In the Matter of: )
ARTISTS' CANVAS FROM CHINA ) 731-TA-1091 (Final)

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Place: Washington, D.C.
Date: March 28, 2006
THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of: )
) Investigation No.:
ARTISTS' CANVAS FROM CHINA ) 731-TA-1091 (Final)

Tuesday,
March 28, 2006

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

The hearing commenced, pursuant to notice, at 9:30 a.m. before the Commissioners of the United States International Trade Commission, the Honorable STEPHEN KOPLAN, Chairman, presiding.

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In Support of the Imposition of Antidumping Duties:

On behalf of Tara Materials, Inc.:

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JOHN BENATOR, Chairman, Tara
PETE DELIN, Vice President, Marketing, Tara
PAUL STRAQUADINE, Vice President, Sales, Tara
RON FREEMAN, Vice President, Manufacturing, Tara
DAVID TWITE, Executive Vice President, Tara
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ALAN MAREK, Director of Importing, Michaels Stores, Inc.
HARVEY KANTER, President, Aaron Brothers
JOHN DOWERS, Former President and Chief Executive Officer and Current Board Member, Utrecht Art Supplies
DANIEL W. KLETT, Principal, Capital Trade, Inc.

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CHAIRMAN KOPLAN: Good morning. On behalf of the United States International Trade Commission I welcome you to this hearing on Investigation No. 731-TA-1091 (Final) involving Artists' Canvas From China.

The purpose of this investigation is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of less than fair value imports of subject merchandise.

Schedules setting forth the presentation of this hearing, notice of investigation and transcript order forms are available at the Secretary's desk. All prepared testimony should be given to the Secretary. Do not place testimony directly on the public distribution table.

As all written material will be entered in full into the record it need not be read to us at this time. All witnesses must be sworn in by the Secretary before presenting testimony. I understand the parties are aware of the time allocations. Any questions regarding the time allocations should be directed to
Finally, if you will be submitting documents that contain information you wish classified as business confidential your requests should comply with Commission Rule 201.6.

Mr. Secretary, are there any preliminary matters?

MR. BISHOP: No, Mr. Chairman.

CHAIRMAN KOPLAN: Very well. Let us proceed with the opening remarks.

MR. BISHOP: Opening remarks on behalf of Petitioner will be by George Thompson, Neville Peterson.

CHAIRMAN KOPLAN: Good morning, Mr. Thompson.

MR. THOMPSON: Good morning, Mr. Chairman and members of the Commission. I'm George Thompson from the law firm Neville Peterson, LLP, appearing on behalf of Petitioner, Tara Materials, Inc.

As you know, the antidumping statute directs the Commission to evaluate a number of factors in determining whether subject imports are a cause of material injury to a domestic industry. These factors include import volume and increases in that volume, the market share held by imports and whether that
share has increased at the expense of the domestic industry's share, whether imports undersell the domestic like product and other price effects and whether imports have had an adverse effect on the domestic industry's financial condition.

Tara believes that the facts of record demonstrate that each of these statutory factors has been met and that the evidence is overwhelmingly in support of finding that the domestic artists' canvas industry is materially injured by reason of the subject imports from China.

First, import volume has increased more than ninefold over the period of investigation from 2002 through 2005. The increase in import value was even greater.

Second, imports' share of the domestic market expanded multiple times in the past four years. Although the percentage increase is business proprietary information, suffice it to say that imports' presence in the United States market started from next to nothing to the point where they have taken significant market share.

This trend occurred across the entire industry, but was particularly acute in the finished artists' canvas sector where subject imports now
dominate. That increase came at the expense of the
domestic industry, which lost market share in almost
identical proportion to the imports' increase.

Next, imports have an extreme price
advantage, which has been the reason for their vast
increase in volume and market share. The Commission's
price data demonstrate that there has been massive,
consistent underselling of the domestic like product
by the subject imports. This underselling is found in
all channels of distribution that the Commission has
examined.

The purchasers' questionnaire responses
similarly attest to the imports' price advantage.
These data confirm what Tara has reported anecdotally;
that imports have a huge price advantage which has
resulted in lost sales and lost customers and lost
production to the domestic industry.

Additionally, the imports' price advantage
effectively prevents companies like Tara from
increasing prices to cover their own raw material cost
increases. This cost-price squeeze is illustrated in
the Commission's cost of goods sold data.

Tara faces the impossible situation of
either selling at a price that does not allow it to
recover its costs, much less make a profit, or raising
prices and losing market share.

The imports' price advantage and growth in market share has had the predictable consequence. The domestic industry's financial performance has suffered greatly in the past four years. Moreover, Tara moved a substantial portion of its production facilities to Mexico in an attempt to lower its costs and thereby narrow the imports' price advantage.

Faced with these compelling trends pointing towards an affirmative determination, Respondents have opted for a series of alternative causation theories. They have made claims about Tara's motivation in moving production capacity to Mexico, about Tara's quality and about Tara's responsiveness to customers.

Tara's witnesses will address each of these claims and demonstrate that they are mere smokescreens to hide the price-based rationale for buying imported Chinese canvas. In addition, we will hear from Mr. Kurt Rathslag, co-president of Duro, another domestic producer, who will confirm the injurious effects of subject imports on his company. We also will hear from Mr. Bill Cicherski, an independent retailer, who will discuss both Tara's quality and responsiveness.

This testimony will buttress what is already apparent from the administrative record in the case.
thus far that subject imports are materially injuring
the U.S. artists' canvas industry.

Thank you.

CHAIRMAN KOPLAN: Thank you.

Mr. Secretary?

MR. BISHOP: Opening remarks on behalf of
Respondents will be by Philip Gallas, Sonnenschein
Nath & Rosenthal.

CHAIRMAN KOPLAN: Good morning. Your
microphone? Now it's on.

MR. GALLAS: Thank you.

CHAIRMAN KOPLAN: Sure.

MR. GALLAS: Good morning, Chairman Koplan
and members of the Commission. I am Phil Gallas, a
partner with Sonnenschein Nath & Rosenthal. I am here
today representing 10 of the largest importers and
retailers of artists' canvas in the United States and
two Chinese producers, all of whom oppose the
imposition of antidumping duties.

In order to master the challenges and
opportunities of the marketplace, retail merchants are
schooled in the four Ps -- product, price, promotion
and presentation. When you view the distributed
chart, the parties' respective views of the four Ps
sharply differ.
Tara's view of the market shaped their strategic decisions and the way in which they interacted with their customers, which include my clients who can speak to how their views differ.

As for product, Tara views artists' canvas as a commodity. It is a static view of the market. Respondents' view of the product is as a lifestyle consumable to spark creativity in customers.

As for price, Tara sees price as a zero sum competition, while Respondents recognize the importance of offering value, pricing accordingly given the features and benefits of the product.

As for promotion, Tara relies on repetitive seasonal allowances, which are strictly price discounts, while Respondents create themed events to generate interest and grow the market.

As for presentation, Tara views that as irrelevant. They focus primarily on moving their output to customers rather than generating sales. Respondents, on the other hand, know that their innovative presentation drives growth and inspires the impulse buyer.

Please keep in mind this chart as you listen to testimony of Petitioner and Respondents. I think you will find that Respondents' view of the market is
the most accurate.

This case is also about Tara shifting its U.S. production to Mexico. The timing of the shift and the economics of producing in the United States or Mexico should make the Commission look closely at Tara's assertion that import competition from China was the only reason for this shift.

Finally, this case is about the three Ws relating to producers of artists' canvas other than stretch canvas, in particular digital canvas -- who, where and what.

Who are they? An identification of U.S. producers that comprise the U.S. industry is normally contained in the petition. However, in this investigation this was not done, and Respondents had to identify through our review of public information other potential U.S. producers.

Where is the data? There remains significant gaps in your record with regard to data from U.S. producers. Your staff has had to scramble to obtain information from a large number of U.S. producers omitted from the petition.

What are the implications? These data gaps affect the reliability of the data you have collected from U.S. producers as representative of the condition
of the industry as a whole.
Tara's defense is an unsubstantiated assertion that producers of digital print canvas are not part of the U.S. industry, but your record demonstrates otherwise.
Thank you.

CHAIRMAN KOPLAN: Thank you.

Mr. Secretary?

MR. BISHOP: Would those in support of the imposition of antidumping duties please come forward and be seated?

Mr. Chairman, all witnesses have been sworn.

(Witnesses sworn.)

CHAIRMAN KOPLAN: Thank you.

(Pause.)

CHAIRMAN KOPLAN: You may proceed, Mr. Thompson.

MR. THOMPSON: Thank you, Mr. Chairman. I am going to ask Tara's witnesses to begin their presentation starting with Mr. Pete Delin.

MR. DELIN: Good morning and thank you for the opportunity to present our case to you. We appreciate it.

My name is Pete Delin. I am the vice president of marketing for Tara Materials. I have
been with Tara for 10 years. I have been in the industry for over 20 years.

Last April, when I first appeared before the ITC, I mentioned that it seemed like every day there was another news report about job losses to China, so it was no surprise that on Friday before this meeting the headline in the business section of The Atlanta Constitution read "Georgia To Lose 1,300 Textile Jobs."

This referred to a factory just north of Tara. The reason was of course China, and the theme of the article was the devastation that this plant closing would cause to the community, to the economy and the families. I kind of know how that feels, and I think that it is realistic to believe that a similar headline could someday refer to Tara if dumping of artists' canvas is allowed to continue.

The Fredrix brand made by Tara Materials has been in existence since 1868. It was a true power brand, perhaps the world's number one brand of artists' canvas and carried by virtually every dealer in America. We are known most for quality, for innovation, for the breadth of our product line and for servicing the needs of the artist all the way from the beginning to the professional.
Things began to change in 2001 when one big box retailer decided to drop the Fredrix line to go to China for its artists' canvas. This national chain clearly stated at that time that it was about price.

The large wholesaler which distributed Fredrix artists' canvas to this retailer at the time followed suit and also began purchasing artists' canvas in China. Then another and another and another retailer joined that frenzy.

There was only one reason, and that reason was price. It wasn't about quality. It wasn't about service. It wasn't about the breadth of our line. It was about one thing. Price. Gaining a competitive edge through price. That price was the issue was clearly stated by importers to Tara time and time again. Sometimes it was documented in writing. The floodgates were open, and now Tara is in a fight for its survival.

The Respondents may lead you to believe that the U.S. market was stagnant prior to the entry of Chinese-made canvas and/or that Tara said that. That is not the case. In fact, between 1990 and 2000 our sales increased by over 60 percent, and the years directly leading up to the entry of Chinese canvas were some of the best growth and profit years in our
At first importers focused on the best selling sizes of prestretched canvas such as 1620s and 1824s. The quality of Chinese canvas was questionable in the beginning, but retailers were initially targeting the low end of the market so a compromise on quality was acceptable. In addition, the price was right and quality we knew would eventually begin to improve.

The importation of cheap canvas from China began to accelerate at alarming rates, and by 2003 every significant arts and crafts mega retailer and distributor in the U.S. had a Chinese import program for artists' canvas.

The China price, one of the scariest words any U.S. manufacturer will ever hear, was music to the ears of the retailer. Lower costs from China meant substantially higher margins for them, and all it took was an order for as little as $25,000, just one container full. Even if the price wasn't right, the Chinese manufacturers seemed anxious to adjust the price downward until it was.

Importers started importing in a limited range of products, but they began to expand quickly into more sizes and styles, including panels and pads.
and then rolls. The agenda was clear. The pace of
the penetration was staggering, and there was no end
in sight. The China price was often below Tara's cost
for materials alone.

Fortunately for Tara, our innovative
printable canvas, a category that we pioneered,
remained relatively unscathed through 2004, but it
would have been dangerously naive for us to think that
it would not become a target as well, and we knew that
that would happen sooner than later.

In 2005, we have documented evidence that
the process had in fact begun. We estimate that over
$300,000 to $500,000 of printable canvas sales were
lost to Chinese products. That may not sound like
much, but it's a lot for a small, family-owned
company, and that's what some said about the finished
canvas category when that first big box retailer
referred to previously took that first bold step in
2001 to cut out Fredrix and source from China.

That was the first step that led to annual
sales losses of $14 million to $16 million at Tara
alone. That's a lot of business for any small
company, and our profits have plummeted as a result.

But, that's not even the scariest part.

Through smart management and innovation we could
We could restructure, re-engineer and eventually replace that business and have replaced a lot of it, but the China price was so low that it became clear that the loss of business to date was only the beginning.

There has been other fallout as well. There were the erosive effects of downward pricing pressure. Tara had to deal with cost increases in raw materials and labor and face the choice of either increasing prices and losing more customers or selling at prices that would not cover our cost, so in spite of cost reduction programs, our margins have also plummeted.

With a loss of business we were forced to spread overhead over lower sales, and our profit problems were compounded. We have now lost over 100 jobs in Lawrenceville, Georgia. We shut down our stretcher strip plant in California, 40 more jobs lost. We laid off an additional 15 workers just two weeks ago with more to come in the near future. Our canvas panel department, which is nearly fully automated, stands over 50 percent idle.

We have made substantial investments in automation, knowing full well that without duties to offset the Chinese dumping even automation won't be enough to get us near the China price.
Salaries are stagnant. Bonuses have been slashed. It is becoming more and more difficult to attract good people. Our bank rating has been lowered, and Tara has to bear the brunt of the legal fees on behalf of the domestic industry while those opposing us have sales in the billions of dollars and have the luxury of splitting that cost.

In spite of Tara's passionate desire to survive and to flourish, in spite of our efforts to reduce cost, to innovate, to consolidate and in spite of the power of the Fredrix brand, our survival is now in doubt. The survival of the industry is in doubt as well because without antidumping duties to offset the Chinese exporters' pricing the U.S. artists' canvas industry may not survive.

Addressing these and other issues in more detail is Ron Freeman.

MR. FREEMAN: Good morning, ladies and gentlemen. My name is Ron Freeman. I'm vice president of manufacturing for Tara Materials. I've been employed by Tara since August of 2000.

The last three years at Tara have been a time of significant change. The most crucial of these changes was our first and then subsequent reduction in workforce. This reduction in workforce occurred due
to the influx of low-priced Chinese canvas into the
U.S. market.

It's my intention to address the question of
why and when Tara moved stretched canvas product to
Mexico. Some history. On September 6, 1990, Tara
purchased Hy-Jo Picture Frames with a manufacturing
facility in Tiajuana, Mexico, and a small warehouse
and office facility in San Diego, California, with the
intention of integrating their ready-made wooden
picture frames into our product offering and
establishing a west coast distribution center.

At that time, canvas production represented
five percent of the Mexican factory, so production was
not the object of our acquisition. In an effort to
effectively compete with a west coast canvas
manufacturer, we began making Creative Edge artists'
canvas in our Mexican facility in 1997. This product
line was never made in the U.S. and was always labeled
and reported as Mexican production.

Creative Edge is an artists' canvas attached
to a wood frame utilizing a vinyl spline. Following
the developing of Creative Edge, we were approached by
Aaron Brothers and The Arts Store for private label
spline canvas.

Considering that Aaron Brothers'
distribution center was located in southern California and that we did not produce spline canvas in Georgia, production of these two product lines was always labeled and reported as made in Mexico. These product lines continued to grow until the loss of the Aaron Brothers business to low-cost Chinese product in 2003.

In March of 2003, after several of our large private label accounts began to purchase low-cost product from China, I made a presentation to Tara's senior management team outlining our difficulty competing with low-priced Chinese product in the area of assembled canvas products in the U.S.

We had explored multiple possibilities of greater automation and cost reduction, but were still unable to reduce costs to compete with the cheap Chinese product. It was obvious that labor costs in China are substantially lower than those in the domestic industry.

Tara's labor costs range from eight to 34 percent of the total cost of artists' canvas products. If you completely remove all labor costs you will still find it possible to purchase a cheaper finished product in China.

My opinion was that our only viable option was to move a significant volume of our stretched

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canvas operation in Georgia to our Mexico facility to reduce labor costs as much as possible. This decision was made with much trepidation and anxiety due to the impact it was going to have on a significant number of our associates and their families.

I am amazed that the Respondents have characterized our decision to move the production operations to Mexico as being unrelated to Chinese competition because we made the decision before the full onslaught of the imports hit or that we would have made the move anyway for cost reasons.

I can tell you, because I was there, that the decision to move was precisely because of China. Even in 2003, the Chinese canvas was so cheap and so many of our customers moved to buy it so quickly that we knew we had to cut our costs as quickly as possible to have any chance of competing. In late April 2003, we began the process of moving 75 jobs from our stretched canvas department from Georgia to Mexico. This was completed in September 2003.

In November 2003 we made a determination that we needed to close our Cottonwood, California, stretcher strip facility due to continued growth of low-cost Chinese product. The facility was closed April 2004. All 40 associates lost their jobs. The
majority of the production was moved to Mexico with the remainder being consolidated into the Georgia operation.

