. No one said that this  
21 morning at least to my recollection.

22 We'll have the lawyers in the post-hearing  
23 brief address the question of whether Bratsk is  
24 backward looking or forward looking. My recollection  
25 from the Court of Appeals is there's a lot of forward

1 looking discussion in those decisions.

2           The industry is not downsizing and their  
3 argument is they've rationalized cost, that is  
4 downsizing. Well, they've laid off workers but they're  
5 producing more since 2009. Obviously you can't sort  
6 out directly between 2007 and 2009 what role imports  
7 played or what role the recession played. There was a  
8 huge recession. Housing starts dropped by 60 percent  
9 and home improvement expenditure was off. That was  
10 going to hit any construction industry very hard, so  
11 you can't sort it out in that period, but you can sort  
12 it out going forward. From 2009 to the present, to the  
13 first half of 2011, the recession didn't get worse, it  
14 just stabilized at this 500,000 to 600,000 housing  
15 start cruising level and bounced along in that range,  
16 and the home improvement expenditure was reasonably  
17 steady or even declining, and yet the market was  
18 expanding. We were selling more. The domestic  
19 industry was producing and selling more. When an  
20 industry produces more I don't call that downsizing.  
21 If they're producing more with fewer workers and their  
22 productivity is going up, that's what businesses do.  
23 They're going to do that regardless of whether they're  
24 competing with us or not. They're going to try to  
25 produce what they can at the lowest possible cost.

1 That's how private enterprise works. It might not be  
2 how government works sometimes, but that's how private  
3 businesses work. So they are acting as would be  
4 expected.

5 I've permitted the Petitioners to write our  
6 remarks, I've just responded to what they said. I  
7 don't really agree with any of it. I think that pretty  
8 much concludes what I would have to say.

9 MR. LUDWIKOWSKI: Madame Chairman, Members  
10 of the Commission, thank you all for providing us the  
11 opportunity to testify today. I will start off with  
12 some corrections to comments made by Mr. Levin.

13 First, Mr. Hubbard did not say all domestics  
14 are not selling to big box stores. He specifically  
15 mentioned Mannington.

16 Second, Mr. Jacob was asked earlier which  
17 distributor was a low price leader, not a supplier. I  
18 just wanted to make that clear.

19 The Respondent representatives that  
20 testified today are not mere distributors or importers.  
21 They are family owned businesses. Some are larger  
22 employers. They're all companies fighting to maintain  
23 jobs in this fragile economy.

24 However not present here today, and I have  
25 to choose my words carefully but I hope it's clear, are

1 other major domestic producers whose absence speaks  
2 volumes on whether this case should have been filed in  
3 the first place. It implies that the industry is not  
4 harmed by Chinese imports. It is truly the elephant in  
5 the room.

6 It also underscores the fact that imports do  
7 in fact complement the domestic industry and provide a  
8 needed balance of product. For the opinion of one key  
9 domestic producer regarding this issue we ask the  
10 Commission to refer to the affidavit provided by this  
11 producer in our pre-hearing brief.

12 We also ask the Commission to carefully  
13 consider two other factors covered here today. One, as  
14 the economy collapsed, so did the market for home  
15 construction and MLWF sales of the petitioning  
16 companies to this sector. Factors plainly unrelated to  
17 subject imports, specifically the declines in home  
18 sales and the overall economic downturn directly  
19 explain the difficulties that are reflected in the  
20 financial performance of individual U.S. firms during  
21 this period.

22 As we noted in our pre-hearing brief, some  
23 domestic producers have attributed decreased market  
24 share to factors other than imports. Mr. Finkell in  
25 particular has blamed the loss of market share on the

1 price of hard wood, freight and overall business  
2 expenses, the business cost increases. And this was  
3 published in an article included in our pre-hearing  
4 brief.

5 A close examination of these operating  
6 results makes it clear that subject imports are not  
7 responsible for the reported deterioration in the U.S.  
8 industries' performance. As the Commission staff  
9 report observed, the majority of U.S. producers  
10 reported an increase in absolute gross profit or  
11 reduced gross losses in 2010.

12 Two, at the same time, as noted earlier here  
13 today, a new business model was emerging targeted  
14 squarely at the do it yourself sector which was better  
15 suited to consumer preferences for diverse product  
16 offerings, and a shift to remodeling rather than new  
17 construction in a down economy.

18 Companies which have been able to evolve  
19 with this market reality and this, as I mentioned,  
20 includes key domestic producers that are not here  
21 today, have infused their product portfolios with  
22 Chinese imports. This balance has led to increased  
23 efficiencies following a period of cost  
24 rationalizations by some domestics a as result of the  
25 recession.

1           Finally, market indicators referenced in our  
2 pre-hearing brief suggest that there are signs of  
3 improvement for the hardwood flooring industry.  
4 Remodeling and repair sales are up as are sales of  
5 existing homes. This cycle is evident from the  
6 improved operating results of domestic producers.

7           We look forward to continuing to work with  
8 the Commission and the staff to provide whatever  
9 additional evidence we can to assist you in your  
10 determination. Thank you.

11           CHAIRMAN OKUN: Thank you.

12           Post-hearing briefs, statements responsive  
13 to questions, requests of the Commission and  
14 corrections to the transcript must be filed by October  
15 19, 2011.

16           Closing of the record and final release of  
17 data to parties is November 2, 2011.

18           Final comments are due November 4, 2011,

19           With no other business before the  
20 Commission, this hearing is adjourned.

21           (Whereupon, at 6:45 p.m., the hearing in the  
22 above-entitled matter was concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Multilayered Wood Flooring From China  
**INVESTIGATION NO.:** 731-TA-1091  
**HEARING DATE:** October 12, 2011  
**LOCATION:** Washington, D.C.  
**NATURE OF HEARING:** Hearing

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, 2011

**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:** Rebecca McCrary  
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:** W. Andre Bellamy  
Signature of Court Reporter