The loss of assembled canvas products continued through 2005 and into 2006. Due to the loss of over 50 percent of our panel business in the second half of 2005, we reduced 30 more associates over a 120 day period.

If this trend continues it will be necessary to reduce another 20 associates over the next few months. This may not seem to be earth-shattering numbers from a global view, but it is devastating to the loyal associates that are affected. Although I believe we have dedicated, loyal employees, each of these reductions has impacted morale.

Tara has invested over $5 million in new machinery, equipment and technology over the past three years in an effort to improve productivity and delivery. Even with this level of investment, we find many times the comparable Chinese product is being sold at or below our material cost.

Unless antidumping duties are imposed I am convinced the loss of business will continue at an escalated pace. All we ask is the opportunity to compete fairly without the price handicap that huge
dumping margins give the Chinese.

Thank you.

MR. THOMPSON: Paul Straquadine?

MR. STRAQUADINE: Good morning. My name is Paul Straquadine. I've been employed with Tara Materials for five years. I am the vice president of sales, the sales guy.

My previous experience includes seven years of art materials retailing on the west coast. I paint occasionally as a hobby. My wife paints professionally.

My goal is to share some information with you about lost business, pricing and pricing issues and the scope of this petition.

A year ago I started my testimony by saying hello to some of my biggest customers that were seated behind me in this very room. I say that again. Of the 12 Respondents, two being Chinese manufacturers, of the 10 remaining eight of them are members or former members of Tara's elite top 10 customer list.

The amazing thing about this coalition opposing this petition is that they are normally staunch competitors. They fight tooth and nail for customers, for sales and for market share, and that's on a day-in and day-out basis.
They come together in this case to try and suppress the domestic artists' canvas industry because they got used to getting something for nearly nothing. It's pretty simple when you come down to it mathematically. Let's say a piece of canvas was purchased by a U.S. distributor for $4 a piece. They then resold it for $5, maybe $6, and the retailer sold it for $9, maybe $10 to the consumer.

Well, suddenly that same piece of canvas is available for $1. That's then resold for $2 to the retailer, in essence doubling the distributor's gross profit margin. The retailer then sells it for $6, in essence doubling their gross profit margin, and it looks like everybody is making a lot more money.

Who cares if it took unfair trade to get these prices, and so what if it costs a few hundred U.S. jobs? Well, we care.

You add to that that some importers then employ an innovative, advanced and strategic marketing program where they take the Chinese product, the Chinese canvas, and they mark the retail suggested price, the suggested retail price, 10 to 25 percent higher than U.S. domestic artists' canvas. They can then offer tremendous discounts to the retailer, offers of 70 percent or more off of suggested list price.
The retailer, with this higher inflated suggested list, can then offer discounts of 40 or 50 percent off every day. Every day Chinese canvas is in sale in stores. That is the marketing strategy. Everyone will report that they're selling canvas at better profit margins, and their shareholders are happy about that. How do they make more money? It's simple. The canvas is inexpensive. They can afford to promote it more often. They can offer every day sale pricing. Instead of stores carrying 100 or 200 pieces of canvas, they can suddenly stack it high and watch it fly. Large stacks throughout the store and always sale pricing, sale pricing that helps motivate sales. The Commerce Department announced just last week that dumping margins ranged from 77 percent to 264 percent. When you can buy product from China for less than half of what it costs a domestic or U.S. producer to manufacture it, something is wrong. We're really just in it to survive. We don't wish ill on anyone, certainly not Chinese people or Chinese manufacturers or our top 10 customers. We're only asking for an opportunity to compete, win or lose, without unfair trade practices.
As we have argued, we believe that all artists' canvas constitutes one like product under the Commission's criteria. That does not mean that artists' canvas is a commodity. It means that it all falls under one like product.

Scope. Artists' canvas is really a unique product. Blank canvas represents unknown and untapped creativity. Regardless of how it gets finished, it's the absolute building block to graphic expression.

Physically artists' canvas has a rather narrow definition and application spectrum. In essence, it is a woven fabric primed or gessoed to accept paints and/or inks. You can't bake a cake with it, and you can't build a house with it. It gets painted or printed on and transformed from artists' canvas into simply art.

While originally artists' canvas was mostly woven linen, today it can range from cotton to polyesters to muslins to jute. The unique modification to these fabrics lies in the artists' coating or the gesso. Once the gesso is applied, that fabric will now find its final home in some capacity as artists' canvas.

No matter what you put on it, it turns into art. You can apply oil paints, acrylic paints, alcid
paints, tempera paints, watercolor paints, collage, scrapbooking or inks and pigments that are used in graphic reproduction. The common thread to each of these, and they are all quite different disciplines, is the substrate, the artists' canvas in various styles, forms, fabrics and formats.

Bulk artists' canvas can be converted into multiple shapes, styles and physical applications. They are:

Stretched applications. This represents artists' coated fabric wrapped over wooden stretcher bars. It is by far and away the most common and best selling category.

Canvas panels. This is artists' canvas that is adhered to a chipboard or recycled cardboard panel, and it's most commonly considered a student grade.

Archival boards. This is artists' canvas that's adhered to non-warping archival hardboard, more of a professional grade.

Canvas pads. These are sheets of artists' canvas bound into a tablet similar to writing pads, and again it's commonly used by students.

Canvas rolls. These are sold in a multiple of styles, widths and lengths, and it can be later stretched by the artist onto stretcher bars or mounted.
onto hardboards.

And finally, print canvas. This is artists'
canvas that is intended for art reproduction. It's
critical to recognize that in order to manufacture
print canvas the exact same fabric, gesso and
manufacturing process is employed.

Artists or publishers who wish to reproduce
their art in the most authentic facsimile want to use
print canvas because it looks the most authentic.
While some print canvas receives an inkjet receptive
topcoat, this final addition falls squarely on top of
a traditionally manufactured artists' canvas.

Print canvas is really the final frontier in
artists' canvas. While Chinese imports are only
starting to filter into this market, the signs are
abundantly clear that this too will suffer the
onslaught. More and more OEM accounts and national
distributors are testing and purchasing the dumped
product. Price will devour this arena in less than 18
months.

Tara replaced major losses of stretched
artists' canvas with our print canvas over the past
seven years. We pioneered a new growth market and now
stand to lose it all at the hands of the world's best
copy-catters. We have invested and worked hard to
grow this business. Without it we probably wouldn't have made it this far. We would have been another casualty industry at the expense of unfair trade activity.

The threat of dumping in this industry is abundantly real and is happening as we speak. The Respondents have accused us of failing to report manufacturers of artists' canvas from this fast-growing category, companies who simply repackage or apply a clear inkjet coating to previously manufactured artists' canvas.

We believe they do not qualify as artists' canvas manufacturers. This would clearly be double counting the same square meter of artists' canvas. Some of these mere finishers simply resell the canvas under their own name with little or no value added.

The Respondents in their public brief repeatedly refer to Tara and the domestic industry's inability to provide product at the price/value combination that allows them to execute their retail strategies. What they mean by price/value combination is product, artists' canvas, at cheaper prices. Tara's inability is not the result of unwillingness to provide product at these prices, but it's our recognition of the economic impossibility of
doing so. This petition was initiated by this realization that it is not possible for a company, regardless of the prevailing wage rate in their economy, to produce product at these prices. It's dumping.

At the preliminary conference our primary quality detractor was Utrecht Art stores. They claim that their 25-year business venture with Tara was rife with quality issues. Utrecht was visited five times by Tara employees over the final six months of the sales process. This included our quality improvement manager, several trips by our director of national accounts, our president and CEO and myself. Efforts were sincerely made to save this longstanding relationship.

The majority of their complaints were isolated primarily to stretched linen. When Utrecht ended their supply relationship with Tara, they went from 95 percent domestic artists' canvas supply to less than 30 percent domestic. Prior to losing the business several price reductions and credits were extended to Utrecht.

What they didn't mention is that Tara replaced or refunded every piece of canvas that Utrecht ever questioned. There's no doubt that
Utrecht's quality standards seemed to have increased unreasonably. Conversely, Utrecht was not willing to sacrifice quality with nearly empty shelves while they waited several months for their Chinese supplier to complete their orders. Quality and delivery were not major factors until something new came into play, and that was price. The primary reason that a 25-year long business relationship ended was pricing.

Some of the Respondents will also say that Tara is not innovative. Tara continues to push the market with new products and innovations. Fredrix's watercolor canvas received the Product of the Year award from CNA magazine last year. Fredrix's watercolor canvas is so innovative that it has a patent pending.

Fredrix's archival canvas boards are the first archival canvas board offering available to artists in cotton, acrylic primed Belgian linen and oil primed Belgian linen.

Fredrix was the first U.S. manufacturer to offer a wide variety of textures on the market. Fredrix was the first U.S. manufacturer to offer a tongue-and-groove stretcher bar. Fredrix was the first canvas manufacturer to combine polyester and
cotton fibers in our poly-flax artists' canvas.

Fredrix is the first canvas manufacturer to offer a brand new product soon to be available called So-Paintable. It's the arts and crafts industry's first indoor/outdoor, sewable, paintable, printable fabric. Sorry. I'm a sales guy.

Where are the innovations from China? They offer a few sizes of stretched canvas that we do not. A few additional sizes is far from markedly innovative. They have copied our labels. They have copied our product offering.

I submit a sample of the Fredrix canvas pad known to the industry for over 20 years and a competitive similar, similar label. Knock-offs were just the beginning. They have also copied our product offering, our marketing and our quality.

Tara had an integral position in the development of print canvas and maintained a dominant role in supply and advancement in this area. Tara has been around since 1966, and Fredrix's artists' canvas has been manufactured since 1868. You don't make it that long by not being innovative and good business people. You survive by making excellent products and maintaining good business relationships.

So what could shake up an industry like
ours? One thing. Price. Obscene prices. Prices that can end 30-year relationships. It's not just a nickel and it's not just a quarter. It's prices of 20 to 70 percent lower.

In the purchasers' questionnaire, 17 of 20 Respondents said that lower prices were available from China, and 22 out of 27 said that price was very important in their purchasing decision.

Consider this for a moment. Nearly every member of the Respondents used to purchase their own canvas from Tara. Nine out of 10 of the domestic companies -- Michael's Arts & Crafts, Hobby Lobby, A.C. Moore, Sbars, Windsor & Newton, Aaron Brothers, Jerry's Artarama, Utrecht and Dick Blick. Every one of these accounts purchased private label their house brand artists' canvas from Tara prior to Chinese dumping.

What changed? Was it quality? Was it terms of sale? Was it service? No. In every case when we've lost business to Chinese canvas it's been based on one thing, and that's price. With each loss of business, Tara has quoted lower prices in hopes of saving the business, offers of substantially lower prices up to 20 percent that in every case were described as not enough. The difference was just too
dramatic.

On August 27, 2003, Tara met face-to-face with Aaron Brothers' Vice President of Purchasing, Catherine Henkins. Tara had been asked to requote their private label due to their recent quotes and samples from China. In fact, Catherine asked Tara to test the Chinese canvas to compare it to what she had been purchasing.

Although we demonstrated a better quality was offered by her existing supplier and offered lower prices, we were told that that price roll-back was not enough. The price difference was too dramatic. She explained that that pricing from China was still much lower than U.S. supplies.

I have been told by buyer after buyer that prices from China were just too attractive. One buyer claimed that he was able to promote and sell his brand from China at a retail price that was 15 percent lower than he had paid for it previously from a domestic supplier, so he was now retailing it cheaper than he had ever paid for it previously.

When I asked him the question how did he do this, he said simple, dude. It's called dumping. I've submitted samples in my preliminary hearing brief, and this continues to take place and can be
supported as requested.

Think about it. Raw materials -- canvas, wood, chemicals and package -- cost more than what the finished product can be purchased for from China. Raw materials alone cost more than what it's being sold for. This does nothing to take into account labor, overhead or a fair profit.

Who could blame the Respondents for buying product at these levels? In an extremely competitive industry, all it takes is one big supplier, one big box or one big supplier, to offer prices that are far below anyone else to upset the markets.

This is a sale that took place last month in Dick Blick stores offering 70 percent off retail prices to consumers for artists' canvas when they purchased a mere 20 pieces or more. For 10 pieces or more they can get 60 percent off retail.

These are discounts that are available to the public. Any one of these buyers would have a lot of explaining to do to their bosses, shareholders and customers if they don't have a way to combat pricing like that. One customer walks in with a competitor's ad and says how can they sell it this cheap, and suddenly people are slashing prices, so it is understandable to some extent.
Domestic manufacturers all pay taxes. We abide by workers' compensation laws. We provide benefits and maintain OSHA approved safe work environments. We receive no free raw materials or unfair trade incentives. While we would never try to impose these things on foreign producers, we can force them to comply with fair trade laws and not dump product in our nation.

The consequence of this behavior is that the domestic industry producing artists' canvas has been materially injured by the Chinese imports and is threatened with such injury in the future.

Thank you. I'd like to introduce Michael Benator, the president and CEO of our company.

MR. THOMPSON: Actually, the next witness is Mr. Kurt Rathslag from Duro Industries.

MR. RATHSLAG: Good morning. My name is Kurt Rathslag. I am the co-president of Duro Art Industries. We are manufacturers of the Lions brand of artists' canvas. We manufacture in our production facilities in the Chicago area.

I come before you this morning to lend support --

CHAIRMAN KOPLAN: Could you just move that microphone closer to you?
MR. RATHSLAG: I come before you this morning to lend support to the petition filed on behalf of the U.S. canvas manufacturing industry.

The last three years, my company has faced incredible price competition from Chinese manufacturers. We have lost customers, both large and small, to the Chinese suppliers. These customers were happy with the quality, delivery and variety of our products, but they switched to the Chinese imports because costs were significantly lower than ours. It was nearly impossible to compete. Our canvas business was being eaten away with every customer that I lost.

The Chinese imports have frozen our ability to compete in the canvas market. As a result, we stopped developing new products and concentrated only on survival. Duro Art is a very lean manufacturing company, but no amount of cost cutting could lower my costs to the levels of what the Chinese manufacturers were willing to sell my customers.

If the Chinese dumping is allowed to continue, the negative effects to my company and my employees would be significant. I ask that you rule in favor of the petition.

Thank you very much for your kind attention. I turn it over to Bill Cicherski now.
MR. CICHERSKI: Good morning. As a matter of record, one of the first things I'd like to do is to identify Asel Art is spelled A-S-E-L and not A-Z-E-L.

I represent a company that's been in business for 55 years. I have owned the business since 1973, and we currently have 10 stores in the Texas area. Nine of those stores as strictly art materials stores, and one is a university book store.

The employees of our company are also the shareholders of our company through an ESOP plan that we've had established for over 20 years. Consequently, our management has been with us for quite a while. Currently of our 16 active managers, they have an employment history at Asel that averages 24 years so we have a dedicated group of core employees in our business.

These 55 years that we have been in business we also have been buying from Tara/Fredrix, a very good resource and continues to be our principal resource in the canvas area.

Why do we do business with Tara? It's a long-established company with a good history. Asel, being 55 years old, has been doing business with Tara as a means of maintaining a strong relationship with
all of our vendors. It has the most complete line available in the canvas area. Its experience translates to new ideas, new products.

We constantly feel that their knowledge of the industry lends to this ability to create and not have me too and knock-off products. They have a timeliness in their delivery. Yes, we've had experiences with quality control and delivery, but I would suggest that any company that's been in business for any period of time always will have some issues to distort their delivery or distort their quality of whatever their product might be.

In any event, what we have found is that Tara responds to what the issues might be, whether it be quality or whether it be delivery or whatever the issue is. We know who the management of Tara is. We can pick up the phone and talk to them and get the matter resolved usually satisfactory to our own requirements.

Tara also offers us promotions that we are able to expect each year so that we can pass on whatever savings that we gather from Tara to our consumer.

What we feel is that the canvas meets the various demands for the general public. We too buy
some imported canvas, but that usually is because the
teacher prescribes that particular product, and,
wanting to satisfy all of our customers, we buy what
products are necessary to satisfy our customers, as
well as certain school bids may require products by a
brand identification, which we try to go ahead and
promote and bid on those particular products, so yes,
we do buy a small amount of imported canvas.

Why do we not buy canvas from China? We
find that it's usually not a complete line. The
representatives that come into our store to sell that
particular product line usually dwell on one area, and
that's price. They don't address the area of quality.
They don't address the area of timeliness. They don't
address the area of the completeness of the line.

They don't address the area of the poor
coding on the canvas or the poor wood stretcher strips
on the canvas or even the stapling, the manner that
the canvas is adhered to the wood. They don't address
the timeliness of their deliveries.

There are no promotions that we can have
that we would be able to pass onto our customers, plus
we don't know who the manufacturers area. We're
dealing with domestic representatives who don't have
control of production, who don't have control of any
of these other ideas that we have just talked about.

Asel Art Supply in the Dallas area alone has 66 competitors, mainly those represented by the people today in the Respondents' area. They're good competitors. We feel that they offer various products in the craft and hobby and art industry, but we feel that our own particular business fits a different niche, and that niche would be artists.

We always subscribe to the fact that we want Asel, who is a good company, we want Asel to be a better company, and we don't feel that we can be a better company by selling an inferior product.

That pretty well concludes my comments on the whole area. I just simply wanted to identify one lasting memory. We want a company to survive here. We don't want to see this company pass away like a lot of domestic companies have because of competition.

We don't want to see a company that only provides us with me toos and knock-offs. We want to see a company that will continue to present to the industry a good quality product that most people in the arts area want.

Thank you very much.

MR. I. BENATOR: Good morning. My name is Michael Benator, and I am CEO and co-owner of Tara

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Materials. Thank you for this opportunity to hear our final remarks regarding our antidumping petition.

I too would like to thank the entire International Trade Commission staff in researching and pursuing all of the complex matters that apply to this petition.

The U.S. artists' canvas industry is not a large industry. Tara Materials is the market leader. Our sales of artists' canvas to U.S. customers at its highest point was less than $50 million, but, as with many other dumping Petitioners, this issue is very important to all U.S. manufacturers and to all of our valued U.S. employees.

Despite the small size of our industry, we greatly appreciate the attention and effort that each of your investigators, auditors and legal experts has spent to fully understand this antidumping petition.

Many of the Respondents will argue today that the artists' canvas imports from the People's Republic of China have filled a void in the U.S. artists' canvas industry due to capacity limitations, quality problems and lack of product innovation; that the U.S. artists' canvas manufacturers are as strong and healthy as they were since China began their sizeable exports into the United States in 2002. This
is far from the truth.

The amount of U.S. artists' canvas being sold in 2005 by major retailers and distributors has been drastically reduced versus 2002. I believe this should be firmly supported by the U.S. producer questionnaires submitted to you.

In 2001, I believe there were eight U.S. manufacturers of assembled artists' canvas. Today, I estimate that there are only five and that all of us are struggling with reduced margins and reduced bottom line profits.

As to the producers of bulk artists' canvas, I am aware of only five, the same number since 2001, and, yes, some are stronger today than in 2001 due to the growth of the print canvas digital reproduction market, but if this petition is not awarded they too will be seriously injured.

I can only verify that in visiting many retail art stores and major internet mail order businesses the amount of shelf space for U.S. artists' canvas products has been drastically replaced with Chinese artists' canvas. There is no mention of superior quality or new product innovation. The only lure is the stacks of artists' canvas and the heavy advertising of low, low prices.
As to the argument that the U.S. artists' canvas manufacturers do not have the capacity to meet the needs of the growing U.S. market, I believe that these eight U.S. manufacturers were fully servicing the industry prior to the entry of Chinese canvas, and I believe most of these manufacturers were producing artists' canvas on only one daytime shift.

If there were significant increased demand, most of us would gladly expand to a second shift. In fact, Tara Materials had begun a full second shift in our stretching department and our woodworking department in 2002, only to have to shut these departments down in April 2003 due to the loss of business to China.

On-time delivery has been a key strategic goal for Tara for many years. Although our service rates have not always been ideal, like many manufacturers it was due to unexpected demand and a narrow time period that takes additional time for any manufacturer to gear up and respond.

We have charts and records that can support exactly why service levels dropped and how quickly it took us to correct the situation. In addition, at no time did it take us more than 30 days to respond, which is less than half the normal turnaround time for
artists' canvas orders from China.

Today, artists' canvas orders at Tara are shipping in less than five business days at an on-time shipping rate of 97 percent or better where at Tara an on-time order means that each and every item on the order must ship complete and within the customer's expected shipping date. Even if an order has 200 items, all 200 items must ship complete and by its due date to be counted as an on-time order.

As to the argument that the quality of U.S. artists' canvas has declined and forced U.S. customers to search elsewhere for better quality, we have addressed all of these issues, responsibly corrected the manufacturing processes and issued credits for any and all claims. The quality issue is merely a red herring raised by the Respondents, but let me describe our quality assurance process to you.

With any complaint we investigate we issue credit, we fully replace defective merchandise, we involve our technical director with customers or the artists directly. We send our sales representative or quality manager to personally inspect defective products, and we do whatever it takes to resolve the problem.

Nearly every retailer I visit has had issues
with a bad canvas or two. It is Chinese brand just as
frequently as U.S. domestic brand. Here is what I can
categorically state: That the Respondents' claims are
rhetoric and not reality. Since 2004, as it had been
for many years, the total credits issued to customers
for defective products total less than one-quarter of
one percent.

This is all a smokescreen to divert the
attention away from the real reason most importers
have switched, the unfair low prices. If their prices
were close to U.S. prices, none of these reasons would
be valid, and we would not be here today.

As reported at the preliminary conference in
April 2005, the U.S. import data clearly demonstrated
that the import volume of artists' canvas from the
People's Republic of China has increased two and a
half times from 2002 to 2003 and then triple this to
over seven and a half times from 2002 to 2004. Today,
the import volume for 2005 has increased further to
almost two million square meters of volume, over nine
and a half times greater than 2002.

We are aware that some of the increased
volume in 2005 was due to importers loading up on the
Chinese artists' canvas to avoid the expected tariff
decision this past November. Tara could have filed a
critical circumstance request to roll back the tariff for 90 days, but this would have further alienated several of our key customers and disrupted the U.S. artists' canvas market.

As we have always stated, we are in the business for the long term, and we are willing to suffer additional short-term injury in anticipation of the long-term favorable petition decision and hopefully the understanding and support of these key customers.

As to the specific impact of Tara, imports of artists' canvas from China began to affect Tara in 2002 with the most significant losses in 2003 and 2004. Assembled canvas losses continued in 2005 while bulk canvas grew in 2005, thankfully, due to a favorable increase of business both in the United States and internationally for our digital print canvas products.

However, this business is also being seriously threatened by artists' canvas imports from China, and, like the established fine artist canvas business, it will not take much time for the Chinese to continue to enter this market.

The activity and the signs that we are seeing in late 2005 and early 2006 for our print
canvas products looks very similar to the initial activity and signs that we experienced in our fine artists' canvas business in 2002. This is a very real and imminent threat to the bulk print canvas business for U.S. artists' canvas manufacturers.

Since 2002, Tara has suffered greatly, like I believe other U.S. artists' canvas producers have. In addition to significant sales volume losses, we have experienced significant reductions in our gross profit margins. We have had to shut down our precision woodworking operation in northern California.

In 2004, Tara Materials lost money for the first time in Tara's 40 year history. The most difficult result for Tara was our first layoffs ever in Tara's history in 2003, and we have had to continue to downsize in 2004, 2005 and most recently two weeks ago.

In 2002, Tara had its highest U.S. employment level of 470 employees. Today at Tara we are down to 292 employees, a total downsizing of approximately 40 percent of our U.S. workforce.

The Fredrix artists' canvas company started in 1868 as the first American canvas producer in the United States. We are trying to protect an American
artists' canvas industry that is over 138 years old, a
company that famous American artists such as Norman
Rockwell, Peter Max, Wieland and Thomas Kinkade have
painted on, and we are trying to protect the entire
U.S. artists' canvas industry where we have all
suffered.

We are confident that the data and
information that we have submitted and that you have
verified through inspections at our facilities in
Lawrenceville, Georgia; San Diego, California; and
Tiajuana, Mexico, will clearly demonstrate that Tara
Materials manufactures its products to the highest
standards, to the quality standards that meets or
exceeds the needs of the marketplace;

That artists' canvas imports from China have
caused significant injury to the U.S. artists' canvas
industry; that the unfair pricing of artists' canvas
into the United States has already caused significant
loss of jobs, reduced our sales, reduced shelf space,
reduced profit margins and financial losses never
before experienced.

We do not believe it will be in the best
interest of the U.S. art materials industry, not just
the artists' canvas industry, nor to all of our
experienced, hardworking associates and our families
to allow this to occur.

We believe the facts clearly demonstrate that U.S. imports of artists' canvas from China have grown dramatically in the last three years mainly because of their unfair, low, low prices, not their service, not their quality and not their product innovations.

Thank you again for your time and interest.

MR. THOMPSON: Mr. Chairman, that concludes our opening remarks. We would like to reserve our remaining time.

CHAIRMAN KOPLAN: Thank you. I want to thank all of the witnesses for their direct presentation. It's very helpful.

Let me say to you before we begin the questioning, because you're sitting at two tables, that each time you respond to a question, if you could reidentify yourself for the record, it would be helpful for the reporter. With that, we'll begin the questioning with Commissioner Aranoff.

COMMISSIONER ARANOFF: Thank you, Mr. Chairman. I want to welcome all of the witnesses, and thank you very much for taking the time to come and be with us today to answer our questions about your industry.
I'll start with some fairly basic questions, and I'm not sure exactly --

CHAIRMAN KOPLAN: Excuse me. I hate to interrupt. Mr. Freeman, if you could move your nameplate in back of the light so that I can keep track of time. Thank you.

COMMISSIONER ARANOFF: I'll start with a basic question, and I'm not quite sure which of you wants to address it, but can you describe to me, in terms of the retail customer base for artists' canvas, about how much of the market do you think is professional artists, and how much do you think is hobbyists?

MR. STRAQUADINE: Paul Straquadine. That is a hotly debated question within our management team. I think we would agree to 25 percent being professional. We would define that as people who acquire 50 percent or more of their income from selling their artwork, and the other 75 percent as serious artists or craft or hobbyists.

COMMISSIONER ARANOFF: Okay. Thanks. That's very helpful.

Do you think that those two groups have different requirements that they are looking for when they purchase an artists' canvas?
MR. DELIN: Pete Delin. Yes. I think absolutely. At the very high professional level, as Paul noted, at the professional level, there is anything from a Normal Rockwell type of fine artist down to the individuals that are selling some of their art or not selling any of their art, but they are proud of it, and they are professional artists, or they are fine artists.

I don't think, at that upper level, any of them would ever buy a Chinese canvas, but as you go down the spectrum, a certain amount of them will buy more Chinese canvas, and the lower level, in the arts and crafts area, yes, it does become less and less important. The quality of the canvas becomes less and less important. But to many consumers, quality remains important in everything they buy.

COMMISSIONER ARANOFF: Okay. Mr. Straquadine?

MR. STRAQUADINE: Paul Straquadine. I'll also bring to your attention there is a common term in the industry of a starving artist, which is an almost romantic feeling that even professional artists embrace, and quite often in my retailing experience, some of the artists that sold their work for the most often shop for very inexpensive things or deals. We
have an art advisory board that consults with us quarterly, and artists that sell in excess of a quarter million dollars' worth of artwork a year refer to themselves comically as dumpster divers, that they will find art in trash cans, pull it out, salvage it, refresh it, or rework a piece of canvas.

Although high-end, professional artists tend to be more true to their art form and buy the more expensive supplies, there is also a cross-pollination that takes place where even people selling for high margins will buy inexpensive product as well.

COMMISSIONER ARANOFF: Okay. Mr. Benator?

MR. I. BENATOR: Michael Benator. I would like to also comment that all artists, one of the things they value is their uniqueness or their difference in their technique over somebody else's, so they are always challenging and testing the materials and testing the different techniques that they have, too. They have been known to experiment with the poorest quality to the highest quality pretty much to stimulate them and also to meet the needs of what the story or the artwork -- and I know artists who have used toilet paper as a collage as part of their painting, and what Paul said as far as dumpster diving.
It's hard to define a true artist, and it's hard to define the professional artist versus the hobbyist, and the retailers also struggle with that, too, as far as who is the target customer for the marketplace because it is changing, and it's very independent and unique.

COMMISSIONER ARANOFF: Let me just follow up because the issue of quality has been central to the arguments that have been made, so I want to ask two questions. The first is to get you to define what do you mean by quality? What makes a canvas of higher quality? And then the second is, in much of your direct testimony, you referred to Chinese canvases being of lower quality, and I guess my question is, is that all Chinese canvas, or do you see a range of quality amongst the Chinese product?

MR. DELIN: Pete Delin. Frederick's manufactures products all the way from the very, very, very top end. We have a heavy duty, for example, which is a 12-ounce canvas with a very heavy duty stretcher strip. We also sell in rolls a broad range of different qualities, different weights, different textures, different coatings, different materials, and that is truly at the higher, higher end of our line, and that would be the highest quality. Right now,
China is not competing at that level. As you go down the spectrum, we also have our basic flagship product, our Red Label and our Creative Edge. That's also a pretty good quality product. It's a high-quality product used by artists, including the professional artists.

On the Chinese side, they have an economy, standard, and a gallery style. The economy is basically a low-end, rather thin canvas with, we believe, an unacceptable coating. The standard and their gallery, a little bit better coating, a little bit heavier weight most of the time with a stretcher strip which is made of a lighter-weight wood.

COMMISSIONER ARANOFF: How many of the manufacturers in China do you feel like you've seen their products? Do you feel like you've seen the full range of what's available out there? Are there variations depending on manufacturer? You're sort of referring to the Chinese as monolithic, and I know we've identified at least several producers there.

MR. I. BENATOR: Michael Benator. In the beginning, we probably identified seven different manufacturers coming from China. In the past, as the markets developed, there are two primary manufacturers that have imported the most into the United States.
We also see other Chinese manufacturers who have not imported into the United States that do sell globally, that sell internationally. With our international products, we've seen it there, too. And what was the rest of the question? That answered it?

And I did want to respond as far as the quality. The quality from China in the beginning was very poor. It was a very light-weight canvas. It was all bleached cotton, and the coating was very light weight. Like any product in any market, it's continued to improve, and we've seen it getting better and better, and the quality, in my opinion, includes all parts of the construction of a canvas.

The biggest market or the biggest product category is the stretched artists' canvas in which you've got the stretcher bar, and the canvas is stretched over the wooden frame with staples or with a vinyl spline, and the quality includes the quality of the canvas and the texture, the coating and how well the coating absorbs the paint, and also how well it holds the paint from penetrating to the back, called the "strike through." The stretcher bar, the construction of the stretcher bar, the sturdiness and the quality of the stretcher bar is very important to the artist.
We did consumer research studies, and in the beginning we thought that the artists just looked at the face of the canvas, at the actual coating, but we found that every one of the consumers out there turns the canvas over, looks at the back, looks at the staples, looks at the quality of the wood, looks at the durability of the construction because a lot of times today the finished artwork does not need a frame. It will just hang on the wall without a frame, so they look at the sturdiness of the stretched canvas and make sure that it is of quality construction.

COMMISSIONER ARANOFF: Thank you very much. I see my yellow light on, so I'll stop right there.

CHAIRMAN KOPLAN: Thank you, Commissioner. First, this is for Mr. Benator or Mr. Straquadine and also Mr. Rathslag to domestic producers. Respondents' prehearing brief argues, at page 24 and elsewhere, and this is a follow-up to the line of questioning that Commissioner Aranoff just had, that sales of subject imports have expanded demand for artists' canvas to a new category of purchasers with limited budget, such as mothers of school-age children and young professionals decorating their first apartment. If the subject imports were not available, this category of consumers would not
purchase artists' canvas at all.

My question is in three parts. First, do you agree that sales of nonbranded, low-price-point, entry-level, Chinese products have resulted in increased demand for artists' canvas, and if not, why not?

MR. I. BENATOR: This is Michael Benator. Yes, we do agree that the sale of nonbranded, low-priced, artists' canvas has increased the industry and has increased the sales. Two things: If you look at anything, or you're buying it on a regular basis, especially if you're an artist, and you want to paint, and you see a price that's half of what you were paying for it, you load up. When you have it in your studio, you paint more of it. So we do believe that it has increased the market and allowed retailers to promote it more and to bring customers into the store, which we all do strive for.

The other thing I would like to add, though, is the canvas panel business used to be the inexpensive. It's with the recycled cardboard and a less-expensive canvas that we glue to the board, the cost of stretched canvas prices have come down so much, that people can buy stretched canvas at these lower prices and replace some of the canvas board
sales that we've had.

CHAIRMAN KOPLAN: Thank you. Mr. Rathslag, do you agree with?

MR. RATHSLAG: Yes. I would agree with that. Usually when something is inexpensive, you can sell more of it in general, so if there is something inexpensive, people will maybe use it quicker or less carelessly or less carefully.

I would also like to say Tara and I both have products across the whole spectrum: less-expensive canvas boards, promotional stretched canvases, all kinds of products to meet both the low end and the high end of the product category.

CHAIRMAN KOPLAN: I appreciate that. That leads me into the second part of the question, and that is, do domestic producers offer low-price-point or entry-level artists' canvas, and if so, what share of total domestic production is accounted for by the entry-level products?

MR. STRAQUADINE: That's a tough question. Paul Straquadine. I would say that we can follow up with an answer to that question, but from the hip, I would say at least 40 percent of the market is for the inexpensive canvas. I also would add that there is a substantial amount of trading down that takes place
when a product is promoted at 70 percent off. Artists that would normally have considered purchasing a Belgian linen or a heavy duty, stretched canvas may trade down to something that's in a twin pack or less expensive at times, and that encroaches upon the premium product sales and starts the downward pricing pressure.

CHAIRMAN KOPLAN: I appreciate that. If you could expand on that for purposes of the post-hearing, I would appreciate that as well. In doing so, if you could identify which, if any, of the products for which staff collected pricing data you consider to be entry-level products. Okay?

This, you'll probably want to get into in the post-hearing as well, but anything you can give me now, I'll take, and that is what share of the subject imports are accounted for by entry-level products?

MR. I. BENATOR: Michael Benator. We'll have to respond back. We can't speculate. We'll have to research that.

CHAIRMAN KOPLAN: As best you can.

MR. I. BENATOR: I would like to add that one of the first areas that got hit for us was the real low-priced -- we call it our Brush Strokes, which is with a thinner stretcher bar stapled -- that was a
Tara Materials Brush Stroke label plus also some large, key retailers had their own private label that had this very similar construction, very similar product, and that's what went offshore.

CHAIRMAN KOPLAN: Thank you. Thank you. Mr. Rathslag, is there anything you wanted to add?

MR. RATHSLAG: No. Pretty much, I think I answered before that we have a broad range of products.

CHAIRMAN KOPLAN: Okay. Thank you. Mr. Straquadine, if I can come back to you, the Respondents assert at page 6 of their prehearing brief that, and I'm quoting, "Tara is a producer of digital-print canvas." They actually have a characterization in there that's BPI, so I can't refer to their characterization, but your counsel is aware of it. And then they go on to say, "As a participant in this market, it is unclear why Tara failed to identify in the petition other U.S. producers of digital-print canvas that Respondents were able to identify through a review of publicly available information," and I've heard this argument again this morning.

I'm calling on you because I believe that
you stated in your direct testimony that application
of a top coat only is not enough to make a firm a
domestic producer, and I see you're nodding your head
there. I got that right. Is it your understanding
that all of the firms Respondents claim are additional
producers of digital canvas actually apply a top coat
to already finished canvas?

MR. THOMPSON: Mr. Chairman, George
Thompson. Mr. Straquadine does not know the names of
the parties that have been identified by Respondents.
They have claimed confidential treatment for all of
those, so those have not been distributed to Tara.

CHAIRMAN KOPLAN: Can you get back to me on
that post-hearing?

MR. THOMPSON: Yes, indeed.

CHAIRMAN KOPLAN: Okay. Thank you.

Mr. Benator, were you aware of the existence
of other domestic producers of digital-print canvas at
the time of the filing of the petition but failed to
include those details in your petition? I've been
hearing that argument on the other side.

MR. I. BENATOR: Michael Benator. I would
like to respond. There was one company who we did --
I believe we represented, and then they were acquired
by a much larger textile mill, and that was submitted
back in April of '05. The allegations as far as other producers are the ones where there is a final top coat that's put on it primarily for the ink jet market, an ink jet-receptive top coat, and that's why we will provide the information separately.

CHAIRMAN KOPLAN: Thank you very much.

Mr. Thompson, let me come back to you. This is a follow-up to what I was asking before.

Respondents are arguing at page 11 of their brief that because the Commission was not made aware of the existence of significant domestic producers or converters of artists' canvas that, and I quote, "the Commission should be prepared to apply adverse facts available, and Respondents will make recommendations in its post-hearing brief based on producers that have not responded by that time."

Exhibit 2 to Respondents' brief contains a list of firms that Respondents believe may produce artists' canvas. I've heard your clients' answer regarding producers that weren't identified in the petition. I've heard what you've said as well. I would like you to take that exhibit into account in your post-hearing response and, at the same time, comment on their argument that we should apply adverse facts available if we find that their argument has a
MR. THOMPSON: Yes, I will, Mr. Chairman.

What I would ask, though, is that -- I'm at a bit of a handicap because that information, even though those companies are not part of the Respondents' coalition, business-proprietary treatment has been claimed for their identities. If you look in the accompanying materials in Attachment 2 to their brief, you'll see that there is information from public Web sites that has been claimed for confidential treatment, and our view is that information identifying the names of companies and the products that they offer should not be designated as business proprietary. I think that's a great stretch of the Commission's rules, and I certainly can't go back to my clients and show them Exhibit 2 and ask them, what about this company? Do they do a top coat that they buy from you, or are they just a reseller?

So I would ask the Commission to resolve that issue as quickly as possible so that I can give a fully informed response with my client's input.

CHAIRMAN KOPLAN: I appreciate what you're saying. I would ask that you get together with our staff, with Ms. Mazur, subsequent to the hearing and see if you can work through that. Opposing counsel
can also be involved in that discussion.

MR. THOMPSON: Will do.

CHAIRMAN KOPLAN: Will you do that? Thank you very much. I see my time has expired, and I'll turn to Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman, and I would like to welcome the panel here this morning. I very much approach you taking the time to be with us. I'm wondering if there is going to be a coup back at Tara. You seem to have all of your top management here. Hopefully, you will return soon.

I do have a few questions just again on trying to understand the product and the domestic industry here. It's always interesting to hear about something that we haven't heard about before, and this is a product that I haven't had the chance to look into. I can't say I'm an artist. I guess I'm the mom of school-age children who like to paint, so I'm curious about some of the responses to the chairman. I may go back to that.

But let me start, if I could, Mr. Thompson, just to follow up a little bit of what the chairman was saying because, again, in defining domestic industry and who is part of it, without looking at the
confidential names, I guess I'm just trying to have a
better understanding of which converters you would say
should be included in the domestic industry because
it's my understanding that the position taken in the
prehearing was, yes, there are converters, and, yes,
they are part of the domestic industry, but that there
are now distinctions being made between a company who
takes a bulk roll, stretches it, versus one who takes
it and puts a final coating.

So anything that you could just help me out
here, and I understand the responses to the chairman,
some of that may involve confidential information, but
I'm really just trying to struggle with who really is
a converter and who is not based on what these
witnesses know about the industry in general and what
the end products are that are being sold. If you can
help me out on that.

MR. THOMPSON: Well, I certainly hope so,
and then I'll turn it over to the Tara witnesses.

What we consider a converter is a company
like Masterpiece, for example, which will take coated
canvas that it purchases, usually in bulk form, and
stretch it and put it on a stretcher bar, for example,
or typically make what the Commission has termed
"finished canvas." So those are the companies, and
that is the process that we would consider converters and conversion.

VICE CHAIRMAN OKUN: Just so I'm clear, it has to be stretched. So, in your view, you have to take what's been a coated, bulk product and stretch it to do something with it to become what we're defining as finished. Mr. Benator?

MR. I. BENATOR: For the simple artists' canvas, that's what we would argue because it also involves the wooden stretcher bar and quite a bit of added value to complete that process. For the digital canvas side, it's mainly with the ink jet where there is an additional final finishing top coat layer that we are already considering that in our production values and in our sales values into the U.S., and then when they put that finishing top coat, it's more of kind of a final coat. If those totals were included as producers, we would consider that to be double counting and overstating the size of the U.S. industry. Does that help?

VICE CHAIRMAN OKUN: Yes. I guess what I think we're lacking is just trying to make sure that we understand the actual value added in the digital coating and what those companies who do that are actually adding because, again, that's something that
seems a little unclear on the record at this point.

MR. FREEMAN: Ron Freeman, if I may add to that. In many cases, we sell a product, what we call pre-jet, and they may put another coat on it, and they may not put another coat on it. We also sell a product that is printed on without adding anything to it. So our position is that is minimal value added to this product.

VICE CHAIRMAN OKUN: When you said that's a pre-jet, does that mean when you're coating, what you do, what Tara does, is add something in addition to what they would add onto something that just goes to be a stretched canvas.

MR. FREEMAN: No. It can be utilized for either one. It depends on whether it's a large, bulk roll, or we decide to cut it up and stretch it or put it on a panel. It can be used in either case. The only issue is that we have customers who put their own ink jet-receptive coat on it, or they may print on it as it is. It just depends upon what their desire is and what they think is the best receptive coat.

VICE CHAIRMAN OKUN: Okay. All right. Then I will look forward to the responses post-hearing to better understand the value added and what the distinctions are between those two, the bulk sales to

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the digital print market versus some of the other
categories because, again, Mr. Straquadine, when you
were going through your list of the types of products
that are out there, and if the Commission continues to
consider one like product, you talked about stretched,
you talked about panels, archival pads, rolls, and
print. So of those, the ones that would be further
converted are the stretched, or where you think the
converters would be included in the domestic industry
would include stretched?

MR. STRAQUADINE: I think that would entail
both rolls either sold to people who stretch canvas or
people who convert it to ink jet canvas.

VICE CHAIRMAN OKUN: Okay. I'm probably not
being very clear in my question. Again, for purposes
of the domestic industry requirement, the legal
requirement, who is in the domestic industry, in
addition to the producer of the bulk rolls, as I
understood the position, it was for those who stretch
canvas and finish it and add something to it, those
converters would be part of the domestic industry.

So when you're referring to these products -
- the stretched, the panels, the archival, the pads,
the rolls, the print -- would everything besides print
and rolls be ones where another company may be doing
something that amounts to conversion for purposes of the domestic industry like the archival boards?

MR. STRAQUADINE: Paul Straquadine. Yes, it is possible, although archival boards may be the one exception that you do raise or a very minor part of the industry. Stretched canvas, canvas panels, rolls are converted within the artists' canvas industry. A domestic artists' canvas that is intended for painters is a very closed community. It is an industry where everyone knows everyone as opposed to print canvas, which is kind of like the wild west. It's the new frontier. People are getting into it new and fresh every day.

Many large printer manufacturers purchase their own brand and will either purchase it finished or have an ink jet-receptive coating applied to it. So it's almost like an apples-and-oranges analogy when you compare the two industries, one being more traditional and the other being a new expansion market.

VICE CHAIRMAN OKUN: We were talking about the digital-print market. When you were responding to the questions about quality earlier, does it matter in terms of when you talked about the higher quality being the weight of the canvas, does a digital print
require a higher quality, or if the Chinese were
selling the bulk in the United States, could they sell
directly to a digital printer as well with the quality
as you've described it as being thinner?

MR. STRAQUADINE: Yes, they are, and they
have.

VICE CHAIRMAN OKUN: Okay. So it doesn't
matter on that. Mr. Benator?

MR. I. BENATOR: Michael Benator. The
digital-print market; we've broken it out between two
markets there, too. There is the graphic art market
in which they do higher-volume art reproductions, and
there the quality is not as demanding or as high
quality as the fine art reproduction. They will sell
one, two, maybe 100 at most, and the artist signs them
and adds embellishments to it. So there is that range
of product, too, for the digital market.

VICE CHAIRMAN OKUN: Okay. And then a
follow up for post-hearing for you, Mr. Thompson.
Exhibit 7 of Respondents' brief, which looks at
shipments into the different categories -- it's one of
the exhibits they use for their argument on attenuated
competition and breaking down where the U.S. producers
are shipping versus where the subject imports are
coming in in their different categories, if you could
comment on that exhibit in the post-hearing, I would
appreciate that as well.

MR. THOMPSON: Certainly.

VICE CHAIRMAN OKUN: Thank you. Mr.

Chairman, I see my light is about to change.

CHAIRMAN KOPLAN: Thank you. Commissioner

Hillman?

COMMISSIONER HILLMAN: Thank you, and I,
too, would join my colleagues in welcoming you all
here today. We very much appreciate your time and all
of the answers to our questions.

If I could follow up just a little bit on
the questions that Vice Chairman Okun was just asking
to make sure I understand the digital-print market
because I want to follow up, Mr. Benator, on the
comment you made in terms of this diversion in where
this digital product goes.

Just so I understand it, we've seen this
list of your top 10 customers. We see who is
appearing here today, but is this digital product
changing that in the sense of is the digital product
something that one would go to a Staples or more of an
office products market? Is that where this product is
largely being sold, and is that changing your customer
base and how products get priced and thought about, at
least for this little end of the product niche?

MR. STRAQUADINE: Paul Straquadine. Yes and no. While office supply do sell digital-print canvas, it is a very small market, a market that my wife might pick up a pack and print my grandson's picture on. The art reproduction really is a market that printers or publishers will publish the canvas and then have large runs or even small runs printed. It seldom goes directly to a retail store. It goes from the printer directly to a gallery or to a retail store in the finished artwork where you walk into a discount retailer perhaps and by a 1620 framed print of a Florida sunset that's already been printed on canvas, sealed and framed, and you buy it at that point. There is very little resale retail of print canvas as compared to the overall market.

COMMISSIONER HILLMAN: Again, I'm trying to understand it because obviously you're talking about a different thing that's getting printed on it, meaning a photograph, but it may be of more appeal to those in the photography business rather than, per se, art in terms of hand-painted art. Is that fair to say that there is now this distinction where for the first time people that are doing what I would describe as photography are now purchasing canvas in a way that
they might not have in the past?

MR. STRAQUADINE: That is entirely true, and that is often the office supply pack resale.

COMMISSIONER HILLMAN: But in the total scheme of the canvas product that is the subject of this investigation, you're saying that is very small. Do you have a sense of the total portion of the product being sold goes into what I'll describe as the photography end of it as opposed to the pure art end?

MR. STRAQUADINE: Less than 10 percent would be for the photography market or for the home photographer. The professional photographer who is reprinting actual photographs or reprinting digital photos of original artwork is what typically gets reproduced in runs of 500 to 5,000 sheets at a time. More common, it is artwork that's being reproduced as opposed to photos.

COMMISSIONER HILLMAN: All right. Mr. Benator?

MR. I. BENATOR: I would like to add that with the digital market, because computers and technology is moving so fast, we are seeing a lot of professional artists today -- when they sell reproductions, it used to all be limited editions on paper because the price of the materials -- the
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printers, they have got these wide-format printers that can print up to 12 colors on a machine that's probably less than $3,000, we're seeing more and more artists taking control of their reproductions and buying printers or co-opting together and then buying these rolls of ink jet canvas and controlling and printing their own reproductions. So we're seeing that develop at a rapid pace.

COMMISSIONER HILLMAN: Okay. Well, obviously, I would join my colleagues in saying anything that you can help us understand in terms of the production process and value added by those that are doing the ink jet coating, that's, I think, where we really need some help in terms of how difficult, expensive, how much value added is there in going from the bulk canvas to the ink jet-ready product. We really do need to make sure we understand from your perspective all of that.

If I can then go to the issue of pricing, the Commission selected, I'm sure with your counsel's help, eight products to price so that we could understand what's going on in terms of domestic industry prices versus Chinese prices. Unfortunately, because the actual pricing data itself is confidential, this is a little bit tricky for me, but
I was very struck in looking at them. I've heard your testimony about the Chinese prices and how low they are and how it's driving prices down, but I have to say when I look at particularly the stretched canvas products that we priced -- we priced an eight-by-ten, a 16-by-20, a 16-by-20, and a different 16-by-20, stapled on the back, side stapled, with spline, et cetera, four different products.

The first one, the eight-by-ten, stretched canvas, side stapled, we clearly saw a big price decline in our prices. The other three, however, did not show price declines. If anything, they may have shown some price increases. I'm trying to understand why. I've heard your testimony that it makes it sound like all prices generally were going down over this period, and there was all of this competition going on, so why, when I look at the pricing data that we have before us, do I see declines in one product and, in essence, no declines and/or increases in these other products? The specific products themselves, their descriptions are not confidential; it's only the actual data. Help me understand what's going on, that we do not see price declines in a significant number of the products that we priced?
MR. THOMPSON: Commissioner Hillman, if I could just clarify for the witness, Products 1 and 2 showed price decreases. Products 3 and 4 showed price increases.

MR. STRAQUADINE: Not being privy to the pricing information that you have, Products 3 and 4, I think, start to capture the higher end part of the market. I think Products 1 and 2 are more of the entry-level products that were chosen, and with the pricing policy of having a higher retail, larger discount, everyday sale, it's great to attract them with the economy product and then, where possible, sell at a higher retail and increase margins for the retailer and the distributor or the importer of record.

COMMISSIONER HILLMAN: So you're saying, to the extent that some of these products reflect, again, this higher-end product that presumably is purchased by, as you described it, these professional artists as opposed to the hobby person, they are not switching, is what you're saying. They are not necessarily demanding a lower price for a lower-quality product.

MR. I. BENATOR: We're saying that 75 percent of the serious artists that are hobbyists are switching, and of the 25 percent that are professional
artists, and this is conjecture as far as what the
percentages are because there is no valid data, even
some of those are switching for the allure of prices
and some of the techniques that they are willing to
try, and the quality is not as important.

I did want to say that we do not have any
information as far as who responded and how they
responded. I believe that they are responding based
upon their standard retail, and we sell wholesale
only. We sell to the distributor, who then resells it
to the independent, and we also have prices that we
have wholesale that we sell to the large retailer.
What they sell it to the consumer --

COMMISSIONER HILLMAN: We would not be
looking at retail prices. We're looking at the first
arm's-length sales. We're looking at your prices to a
wholesaler. We're looking at an import price. This
is not about retail.

What I'm trying to understand is, again, I
hear everything you've said; it just, to me, does not
square with the data that we have on the record, and
that's what I'm trying to understand.

Last question because the light is on. How
big a role are brands? You've discussed your
Frederick's brand and these other things. How
important is brand name, and has that changed over this period of investigation?

MR. DELIN: Pete Delin. Brand is always very, very important. Consumers, when they are happy and have a good experience with a brand, they like to go back to that brand, and we have been the recognized brand for years.

Another important factor is presence. If you have presence in the store, it's more likely that the consumer that comes into that store is going to buy your brand because it's there, and that's the most important facet of branding. It's extremely important, but you have less and less ability to compete, even with a powerful brand, as the price goes down. As the price goes down, the 40 percent less than your brand, more and more consumers are going to be attracted to the lower price as opposed to the brand.

COMMISSIONER HILLMAN: Okay. I appreciate those answers. Thank you.

CHAIRMAN KOPLAN: Thank you. Commissioner Lane?

COMMISSIONER LANE: Good morning. Mr. Thompson, I would like to start with you and start with the definition of domestic like product.
MR. THOMPSON: Yes, ma'am.

COMMISSIONER LANE: In looking at this case and looking at the data on bulk versus finished, I am struck by a lot of variations, and I'm just sort of curious as to why the Petitioners are advocating one like product rather than two like products, and so I would like to hear your argument, the strongest argument you have, as to why bulk and finished should be treated as one like product.

MR. THOMPSON: Well, Commissioner, our view is that the traditional six-factor analysis, which we analyzed in the brief, really pointed to that conclusion, that if you were to apply the Commission's traditional analysis, that the production processes, the actual physical capabilities of the product, pointed to a single like product. Then if you were to apply the finished-semifinished analysis, for the most part, those factors pointed toward a single like product as well.

So it is our view that in defining the domestic industry, the Commission would look, especially in view of some recent cases like Tissue Paper and Orange Juice, although those hadn't been decided before the petition was filed, they corroborated our view that really the dividing lines...
could not be found.

Keep in mind that a large portion of what we call bulk canvas really can be used as a finished product. In fact, Tara, from what they have explained to me, sees bulks as, in a sense, a finished product, the sense being that you can actually paint on it. Now, you may have to cut it. You may have to hang it or stretch it, but it is a product that can be painted on.

So I would question whether it even would be considered a semifinished product under the Commissions' traditional analysis there. I think you could argue both ways, but certainly the fact that all artists' canvas can be painted on, whether it's in bulk or finished form, to my mind, weighed in favor of finding one like product.

COMMISSIONER LANE: Okay. Thank you.

Why have imports of bulk canvas from China been limited during the period of investigation, and do you expect that this trend will continue, and if not, why do you believe imports of this product from China will increase?

MR. DELIN: Pete Delin. I believe that there is a very clear and precise continuum here in terms of the whole process. As I said in my
presentation, they started out with 1620s and 1824s, which are the big-volume sellers in the marketplace and at the lower end, and over time they have added more products and more sizes and different qualities, even some different configurations, and then panels and pads and some rolls are beginning to come in. We see this as a very obvious continuum in that process. As their production, their infrastructure is built up, they will continue to take on newer and more and more products as the process goes on.

On the side of the bulk canvas, the print canvas, again, in the process of this continuum, when they identify that as a market that they want to take on and participate in, we see a very significant increase in volume in that area.

MR. STRAQUADINE: I would also add that it is natural to go after the cherry first. The commodity items, the items that sell the most of in a market like the U.S. at retail going after the big box craft and hobby and art store chains is the place you would want to go first, especially with a product that is going to require a good amount of conversion or labor to take it from a bulk to a stretched canvas or to a canvas panel. You would want to exploit the inexpensive labor rates in the Chinese economy as
opposed to bringing it to the United States, assembling it here, and having to pay higher rates and thus having a higher cost. It would almost level the playing field.

MR. I. BENATOR: Michael Benator. I would like to add that with the digital-print canvas business, it's grown double digit the last two years. We expect it to grow again double digit this year, and so it's very ripe for a Chinese market to go after. As far as specific information, we know of one large, private-label OEM who puts their name on a product, and the same canvas that we use for an assembled artists' canvas is sold in bulk, ink jet coating is put on top of it, and then that is sold into the United States on the digital canvas side. That same product that we sold as a pre-jet is being quoted in very large volumes by China as we speak. It's the same exact product that we put on assembled artists' canvas, and we also sell it in rolls, too, to the retail arts store.

COMMISSIONER LANE: Okay. Thank you. I would like for you to talk about the grades and different types of artists' canvases that are available from certain sources, either from the domestic industry or the imports, how the products are

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graded and how you come to those different gradations
and exactly how you do that or what they mean.

MR. STRAQUADINE: Well, artists' canvas
comes in a multiple of styles, the fabric itself.
Traditionally, in the art industry, we follow the
textile industry weights and measures classifications
where we take fabric and weigh it per how many ounces
of fabric per square yard that goes into a specific
grade of canvas, whether it be cotton, linen, muslin,
jute, polyester. We weigh it quite carefully, and
that's how it gets purchased before it gets coated.
Oftentimes, people new to the artist industry will
weigh their canvas after they have put the chemical or
the jesso on top and give the false impression that
it's an eight-, a nine-, or a 12-ounce canvas when
they started out with a three- or a four-ounce base
material.

By far, the best-selling canvas weight in
the artists' canvas industry is a seven-ounce,
unbleached, cotton fabric. That is your largest
seller. Premium products go into cotton-polyester
blends, or the most premium of product is a linen. We
choose to purchase all of our linen, both grown and
woven, in Belgium where we believe the flax plant that
that comes from is of the highest quality, and the
weavers have the most control over the quality of that fabric.

Once we acquire our fabric, then we apply our jesso coating in often a machine-primed setting. We have now four coating lines where we coat our canvas mechanically to a very specific grade, applying two, three, or even four coats of the artist coating that the paint or the print media will sit on top of. We manufacture literally hundreds of styles, hundreds of different formulas on each specific fabric, but, again, to classify the best selling, it would be our seven-ounce cotton, unbleached cotton.

COMMISSIONER LANE: Now, a follow-up. I would like to know what sizes you sell the bulk in, like lengths. Is it sold like fabric?

MR. STRAQUADINE: It typically gets sold in prepackaged allotments. The rolls get sold in anywhere from a 36-inch width up to 144 inches wide and can be sold in three-yard, six-yard, 30-yard rolls, 100-yard rolls, or 1,000-yard rolls. We would consider bulk being 100-yard or 1,000-yard rolls.

COMMISSIONER LANE: Okay. Thank you.

Mr. Chairman, I see my red light is about to come on, so I will wait until my next round. Thank you.
CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson, I think you're batting cleanup here.

COMMISSIONER PEARSON: Thank you, Mr. Chairman. Fortunately, you've saved some questions for me, so I'll see what I can do. Permit me to extend my welcome also to all of you. I appreciate that you've made the trip to Washington to be here, and I'm learning a lot.

What I would like to start with is the whole issue of apparent consumption for this product, which, as I read the staff report, there has really been quite robust growth in consumption, which is a wonderful thing, obviously. What's a little surprising to me is that it appears that apparent consumption has risen faster than have imports from China, and along with that, U.S. shipments by the domestic industry also have risen.

So should we conclude from this that there is ample room in the U.S. market for both domestic production and imports from China?

MR. THOMPSON: Commissioner Pearson, if I could make some prefatory remarks and then turn it over to the witnesses.

COMMISSIONER PEARSON: Please, Mr. Thompson,
yes.

MR. THOMPSON: Apparent consumption masks the move from what we have been terming finished canvas, traditional stretched canvas, in the United States from U.S. suppliers to China, and, rather, what has been happening is that the U.S. producers, in an effort to maintain their capacity utilization and maintain some kind of market share, have moved primarily, from what I can tell, into the printer market. So we have an expansion of consumption -- you heard Mr. Benator say before that it's grown double digit for them. That has been growing as the traditional stretched canvas, finished canvas has been declining from a U.S. shipment perspective.

The second is apparent consumption is a little bit tricky in the case because from what I can tell, when a company like Tara, for example, sells to what we consider to be a true converter, somebody who takes the canvas and stretches it and mounts it on stretcher bars, et cetera, that square yard or square meter of canvas is being counted twice. You're counting it as bulk, and you're counting it as U.S. production of the finished product.

So if I understand the presentation in the status report correctly, the growth is a little bit
illusional because you are double counting at least a portion of the bulk canvas when you count finished canvas as well.

With those remarks, I would like to turn it over to the Tara witnesses.

MR. FREEMAN: Ron Freeman. I would like to just add a little bit to that. Mr. Thompson said that the bulk canvas could be converted into what we call or what's been split up in the questionnaire as assembled canvas. Also, this bulk canvas that is sent to further finishers who put this final coat can be double counted. That's showing up again. We're selling it to someone who may or may not add another coat or may put a different packaging on it and sell it into the market which has been double counted.

So I would question whether there is really truly increased growth from a square meter to square meter, which has been kind of difficult to convert all of this so, but I do believe, in both cases, it's being double counted.

COMMISSIONER PEARSON: Mr. Straquadine?

MR. STRAQUADINE: I also would point out that the sale of a finished, stretched artists' canvas or canvas panel can sometimes net a much higher value per square meter than bulk rolls, so while production
may have increased in order to satisfy a new, dynamic, growing market, the net dollars have not followed the same formula as they have traditionally.

COMMISSIONER PEARSON: Well, given this possibility of double counting, would we do well to focus on bulk canvas as we try to understand what might be happening to overall consumption in the U.S. market?

MR. I. BENATOR: That would be fine. This is Michael Benator. That would be fine except for we need to look at Duro and Tara Materials, who also coats and then assembles it. So when we bulk, and it goes into assembled, we put those quantities into the assembled artists' canvas grouping, and when we sell it as a bulk roll or a bulk print canvas, we put it into that bulk category. We took a lot of effort in trying not to double count there. The only place we did adjust our numbers was the bulk canvas that we coated and then sent to Mexico, and then that came in as assembled product. We then added that as additional assembled volume. We showed it as a transfer.

COMMISSIONER PEARSON: Mr. Freeman?

MR. FREEMAN: I would like to add, our canvas starts off as bulk canvas. Everything we do
starts off as bulk canvas. So it is cut, rolled --
you know, some of the processor has packaged, but it
all starts as bulk canvas, just as a point of clarity.

COMMISSIONER PEARSON: Mr. Benator?

MR. I. BENATOR: I would just like to add,
if you looked at the total volume, square meters and
dollars, you would see that from even the bulk artists
and some fine artists' canvas side, the volumes had to
be going down. I cannot understand or cannot believe
that the U.S. production would show an increase in
that. If you can pull out, and we would be happy to
work on that, and pull out the digital-print canvas
side and show that as a separate total, you would see
that number is going up, but the bulk artists' canvas
and the assembled business, both in dollars and units,
for U.S. producers has to be going down.

COMMISSIONER PEARSON: Mr. Thompson, you can
understand why I'm wrestling with understanding what
witnesses are saying versus what I'm seeing in the
staff report, and perhaps someone understands this
thoroughly, but I'm sure that I do not yet.

If the order goes into effect, would we
expect to see apparent consumption fall as we're
measuring it in our data? Is that going to have an
effect of raising domestic prices, at least for lower-
end artists' canvas and thus reducing consumption?

MR. STRAQUADINE: If there is a reduction, we do not believe it will be dramatic. If, in fact, soccer moms and other new markets have been expanded, then there is no reason for them to stop their purchase, and a great deal of the home decor markets that are alluded to by people not purchasing canvas to paint fine art on but to do home dec. Our television programs that are seen every day on how to fix up your house inexpensively by taking a couple of canvases and a quart of house paint and doing some graphic stripes and that sort of thing.

So, no, I don't believe that that market will be affected tremendously. Will prices go up. Yes, they probably will. We've also been told, quite plainly by members of the Respondents and other people, that all people will do is automatically go to Vietnam or to India to try and purchase inexpensive canvas. We've competed quite fairly with India, Vietnam, and other countries, but the nonmarket economy of China has made it an impossibility.

So in answer to your question, yes, there could be a minor adjustment to the number of canvases sold. However, we believe the market will benefit because the product mix will no longer be a traded-
down product mix, but retailers will, instead of
selling 10 canvases at $6, they will sell maybe nine
canvases at $10.

COMMISSIONER PEARSON: Someone in the direct
testimony mentioned that there has been a strategy of
some retailers to stack it high and watch it fly for
the low-priced stuff, and it was that quote that made
me think that if you no longer have attractive
pricing, then will anyone stack it high, and will it
fly, or will that market just kind of shrink?

MR. STRAQUADINE: I believe that was my
statement from my retail experience. No, I do not
believe that that market will shrink because there is
no reason not to purchase domestically produced,
stack-it-high, let-it-fly canvas. Whether it be Duro
or Tara or Masterpiece or any domestic manufacturer,
we all make economy products that are available either
in bulk packs of stretched canvas or large quantities
of canvas panels that can certainly fill that niche,
but the key has been the inflated retail. the dramatic
discount, that has kind of flooded the market.

MR. I. BENATOR: Michael Benator. I believe
that they stack it high just because they have to
order in full container loads, so they need a place to
put it. The prices have already started to go up
because of the tariffs that went into effect in November, and, yes, quantity sales have gone down, and, yes, dollar sales have slightly gone down, but I believe if you ask the Respondents, a lot of their sales are still, from a growth standpoint, still holding up pretty well. I don't think it will harm the industry significantly.

COMMISSIONER PEARSON: Mr. Chairman, my time has expired, but I'll either come back to this in the next round or ask for some clarification post-hearing. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

In the testimony this morning, you indicated that in 2006, I guess, or 2005 for the first time you had seen the digital product being imported into the U.S. from China. One of the main arguments that the Respondents make in their brief is that a lot of domestic production is insulated with competition from China because a number of products that are made in the U.S. are not made in China or at least are not being exported from China to the United States even if they are made there.
So I wanted to go through the various kinds of artists' canvas products with you one by one and have you tell me, to your knowledge, is this product made in China, and has it been exported from China to the United States? I'll maybe start with the bulk product and then go through each of the further processed products, if you could, and tell me what you know. Who wants to start?

MR. STRAQUADINE: Bulk product; we've seen very little, penetration of very little nonconverted canvas brought into the market.

COMMISSIONER ARANOFF: Okay. Why do you think that is?

MR. STRAQUADINE: I believe it's, as I mentioned earlier, the conversion of the canvas creates a lot of labor and a lot of waste and a lot of conversion costs in stretching it or mounting it to a panel. The idea of bringing it in in bulk into the U.S. and then converting it is, for either a Chinese manufacturer or an importer of Chinese product, it's not attractive to incur those costs.

Domestic suppliers, with very, very few exceptions -- in fact, at the time of our petition, we believe there were no exceptions -- domestic suppliers had not done any importing of bulk rolls. It was a
choice that each company was faced with and is still faced with. Should Tara by Chinese canvas and convert it in our facilities? But we don't see the advantage of changing our supply, and we believe that our value is in sourcing the fabric and applying the jesso, much like Duro's.

COMMISSIONER ARANOFF: I understand that argument. It makes sense to me, and yet the data that we have in our staff report do show us that there are some, albeit modest, imports of bulk product from China. Would you speculate that those are being purchased by artists who purchase bulk product and stretch it themselves so that they are more indifferent to the kinds of issues that you're describing, or is it just sort of inexplicable, and we don't know what is causing it?

MR. STRAQUADINE: No.

COMMISSIONER ARANOFF: Mr. Benator?

MR. I. BENATOR: I would like to add that there are bulk rolls coming in from China of raw canvas and, more specifically, the seven-ounce cotton primed with a double or triple priming. In the artists' canvas industry, the bulk of the business, 90 percent of the business, is in the assembled, value-added products, and that's the target, that's the ones
to get the biggest hit and the biggest bang and to go after the biggest buyers, that's where it is.

Frederick's started out as a hand-primed-only, roll canvas business back in 1868, and over the years, even since 1970 when Tara Materials bought Frederick's Artists' Canvas, more and more of our sales have switched from the roll canvas to the ready, prepared where you pull the shrink wrap off, and you start painting, and that's the nature of anything from consumer goods. Everybody's time is limited, so you want to go to the product that meets the needs, and you can start doing what you love and what you have a passion for.

So from the fine artists' canvas side, 90 percent of it is in the assembled and the value added. It's also where the Chinese can get the highest value per square meter.

COMMISSIONER ARANOFF: Okay. Let me go on to some of the other products, then, and just have you go through them. There are the archival boards, there are the -- what are the other boards called? -- the canvas panels, there are the floor coverings and the place mats, and there are the bound pads. Are all of those products made in China, and are they all being brought into the U.S.?
MR. STRAQUADINE: Today, yes, they all are. They have filtered in in different degrees and different waves, starting with the stretched canvas and the economy style, then moving into the upgrade styles, then into canvas panels, now rolls and archival boards.

COMMISSIONER ARANOFF: I guess what I would ask Mr. Thompson for the post-hearing because obviously our official statistics on imports don't break out these products, is if there is any evidence that you can provide to us that demonstrates that all of these different varieties are, in fact, being imported, that would be helpful to us because I know that the Respondents' argument has been thus far that what's coming in is just the stretched canvas and that a lot of these other products are in there where it's insulated from competition with the subject imports, so I would like ought to be able to have something on the record to address that.

MR. THOMPSON: We would be happy to, Commissioner Aranoff. If I could just point out, though, I think what our position is, and I'm not sure if Respondents would agree, is that the imports have been in the traditional finished product segment, and as Mr. Delin pointed out, we've seen some imports...
starting in what appears to be finished retail packs of print canvas.

Now, I'm not suggesting that the Commission engage in a market segment analysis, but the fact that there may not be 100 percent overlap in competition between the U.S. product and the import product, that, say, bulk rolls have not been as prominent in the imports, merely accentuates, when you look at the import-penetration figures over the entire industry, it merely highlights the tremendous damage that has been done in the segment, if you will, that is represented by finished canvas.

So I don't really think that's a particularly persuasive argument. It's up to you all to decide, but, to me, the argument that, well, we don't compete with everything, I don't know where that gets them because where they do compete, which was the highest value, and at the time, in 2002, the highest shipment segment and production segment of the U.S. industry, we had been devastated. So the competition may not be across the entire industry, at least yet, but where it has shown up, it has resulted in, to our mind, sufficient damage to the entire industry to warrant an affirmative determination.

So you look at the financials. Those
financials are based upon the entire industry, all of these products, and the data are proprietary, but the Commission can see where those numbers have gone, even with the primary competition in the finished canvas segment.

COMMISSIONER ARANOFF: I take your point on that, and I understand what you're saying. I guess what I would ask you to do in your post-hearing is Petitioners actually have a number -- the number is proprietary -- of the percentage of domestic production that they say does not compete, and you've seen that number. It is a substantial majority in the way that they do the math, so I guess I would ask you to go dissect that number for us, please.

MR. THOMPSON: We certainly will.

COMMISSIONER ARANOFF: Thank you very much. Just a few follow-ups on the line of questioning that I had been asking. The watercolor canvas product that's the proprietary product that Tara produces; have you seen any signs that that product is being produced in China or some kind of imitation of it?

MR. DELIN: Pete Delin. We have a patent pending on the watercolor canvas, and that is the only reason we haven't seen any. It has been a very, very
successful product launch for us. As a matter of fact, I believe you could say it's a new category, not just a new product. I have no doubt in my mind that it would be coming in from China as we speak, had it not had this patent pending.

MR. STRAQUADINE: I will add that we have recently heard reports of Chinese-manufactured, watercolor canvas being sold into Canada, another market where we're rather strong in. So barring the patent or success or failure, we do believe that that will be on the horizon.

COMMISSIONER ARANOFF: So as you understand it, they have managed to replicate the technology, or the formula or whatever it is that's proprietary about it, to make the product. They are just scared off from selling it in the U.S. because of your patent application.

MR. STRAQUADINE: I really can't comment why. I can say that we have only recently received reports of a watercolor canvas in Canada with a Chinese source, but we have not been able to test it, see it, touch it to say if they have replicated it or not.

COMMISSIONER ARANOFF: Anything else that you can provide us on a confidential basis about that
would be very helpful. Thank you very much, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you.

Mr. Thompson, the public staff report, at pages 519 to 522, lists the findings of staff concerning lost sales and lost revenue allegations made by domestic producers of artists' canvas. I'm particularly directing your attention to page 5-20 for this question. There are a half dozen listed on that page.

I can't get into the total numbers of these things because everything is BPI here, so I'm struggling a little bit with you on it, but for those allegations made by Tara that cover stretched canvas, should the weight the Commission places on these allegations be discounted if a significant share of the competition is actually between subject imports from China and nonsubject imports from Mexico? Now, you might want to get into detail on that in the post-hearing with respect to what appears on page 5-20, but anything you can give me now, I would appreciate it.

MR. THOMPSON: Our position is that Mexican production is not part of the domestic industry.

CHAIRMAN KOPLAN: Characterized as nonsubject.

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MR. THOMPSON: Nonsubject, yes. Our view would be that competition between Tara's Mexican product and the Chinese product would not be cognizable as part of the injurious effects of the Chinese canvas on the U.S. industry.

Now, what I'm going to do is determine whether the characterizations by the Respondent parties to those allegations as to the origin of Tara's product are correct or not, whether it was of Mexican or U.S. origin.

CHAIRMAN KOPLAN: The reason I'm asking is because I'm -- on whether the competition is actually between subject imports from China and those nonsubject imports from Mexico.

MR. THOMPSON: That's what I need to determine, whether or not those allegations involved a Mexican product or a United States product or perhaps a mix of both, and we'll look into that and get back to you.

CHAIRMAN KOPLAN: Okay. Thank you very much.

MR. STRAQUADINE: Mr. Koplan, Paul Straquadine. I would also add that although Tara manufactures all of our spline or Creative Edge canvas in Mexico, there are other U.S. producers of spline
canvas, so although our production numbers may be
large and may be nonsubject, there are domestic
producers of that product.

CHAIRMAN KOPLAN: Thank you for that. I
appreciate it.

Mr. Benator -- I think I got it right that
time, didn't I? -- Respondents' brief asserts at page
23, and I'm quoting, that "testimony at the conference
from both Petitioners' and Respondents' witnesses
confirmed that the increase in import volume from
China is due largely to an increase in demand for
Chinese artists' canvas that would not otherwise have
occurred."

One of those witnesses at the conference was
Mr. Marek, director of importing for Michaels Stores,
Inc. At the conference, Mr. Marek testified, at page
130 of the transcript, and I'm quoting, "Tara may
claim that there business with Michaels has decreased,
but during 2004, Michaels implemented an automatic-
replenishment, inventory-management system which
reduced purchases and inventories. The reality is
that out-the-door retail sales of Tara's Frederick's
brand canvas has grown in excess of 15 percent during
2004."

Do you disagree with his assessment that
retail sales of your Frederick's brand canvas by
Michaels actually increased? Have sales of your brand
canvas in general increased in 2004 and 2005?

MR. I. BENATOR: No, they have not. They
have been stagnant, if not gone down, and I would
argue, too, that Michaels has been aggressively adding
new stores. So if you did comps store data, then I
would say it is down.

CHAIRMAN KOPLAN: Okay.

MR. I. BENATOR: And then you have to pull
out the Michaels private label business versus the
Frederick's branded business, too. In canvas panels
and the Frederick's stretched canvas business, we have
worked with Michaels in expanding their planigram and
adding some new sizes, too, so that has something to
offset that 15 percent sales growth number.

MR. THOMPSON: Mr. Chairman, George
Thompson, if I may?

CHAIRMAN KOPLAN: Sure.

MR. THOMPSON: My understanding is that
while there may be a growth in the Frederick's brand,
that comment from the preliminary conference doesn't
address the loss of other types of canvas that
Michaels used to purchase like the private label
product that switched wholesale to China. So just a
small part or a portion of Tara's sales to Michaels is covered in that comment.

CHAIRMAN KOPLAN: If your sales volume expands, would that mean that subject imports are generating new sales instead of taking sales volume from domestic producers?

MR. I. BENATOR: With aggressive promotions and pricing, yes, and with aggressive store openings and just good store placement, too. Don't get me wrong. We're very pleased with Michaels growing and with the increased store. It's just their assertion that Frederick's has not been harmed by the U.S. imports, we totally disagree with that.

CHAIRMAN KOPLAN: I appreciate that. Thank you for your answers to my questions. I think that concludes my questioning, and I'll turn to Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you. I have a bunch of odds and ends here, so let me see how many I can get through.

Mr. Thompson, this would be for post-hearing. You had mentioned, in response to Commissioner Lane's questions about like product, the Tissue Paper case, and in that case I was not part of the majority decision, as you know, but I would ask
you for post-hearing to go through for me whether you
think this case is distinguishable between what my
decision was in Tissue Paper based on the specific
facts of this case. If you could, I would appreciate
that.

Then I had just walked out briefly. Mr.
Benator, in response to Commissioner Pearson's
question, did I hear you say that there have been
price increases, or Tara has gotten a price increase,
and if so, if I heard that correctly, if you can tell
me what products those are in?

MR. I. BENATOR: Pete Delin could probably
give more specifics, but I know since 2001, 2002, Tara
has very minimal price increases. We have held prices
where costs have gone up. We have had, in '05 and
'06, price increases. In '05, we added a prepaid
freight program where we gave back some of that price
increase from a retail price standpoint, but the
actual net selling price did not go up.

VICE CHAIRMAN OKUN: I know you provided
this information, but remind me again. When you do a
price increase, has it been across your whole product
line?

MR. I. BENATOR: No. They are very
individualized. It follows product categories, like
Frederick's red label stretched will have an average price increase, but depending upon where costs are and margins are, some of the small-selling sizes where we've had the most competition with China would hold the prices. Sometimes we would have to increase them more because the cost increases have gone up. Even within a product category like red label, the price increases or changes are different from a small size to a medium size to the large size stretched canvas.

VICE CHAIRMAN OKUN: Maybe, Mr. Delin, you could comment on that, and also just for post-hearing, if you could just break that out so that I can see what you're saying, where the price increases were and how that relates to subject imports. Mr. Delin, did you want to add anything here?

MR. DELIN: Pete Delin. No. I think it was well answered. We take price increases when we are able to take price increases based on the cost increases that are passed on to us, and we pass those on based on how much that particular individual product category went up in cost.

VICE CHAIRMAN OKUN: Okay.

MR. THOMPSON: Madam Vice Chairman, if I may?

VICE CHAIRMAN OKUN: Yes, yes, Mr. Thompson.
MR. THOMPSON: I understood Commissioner Pearson's question to go to whether import prices had increased as opposed to domestic. I may have misunderstood, but is that a point that you're interested in as well?

VICE CHAIRMAN OKUN: I'm interested in that, and I guess I will let him follow up. He may have been on that line of questioning. I was just trying to figure out if it was -- again, I think Commissioner Hillman had talked about the pricing information we have in the record, and to the extent we see price increases in particular categories, so a more full explanation of that for post-hearing would be helpful.

And, in particular, on that, the one thing I did want to ask about was between Product 2 and Product 3, and, again, the product categories are not BPI, even though the information is, you had the same size stretched canvas, a 16-by-20 stretched canvas, same weight. The difference, as I understand it, between those two products is one is side stapled, and one is back stapled.

So help me out, and this may be you, Mr. Straquadine, in terms of is this also a place where you've seen growth, that consumers just like the idea of a back stapled, even though it might be more, I
MR. STRAQUADINE: Well, no. There is no advantage there. The consumers, artists, do prefer more and more the back-stapled product as opposed to side stapled because they can either hang it without a frame or hang it in a frame. It's still the traditional depth. We have seen competition stronger from China in the last few years on the back-stapled product, and that, in fact, helped motivate us to change the majority of our product line from side stapled to back stapled. Again, the conversion costs of taking a product and applying a great deal of labor to it are, in fact, lower in China, so their back-staple process was being offered cheaper than our side-staple process.

VICE CHAIRMAN OKUN: That reminds me, and I can't remember if I read this or it has been testified to, which is were the Chinese and the back stapled first, and then you all moved into it? Is this an argument where they have made that they were here with that product, and you are now catching up?
MR. I. BENATOR: Tara was the first to introduce a Tara gallery wrap, then we changed it to Frederick's gallery wrap, which was back stapled for many years before China came into the market. Several years ago, before China came into the market, we moved our heavy-duty, our professional grade, because of the heavier stretcher bar and the deeper stretcher bar. With having it back stapled, the artist could do a lot more of the dimensional work without having to put a frame on it, and so we offered that higher-priced product also with the stapling on the back even before China came.

VICE CHAIRMAN OKUN: Okay. I guess that's a different product than what we have in Product 3. Okay. So it might be helpful to just put some of that timing and the difference in the products and the difference in the pricing, whether it's viewed as high-end product where you had back stapling, and it's not viewed as that. That would be helpful as well.

And a data question for you, Mr. Thompson. I just wanted to have you comment on whether you now view the coverage that we have from Chinese Respondents as fairly complete or do you still take issue with our coverage?

MR. THOMPSON: Well, I'm not certain that
anything has changed since the pre-hearing report.  
I may be a little out of touch with that. Our concern  
was that based on the value data which was being used  
as a proxy to determine whether questionnaire data  
covered the full range of imports that had been  
reported to Customs, that the Chinese value data in  
the questionnaire were somewhat short of the value  
data reported by Customs, so we had a concern.  
I don't recall whether the number is confidential or  
not, so I won't refer to it, but we had a concern that  
there may be some imports that had not been captured  
in questionnaire data and right now I don't know what  
the answer is, whether more questionnaire responses  
have come in or whether staff has been able to  
determine that there is full coverage and it's just an  
anomaly with the values. So it's not really a  
question of taking issue with it so much as wanting to  
be sure that the difference between the questionnaire  
value and the census value data were adequately  
covered and we knew why.  

VICE CHAIRMAN OKUN: Okay. If you could  
find out for post-hearing?  

MR. THOMPSON: Yes.  

VICE CHAIRMAN OKUN: Once the final staff  
report is in, to have you take a look at that.
And then just going back on that, the digital print, one other question just with regard to what value added has done in that process, have you been asked by a company who is doing the digital print to actually do the coating, the inkjet coding, yourself and then sell it to them? Has anyone asked you to do that?

MR. I. BENATOR: Yes. When we first came out with an inkjet coated artists' canvas, it was called Tarajet and we coat it ourselves, but it does take -- that final inkjet receptive top coat, it does take a different formula and some different coating equipment and we have found another outside coater to do that proprietary top coat for us that we sell under the Fredrix brand. It's a U.S. company.

VICE CHAIRMAN OKUN: Okay. Now that you're saying that, I think I recall that, but that may be helpful in the discussion of what value added is added by that process, to see that.

And then just to the Respondents' allegation with regard to Tara's move to Mexico and the timing of it, and I know you testified here today, Mr. Freeman, you had in particular talked about the decisions there. I guess one of the things that the Respondents have raised as part of that is if it were the import
competition, that you saw it then, why didn't you
bring the case then? If it's moved away, and this may
have been in someone else's question, are you really
going to bring much finished back if you had an
antidumping duty order if you've already made a
business decision that you can do a lot of this in
Mexico? So help me out on that particular point.

MR. FREEMAN: Well, actually, the
decision -- we could see where this thing was going
and I won't mention names, but two of our major
purchasers, customers, had started buying this private
label which was high volume, several million pieces.
It was pretty obvious that we were not going to be
able to compete with that at that time.

Now, the question is would we bring it back?
If it's competitive. One of the things that we
experience, you always have a learning curve to go
through, it's a little different dealing sometimes in
Mexico. We still maintain a certain amount of
production in our Georgia facility and, yes, I think
we would bring some of it back. And I would like to
argue that stretched canvas, again, the bulk of the
assembled sales and volumes, we sell quite a bit on
the East Coast and it's pretty expensive to ship
container loads of stretched canvas from California,
so there would be some advantages for us to continue
to make stretched canvas in Georgia to supply to the
East Coast and not only that, canvas panels, roll
canvas, pads, all those are made in Georgia, so that
business would require additional growth in our U.S.
facility.

CHAIRMAN KOPLAN: Okay. I appreciate all
those responses. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you.

A couple of quick follow-ups, I think, on
some of these issues relating to prices and costs.

I think you just mentioned, Mr. Delin, in
response to Vice Chairman Okun that you try when costs
are going up to pass along those cost increases in
your prices and yet, as I said, when I look at the
pricing data in toto, we see prices coming down for
product 1, but in general prices for a lot of the
other products either steady or up.

However, if I look at cost of goods sold,
I mean the specific costs that are going into the
finished product, we see a fairly significant decline.
Why is that? You've just described that you pass
along cost increases in the form of price increases,
but why do I see such a significant decline in your cost of goods sold for the finished product?

MR. I. BENATOR: It's based upon per square meter, Is that correct?

COMMISSIONER HILLMAN: Well, again, I can look at it in raw dollars, just how many total dollars, or I can look at it on your value per square meter. Either way, I'm seeing a significant decline.

Now, I see there's been a decline in total volume, so I'm trying to understand what from your perspective you feel has happened with respect to costs.

MR. I. BENATOR: Well, if the volume is down, their our production costs have gone down because the volume is significantly reduced per square meter. It's because we're selling more bulk of the print canvas business where the value added or the price or the cost per square meter is lower. It's a lower value.

COMMISSIONER HILLMAN: Now, obviously this is hard because all the numbers are confidential, but if there is something in the post-hearing brief that can be said to embellish with actual numbers on what Mr. Benator has just said, I think that would be helpful because it does strike me as a little bit
different from what I'm hearing in terms of what's happened on the price side. And the second question relates exactly to this same data in terms of the financials.

If I look at the net sales value -- again, it's per meter -- again, you see this very substantial decline in what our financial data is showing for sales values and yet that does not seem to be the same trends that we're seeing in the actual prices for the individual products that are being sold.

Again, I'm trying to understand why I see prices as either steady or even up a little for some of them, down a little for one, but basically a fairly steady price trend and yet if I look at sales value per unit, per square meter, a very big decline. Why?

MR. I. BENATOR: It has to do with product mix and also, I guess, the changes in the sizes that are being sold, too.

COMMISSIONER HILLMAN: Again, given that the numbers themselves are confidential, if you can help explain both the cost numbers and the sales value numbers that are in the financial data, contrast it to the pricing data, I think that would be very helpful.

MR. THOMPSON: Commissioner Hillman, in a sense, my understanding is it's sort of an apples and
oranges comparison because what you're seeing in the
gallon data, those, I assume, are the product specific
comparisons.

COMMISSIONER HILLMAN: Right.

MR. THOMPSON: The change in Tara's product
mix, which Mr. Benator alluded to, from stretched
canvas to more of the print canvas, would lower the
overall cost of goods sold because as you move from
the stretched canvas there is fewer components, if you
will. As for the value per square meter, that would
also reflect that. Print canvas a square meter is
sold at a lower value than the stretched canvas.

COMMISSIONER HILLMAN: Okay.

MR. THOMPSON: And we'll follow that up, but
that's the explanation.

COMMISSIONER HILLMAN: I followed that.

I appreciate that. If there's any, again, additions
that you can put to put some specifics on it, that
would be very helpful.

One of the other specifics that was raised
was your specific relationship with one of your
customers, I think MacPhersons would be the one, and
whether there's anything you can tell me about that
relationship that we ought to put on the record to put
this in some context.
MR. STRAUQUADINE: I believe we've responded in the pre-hearing data describing a detailed time line that followed our decision to no longer do business with one of our longstanding customers which was MacPhersons. In a nutshell, today, I will say that we made a decision, toughest in our company's history at the time, to no longer sell a longstanding customer who had started aggressively importing Chinese canvas, selling it as the upgrade and diminishing their support and advertising and promotion of the Fredrix brand and dedicating their sales efforts toward their far more lucrative import program of the Chinese canvas.

COMMISSIONER HILLMAN: What I was trying to understand is you made this decision with respect to this one customer, but obviously a lot of your other customers, as you have testified, are buying Chinese product and yet you're still selling to them. That's, I guess, where I'm trying to understand why this was treated differently.

MR. STRAUQUADINE: The answer is none of our customers, either then or today, were actively targeting Fredrix for replacement. Those other customers were reacting with Chinese canvas because they were being embarrassed in the marketplace because
they didn't have the price alternative that the MacPhersons brand was offering, the low price and the heavy discounts.

MR. I. BENATOR: Ms. Hillman, Michael Benator. I think what you're asking, MacPhersons is a distributor. They're the largest distributor in the United States. They sell to a lot of independent retailers, where they can combine stretched canvas with paints and brushes and allow them to place smaller orders and then service a large number of retailers out there.

That then gave the opportunity for the Chinese canvas to go to a lot more retailers. The large retailers who are represented by the Respondents are large, big volume retailers who can buy direct through China and not necessarily go through the distributor.

COMMISSIONER HILLMAN: Okay. All right.

MR. I. BENATOR: Does that make sense?

COMMISSIONER HILLMAN: That's helpful. Yes, that's helpful.

One other item for the post-hearing brief, Mr. Thompson. In their pre-hearing brief, Respondents make a number of specific allegations about Tara's questionnaire data. I just wanted to make sure that
you are specifically asked to respond to the
particular allegations where they're saying there's
discrepancies, in particular, in pricing data,
capacity data and import sales data. To the extent
that you can comment on the specific things that
Respondents have said that are problematic with
respect to questionnaire data, I just wanted to hear
your take on those.

Commissioner Aranoff also a question in
terms of the way that they have re-done the math, if
you will. I'm wanting to make sure that you're also
responding to any allegations made with respect to the
underlying data, just to put it on the record in terms
of your response.

MR. THOMPSON: We believe that their
recalculation and their allegations are unfounded. My
understanding is that with a couple of minor
adjustments that were made following the staff's audit
of the Georgia facility that the data were accepted by
the commission as being accurate. So we could
comment -- I'd prefer to make specific comments in a
confidential setting, if I may?

COMMISSIONER HILLMAN: Oh, no. I'm saying
in the post-hearing brief.

MR. THOMPSON: I understand.
COMMISSIONER HILLMAN: I just wanted to make it very clear. I just want to make sure we're not leaving something out there that you feel could and should have been responded to.

MR. THOMPSON: Yes.

COMMISSIONER HILLMAN: I just would specifically like it in the post-hearing. There's no question it involves confidential data and it can only be done in your post-hearing brief.

MR. THOMPSON: We will and I'm grateful for the opportunity.

COMMISSIONER HILLMAN: Okay. All right. I think with that I have no further questions, Mr. Chairman.

Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Lane?

COMMISSIONER LANE: My first question is if I were to go to a retail outlet that handles both the subject imports and the domestic product and let's say a 12 by 12, how would the retail prices compare to one another?

MR. DELIN: Typically, what we would see is a very high inflated price on the Chinese product with a rather aggressive, everyday discount of probably in
the range of 40 percent, sometimes more, sometimes less, whereas the U.S. branded product, whether it be Fredrix or somebody else, would have a retail that was not as inflated, normal retail, and it could be on promotion or it could be on promotion every day, typically not more than 20 percent or 25 percent.

COMMISSIONER LANE: How would you correlate the retail prices with the pricing data that we have? Would the differences in the pricing data that we have between the domestic and the subject imports carry over to the retail product?

MR. DELIN: I think we're confused by that question and don't know how to answer.

COMMISSIONER LANE: Well, I'm sure that I didn't ask it very artfully.

MR. DELIN: Can anybody else help?

COMMISSIONER LANE: What I'm wondering is the margins that we see in our pricing data, one product is lower priced than another, are those -- do you see that difference at the retail level, the same margins?

MR. I. BENATOR: I guess I don't understand the question either, but I would say that each retailer has their own choice of how much margin they want to make on a product and we don't know what they
buy it for, other than what we sell our product for. So what they sell it for and how much mark-up they put on it, we can only speculate.

MR. STRAQUADINE: I think I understand your question and my answer would be, yes, you would see discount differences. You would find the domestic product at $10 and you would find the imported product at $6 and that discount can very much vary by retailer, but most commonly the margins that the distributor or importer purchased them for and that the importer or actual retailer sell them for are higher in both cases.

COMMISSIONER LANE: Okay. Thank you. Let me stick with you, then. In answer to Commissioner Aranoff, you mentioned that one factor affecting conversion costs from bulk to finish is waste. Is waste a major factor? In responding, could you give me some idea of the percentage of waste? In other words, for every 100 square meters of bulk product that goes to finishing stage, how many square meters end up in the finished product and how many end up in the waste bin?

MR. STRAQUADINE: I'm going to give it to Ron.

MR. FREEMAN: Ron Freeman. Yes. There is
some waste. If I may explain, it typically is somewhere in the 8 percent range. I will say this, though, one of the, I guess, best things about Tara, we try to always cut this waste down, we cut it to a smaller size, we stretch it on something smaller, so we try to utilize it, but there is about 8 percent waste in this.

COMMISSIONER LANE: Okay. Thank you.

In an earlier question, I asked about the size of bulk rolls and you indicated, Mr. Straquadine, that rolls can vary from relatively small width to widths of 10 feet and that lengths could range from a few feet to hundreds of feet.

I was a little surprised by your answer because the only pricing data we have for bulk rolls are for 73 inches by 18 feet long rolls and 36 inches by 40 feet rolls.

Would you say that most of your bulk sales are for rolls that are much wider and much longer?

And, also, could you provide me with some detail on the different size rolls, such as what percentage are sold in rolls of 18 feet and what percentage are sold in rolls that are hundreds of feet long?

MR. STRAQUADINE: Yes, Commissioner Lane, we
can provide you with all that data. I believe that
the questions and the products that were chosen for
the analysis needed to be a specific targeted
individual product and what was chosen was the most
popular retail sales items to be analyzed. I believe,
yes, the answer is bulk rolls are often sold longer,
not necessarily wider. Wide format is still not a
huge area in terms of volume, but anywhere from 73 to
53 inches width would be more the norm and longer
rolls of 100 yards we would consider more frequently
being bulk, but the instances of sales of 100 yards or
1000 yard rolls are much less frequent than the six
yard or 18 foot roll that was described in the
questionnaire.

COMMISSIONER LANE: Okay. Thank you.

At the conference, Tara said that the bulk
and the pre-stretched canvas manufacturing operations
are often staffed by the same employees.

Can you confirm, either now or in your
post-hearing brief, whether the employees you are
referring to are production employees and, if so,
describe the extent to which they participate in the
manufacturing of both bulk and finished canvas
products?

MR. FREEMAN: Ron Freeman. Yes, it is the
same employees and they are production employees. We
go through a coating process where they make this bulk
canvas which can be determined to be utilized in
assembled canvas, bulk canvas, pre-jet, so it is the
same employees doing the same thing.

COMMISSIONER LANE: Okay. Thank you.

Now, in your brief also you talk about
scrapbooking accounts for growth in finished canvas.
What type of finished canvas are you talking about on
scrapbooking?

MR. DELIN: We have sold to the arts and
crafts market as well as the art market and in more
recent years it has evolved into other areas such as
scrapbooking and you're probably more familiar with
scrapbooking, but right now, it's a very small
percentage of our business, but we are promoting it
and looking at new products in that arena.

Also, scrapbookers can buy existing products
that we already make for the artist and decorate it
with photographs and embroidery and stamps and that
sort of thing. They are already using existing Tara
product for that purpose of scrapbooking.

Right now, for us, it's a very small part of
our market.

MR. STRAQUADINE: Paul Straquadine. I think

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specific to your question would be things like canvas pads where the scrapbooker can tear the sheet out, embellish it and put it into an existing scrapbook, hole punch it and put it in, or another very common phenomena today is scrapbooking or embellishments that become part of the home decor, where you may take a 12 by 12 canvas, embellish it with photos of your children or grandchildren or of your wedding, and then hang it on the wall rather than keep it in a book where it may not get viewed as frequently.

COMMISSIONER LANE: Okay. Thank you.
That's all the questions I have.
CHAIRMAN KOPLAN: Thank you, Commissioner.
Commissioner Pearson?
COMMISSIONER PEARSON: Thank you,
Mr. Chairman.
Mr. Thompson, back to double counting, if I could. I'm not sure that I understood completely what you were saying before. Is it your contention that we have a double counting problem in these data as between bulk and finished?
MR. THOMPSON: Well, I wouldn't call it a problem. I think that to the extent that a shipment of bulk product by a company like Tara, by the producer, or a company like Duro goes to a true
converter, that is, somebody who stretches the canvas and places it on the support, the stretcher bar or whatever that may be, and that subsequent converter reports its shipment of the finished product, there is some double counting because that is being captured in the shipments to the converter and then in the shipments by the converter. That artificially inflates the size of the U.S. market, to the extent that the same square meter is being counted twice: once as bulk and once as finished. So that is my point.

I think it makes the U.S. market look a bit bigger than it actually is in terms of consumption.

COMMISSIONER PEARSON: And have you discussed that issue with ITC staff?

MR. THOMPSON: We have not, no.

COMMISSIONER PEARSON: No?

MR. THOMPSON: Well, because it's -- based on the inclusion of converters, I didn't have a problem with the report identifying what the converters ship. In a sense, that's inexorable that you are going to include that. If you consider a converter that is a stretcher, like Masterpiece, for example, to be a producer, you're going to have to capture their shipments, but it's a point that we
would take into account. I don't think that it's an error per se to do that because basically you have two producers of the same product, but what I would ask the commission to keep in mind is in looking at the consumption trends, as well as looking at the overall size of the U.S. market, take into account that the total amount of square meters in the market is a little bit exaggerated.

So it's not something that I think is erroneous in the report, rather, I think it's an element of conditions of competition, if you will, when the commission looks at the import penetration in defining the U.S. market, take into account that penetration is at X percent, but that's X percent of a somewhat inflated total consumption amount.

COMMISSIONER PEARSON: I've had the opportunity since we last spoke about this to get a clarification from staff. I believe that I'm correct in understanding that they don't believe that there is double counting in the data between bulk and finished that's why I'm trying to understand what you're saying and I may not be in a position to fully do that here in the public hearing, but if you do believe that there is a double counting issue, then doesn't that lead one to think that perhaps we should find two
separate like products so that we could deal with them individually and avoid whatever confusion there might be with double counting?

MR. THOMPSON: No, I don't think it necessarily weighs that way because it's not really a like product issue. To me, it's a question of how do you define domestic manufacturing or domestic production. As we've seen in, say, the semi-finished analysis cases, my recollection of those is that you can have a semi-finished product that is within the same like product but is being produced in a sense by two different companies. My understanding of those cases and my recollection may be wrong, so don't hold me to this, but my understanding is that in those circumstances you would also have this phenomenon of the same unit of measure being counted twice, once in production of the semi-finished article and then finally in the production of the finished article.

And the point about double counting, I'd have to talk to staff about this, but I thought it was almost an exorable conclusion of the way in which the data were gathered that certainly when Tara reports its bulk sales it reports bulk shipments and, correct me if I'm wrong, that it would report shipments to a domestic converter who was making stretched canvas
with that bulk canvas and then that domestic converter
would turn around and report in its questionnaire how
much canvas it shipped, so my understanding would be
Tara reported that shipment and the converter reports
that shipment.

I'm certainly not trying to impugn staff's
efforts, that's why I said it's not a complaint, it's
merely an observation.

If I'm wrong, actually, I would be happy to be wrong, but then the concern arises in the situation
where if you were to consider what we think are mere
finishers of the print canvas, there the same issue
would arise where Tara would report its shipment to a
finisher and then if the finisher is considered to be
a domestic producer, in that case, the finisher's
shipments would be included. So the same square meter
gets reported by Tara as a shipment and the finisher
as a shipment, even though it's one square meter.

COMMISSIONER PEARSON: Well, let's set aside the double counting issue for the moment. You would perhaps be willing to discuss this afterwards with staff?

MR. THOMPSON: I would be delighted to.

COMMISSIONER PEARSON: And in the post-hearing explain to me what exactly is going on so
that we are on the same wavelength.

MR. I. BENATOR: Mr. Pearson, we would be happy to provide confidentially the bulk sales to converters and the bulk sales to these finishers.

COMMISSIONER PEARSON: Okay. Let me look now just at the bulk side of the market where our record shows a substantial increase in shipments over the period of investigation.

What's been happening with that increase? Has it all been exported?

MR. I. BENATOR: The sales that we reported were all U.S. sales and, if you pull it out, it is for the digital print canvas. That's what has grown from the bulk side.

COMMISSIONER PEARSON: So you would say that basically the entire increase in bulk --

MR. I. BENATOR: Totally.

COMMISSIONER PEARSON: Pardon?

MR. I. BENATOR: Totally. Yes.

COMMISSIONER PEARSON: The increase in bulk shipments is all going to the digital print canvas?

MR. I. BENATOR: That's correct.

COMMISSIONER PEARSON: Okay. So that's become, then a substantial factor in the marketplace, just during the period of investigation.
MR. I. BENATOR: That's right. There are some U.S. converters that have sold finished stretched canvas, but there's finished canvas products that we provided the bulk canvas for; that business continues to go down. And it's strictly, clearly related to the growth in the digital print canvas bulk side.

COMMISSIONER PEARSON: Okay. And some of the increase in production in bulk in the United States is going to Mexico? That's accounted for in the data in the export shipments?

MR. I. BENATOR: There is some increased bulk volumes that are going to Mexico, but if you took the total bulk that was being made in the United States it's less today than it was in 2002. But we have increased -- because we've moved more of our stretched operations to Mexico, the bulk production that's going to Mexico has increased.

COMMISSIONER PEARSON: Okay.

MR. THOMPSON: I think what Mr. Benator is saying is the bulk that is dedicated to the U.S. market from Tara's perspective, the bulk that either is consumed by Tara or sold to somebody else in the United States, that portion of the production would have declined. What makes up for the difference is that there are increased exports of the bulk canvas to
the Mexican operation.

MR. I. BENATOR: That is correct.

MR. PAGES: Well, maybe this brings me back close to my first point. On the basis of this record --

Mr. Chairman, the light is changing.

I think I'll pass for now.

CHAIRMAN KOPLAN: Okay.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

I wanted to just follow up and clarify a few things.

Mr. Thompson, in making the argument that the companies who put the finish on the digital print canvas are not domestic producers, you seem to be basing that on the argument that all they do is put a coating on. My understanding was that a number of them also proceed to finish the product in some way for retail: cut it or package it or do some other things to it which would be the same things that other converters might do. Is that correct or am I misunderstanding the nature of their operation?

Do they just coat it and send it out the door in the same roll that it came in on?
MR. I. BENATOR: Some of them just take our product, convert it into smaller rolls, into cut sheets, and sell it that way for certain types of digital reproduction. Others will take it, put this semi-finishing or this finished inkjet coating on it and then sell it smaller rolls, sell it in bulk rolls to publishers or printers, sell it in cut sheets, however that market, however that end user wants to prepare a finished artwork.

COMMISSIONER ARANOFF: So in your post-hearing brief, Mr. Thompson, I know we've all gone over this issue and I don't know if anyone has specifically asked you to please go through the factors that we use to assess whether somebody engages in sufficient production-related activities, but when you do so, and please do that, can you compare on each of the factors these converters who are making the digital print canvas to the converters who are stretching and who you argue are engaged in sufficient activity to be part of the industry, just so that we can understand is there less value added, is there less investment, are there fewer employees, each of the factors so we can see the distinction that you're trying to point out to us.

MR. THOMPSON: We certainly will. Yes.
COMMISSIONER ARANOFF: Thank you.

One other follow-up, I'm a little surprised, based on all of the Tara witnesses' testimony this morning, that the digital product now is made in China, is making some inroads in the market and yet the Respondents argue on pages 21 and 22 of their brief, and some of this is bracketed, that there's been a certain lack of interest amongst the companies that are coating the digital product in this petition, that they maybe don't think they face any competition from China or just don't seem to be that interested in participating in the case and I guess I'm asking can you come up with any explanation for that?

MR. STRAQUADINE: Paul Straquadine. I would venture a guess on that. In the false sense of security of having a sales market where you're experiencing 25, 30, 40 percent growth each year, and if that is what you're seeing and you've not been affected by product being dumped into your market and it's been very similar to our reaction when Chinese stretched artists' canvas first hit the U.S., our reaction was, oh, it's not very good, the supply is unstable, so maybe -- I would say there's a high likelihood that people in the digital market have a false sense of security right now, that they don't see
it as an imminent threat, that having been affected by
it we do see. It is coming in, it is happening.

MR. I. BENATOR: Michael Benator. I'd like
to add, too, that a lot of these companies are very
large coaters and canvas is a very small percentage of
their business. Their main products are papers and
photographic product and so the canvas side, they just
consider it just to be a trivial matter that's not
important at this time.

COMMISSIONER ARANOFF: Okay. Thanks.

That's very helpful.

MR. THOMPSON: Just to follow up on
Mr. Straquadine's comments, if I may?

Apparently, the imports that have occurred
are within the past year and appear to be -- they're
just at the incipient stage, so they may not have
generated the awareness among the rest of the -- well,
I'm not going to call it industry, because that kind
of assumes a conclusion, but among the rest of the
marketers of print canvas that has U.S. origin,
artists' canvas, as its basis. So it may just be that
Tara is a bit more farsighted than others who are in
that market.

COMMISSIONER ARANOFF: Okay. I appreciate
that. That's helpful.
Just a few things to make sure that you've had the opportunity to respond to them.

On page 2-3 of the public version of the pre-hearing staff report, it indicates that producers in China have little unused capacity, limited inventories on hand and suggests that producers in China are likely to respond to changes in U.S. demand with only very small changes in the volume of shipments to the U.S. Do you agree with that characterization?

MR. THOMPSON: No, we don't because the questionnaire coverage from China is fairly sparse, so we do not have -- the first problem is we do not have a complete picture of what the Chinese capacity is. It's a self-selected group. I think it's limited to -- well, several companies, I don't know what's BPI and what's not. And then the second is without questioning necessarily the accuracy of the information, projections are just that in terms of where a product is going to be sold, so there may be some self-serving attributes to the expectations in the shipments to the U.S. in the future.

COMMISSIONER ARANOFF: Okay. Thanks.

The Respondents in their brief mentioned that there is this textile agreement in effect with
China and that there is a quota that includes this product within its considerably broader scope.

Is that going to impede the current levels of imports or growth in imports of the artists' canvas product in any way?

MR. THOMPSON: If I may, I think it falls to the level of a frivolous argument. First, it's based upon a characterization by the importers as to what the subcategory 229 allocation for artists' canvas will be and it may be the case, and we don't have any backup from the Chinese government or anything official on that, so that's their say so and that's a fairly self-serving number; look at how import volumes are going to decline under this.

What they don't tell you about the quota program is that the allocation to the producers is only the starting point, that there's a substantial after market and auction market in China in which exporters can buy quota and apply it to any product in category 229. So what they've given you is, first of all, unfounded based only upon what some unnamed importers have heard and, second of all, does not accurately at all describe the quota program.

We will be happy to address the legalities of that program in the post-hearing, but I don't find
that to be a point of concern, let me put it that way.

COMMISSIONER ARANOFF: Okay. In your post-hearing, when you look at this, if you could just sort of lay out the argument of why you don't see this as presenting any real limitation on the volume of subject imports, that's what I'm trying to get at.

MR. THOMPSON: Will do.

COMMISSIONER ARANOFF: Thank you.

One final question. There was brief mention earlier today about non-subject imports, particularly mentioned were India and Vietnam. We don't have a lot of information in our staff report right now or on the record as far as I know about non-subject imports and the role that they play in the market.

Is there anything that you want to add or now or that you could add in your brief in terms of pricing, quality, product range, how long these other products have been in the market?

MR. THOMPSON: We'd be happy to. We'll have to gather that information. Of course, Tara does keep track of the import competition from India and we'll be able to comment on all of those factors you mentioned.

COMMISSIONER ARANOFF: Okay. Thank you very much.

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I want to thank the panel for all your help this morning.

I have no further questions, Mr. Chairman.

COMMISSIONER ARANOFF: Thank you, Commissioner.

CHAIRMAN KOPLAN: I do have one that I'd just like to add and that is I know you've submitted some data to us with regard to the difference in hourly wages, I think, between your production in Mexico and your production in the U.S.

Mr. Freeman, I think you had indicated in an earlier round that if this determination goes affirmative that some production would probably return to the United States from Mexico. Was that you that said that?

MR. FREEMAN: Yes, it was.

CHAIRMAN KOPLAN: Okay. Let me ask this question. Could you all provide me with relevant data that reflects the difference in labor costs on a per unit basis for stretched canvas in Mexico in square meters as compared to your U.S. production? Can I get that?

MR. FREEMAN: Yes. Yes, we can do that.

CHAIRMAN KOPLAN: I appreciate that very much and I'll get that from you, I guess, for the
post-hearing. Thank you.

   With that, I have no further questions. I, too, thank you for your testimony and I'll turn to Vice Chairman Okun.

   VICE CHAIRMAN OKUN: Thank you.

   I think the odds and ends I had have now been covered.

   I did want to say, Mr. Cicherski, that I appreciate you being here. I think it's important to have the perspective of purchasers here and I thought your testimony was very clear on the points that you wanted to make, so I don't have any additional questions for you, but I did want to make sure you understood that it is important to be here with the information you've provided and we appreciate that.

   With that, I have no other questions, but I want to join my colleagues in thanking all of you for the information you've provided this morning and now this afternoon.

   CHAIRMAN KOPLAN: Thank you.

   Commissioner Lane?

   COMMISSIONER LANE: I have nothing further.

   CHAIRMAN KOPLAN: Thank you.

   Commissioner Pearson?
COMMISSIONER PEARSON: Back to me so quickly?

CHAIRMAN KOPLAN: So quickly, yes.

COMMISSIONER PEARSON: Earlier, the pricing products were discussed and it was indicated that for products 1 and 2 there have been price declines and for 3 and 4 there have been increases.

As I understand the pricing products, 1 and 2 are side stapled products. Should we see the side stapled products as behaving differently in the market than has been the case for the back stapled or splined?

Those of you involved in the marketplace, are you seeing more price pressure on the side?

MR. STRAQUADINE: Yes. Yes, we are. And quite often, the side stapled are the private labels that are available out there. In reference to your prior question about are the volumes of canvas going to be changing, I would liken it to a flyer you may receive in the mail that a particular hamburger establishment is selling quarter pounders for three for a dollar. It would be very likely that they're going to have a large increase in sales versus a $2 quarter pounder, that people will go out and be motivated to buy those and so there will be a spike.
When the sale goes off or when a duty may be imposed, then the quantity will be reduced slightly, but the number of people who have tasted that quarter pounder and the increased long term sales will have already been in place.

COMMISSIONER PEARSON: There was mention earlier of the effect in the marketplace following the imposition of the preliminary duties. Could you say a little bit more about that?

What do you see happening in the market now? Is there some slow down of imports from China?

MR. STRAQUADINE: Immediately preceding the November ruling, the numbers shot very, very high, everyone trying to beat -- not circumvent, but just get in before the duty was imposed, and then quantities diminished drastically in December and January and with this final hearing approaching, this month, it has again shot up with the amount of import from China. Even in the face of a 55, a 74 and a 264 percent duty, there were still a great number of containers that arrived just this month.

COMMISSIONER PEARSON: Okay. So the market may be able to absorb margins that are relatively large, is what you're saying?

MR. STRAQUADINE: Yes. People who
previously had been making very large margins were
willing to sit it out and wait to find out what was
going to take place today and next month in order to
not change their supply and also to inflict possible
pain or damages on the U.S. market for even imposing
this.

COMMISSIONER PEARSON: Okay. Well, we spoke
earlier about the divergent trends for the shipments
of bulk canvas versus finished canvas. It's fair to
say without going into any detail that the bulk
shipments have risen over the period of review quite a
bit more than the finished shipments have declined,
and thus we would have a net increase overall in
shipments of the like product. I think we could say
it's relatively robust growth in shipments of the like
product.

You've testified to underselling and
certainly that's also shown in our record, but I'm
just trying to make sense of this record as a whole
that we have in front of us because we've got growth
in shipments, we've got some underselling, but yet we
have price increases for several of our pricing
products. We have a large increase in apparent
consumption. We have declining cost of goods sold on
a per square meter basis and we've got an industry
that fortunately still is making money.

So I look at all this and I'm having a hard time reconciling what I might describe as a picture of gloom and doom that you painted so effectively on the canvas that we offered you here in your direct testimony and I'm seeing less doom and gloom in the record.

Am I missing something?

MR. I. BENATOR: Yes, I would strongly disagree with that. The first question, you're saying that the growth of the bulk shipments have increased more than the decline in the assembled and from our records that's far from the truth. If you take the bulk increase, it's still much less than the assembled and I would question some of the bulk numbers as far as whether they're accurate from both a dollars and from a square meter standpoint.

As far as the profitability, we can only speak for Tara Materials and that we would have had another loss in 2005 were it not for the digital print canvas increase. Our margins have clearly dropped significantly because of the imports of U.S.-Chinese products and that it does not bode well for the profitability of the artists' canvas market for Tara Materials for the future.
COMMISSIONER PEARSON: Right, but let me clarify. As you're presenting this petition, the digital print product is part of the like product, isn't it?

MR. I. BENATOR: That is correct.

COMMISSIONER PEARSON: Okay. So you're saying you would have had a loss except for what you made in one portion of the like product. I don't know that we can be quite so artful as to divide it up that way, unless, of course, you want to separate like products and then we can talk about that.

MR. I. BENATOR: We're just trying to be proactive and seeing that in the next 18 to 36 months that those like products will definitely be injured.

MR. THOMPSON: Commissioner Pearson?

COMMISSIONER PEARSON: Please, Mr. Thompson.

Yes?

MR. THOMPSON: A couple of comments on that. Keep in mind Tara hasn't seen the industry wide data.

COMMISSIONER PEARSON: No, I understand.

MR. THOMPSON: So they're describing their own experience.

COMMISSIONER PEARSON: Yes.

MR. THOMPSON: But the increase from their
perspective in bulk products is attributable to the lower margin and lower value print canvas. While there has been an increase in shipments because the alternative for them was just to shutter their production facility, fortunately, they found a market segment where they have thus far not been exposed to the Chinese competition to any great extent, but that's a lower value product and that helps explain the decline in the net sales value to square meter and the cost of goods sold. The traditional stretched canvas has higher costs, but also until the advent of the Chinese imports had a higher margin than the print canvas, so what Tara has done is seen its finished canvas decline in shipments, it's seen a decline in profitability, if you will, and has tried to make up in part for that problem by shipping print canvas.

So the shipment numbers are a little bit misleading in that sense in that they mask a change to a lower value product by Tara, which is trying to keep its production facilities doing something, because if they stuck with the traditional artists' canvas, the finished canvas, they'd be done. So you can see that effect.

I would take issue with the idea that a company or an industry that is still profitable is not
thereby being injured. Rather, the trend is toward a profitable but much less so industry overall and in terms of the underselling, yes, we have seen some prices increase, but think about what the consequence of that is for a company like Tara. They have the choice of either cutting their price and covering less of their costs or selling at a loss, perhaps, or increasing their price and losing volume and in the price comparisons that the commission has seen, it reveals situations where Tara made both choices. In some, they cut their prices and tried to maintain volume, although I don't think that it worked, based on my recollection of the numbers. In others, they increased their prices, but lost share.

I think looking at the fact that their prices have increased per se is not going to give an ineluctable answer that, oh, they're not being harmed by the imports.

COMMISSIONER PEARSON: Well, let me clarify that I have great respect for the people managing these companies because obviously it's a very dynamic marketplace out there over the period of investigation and staying one step ahead is no doubt taking a lot of effort and creativity. I've been involved in business both when businesses are making good money and when
they are not and, believe me, the former is better.

I just wanted to say, Mr. Thompson, your point is well taken about the decrease in unit value of cost of goods sold being related to change in product mix. That had not occurred to me as I looked at the numbers, but it's a perfect explanation.

The other thing I would say, though, if I might have a minute, Mr. Chairman?

You made a big point about the bulk product being of lower value. From the record, it looks to me that, yes, it may well be lower value, but it also may be more profitable and so having an increase in the production and consumption of a lower value but more profitable product is not exactly a bad thing for the industry, based on what I can see in the record.

MR. THOMPSON: Well, today, it may be more profitable, but at the time the Chinese imports began their gathering mass in 2003, finished canvas was more profitable.

COMMISSIONER PEARSON: Right. But you've not really made a threat case here today that we should be looking at this as a threat case on bulk for what the Chinese might do in the future.

MR. THOMPSON: No, we haven't made the argument on bulk alone as a threat case based on that.
We believe that all Chinese canvas which is within the scope, if the commission does not find current material injury, that it should find that the entire industry is threatened with material injury. We have not done a market segment analysis of the industry or of the class or kind of imported merchandise, but part of the consequences, when you talk about what are the adverse consequences of the imports, you have the volume which has largely replaced domestic finished canvas. And, again, I'm not suggesting market segmentation analysis, but we have a move from a higher profit product to a bulk product that has much lower margins and that has had lower value.

COMMISSIONER PEARSON: But it's not clear to me at the moment that it has lower margins.

MR. THOMPSON: But the imports have caused that shift because Tara has essentially had to retreat from its once preeminent position in the finished canvas industry and find something to do with its productive capacity. Fortunately, there's the print canvas, but if you looked at the situation in 2002 and before the imports entered in a big way, when they were merely a blip or a trickle, you would find that Tara's profitability was higher because it was selling a more profitable product, the finished artists'
canvas, at a higher price. That's where the price
effects have come. It's prevented Tara from
increasing its prices to cover the costs or it's
forced Tara to actually cut prices and that has had a
direct impact on the bottom line of the company and
the industry.

COMMISSIONER PEARSON: I don't think I'd
better impinge on my colleagues' time here any longer
or on anybody's lunch time, but let me just say in the
post-hearing, do what you can to help me understand
why the picture that you presented in the direct
testimony is more accurate than what I think we're
seeing in the record, which frankly is somewhat more
complicated than you might have indicated initially.

Mr. Chairman, I'd better stop. Thank you.

I have no further questions.

CHAIRMAN KOPLAN: I think you used your
minute.

Let me see if there are any other questions
from the dias?

(No response.)

CHAIRMAN KOPLAN: Seeing that there are
none, Ms. Mazur, does staff have questions of this
panel before I release them?

MS. MAZUR: Mr. Chairman, staff has no
questions.

CHAIRMAN KOPLAN: Thank you.

Mr. Gallas, do you have questions of this panel before we release them?

MR. GALES: No, I don't.

CHAIRMAN KOPLAN: All right. Let me remind you all that the room is not secure, so any business proprietary information that you all have with you you should take during the lunch break.

We'll come back and resume again at a quarter to two.

(Whereupon, at 12:52 p.m., the hearing in the above-entitled matter was recessed, to reconvene at 1:47 p.m., this same day, Tuesday, March 28, 2006.)
AFTERNOON SESSION

(1:47 p.m.)

CHAIRMAN KOPLAN: Mr. Secretary, are we ready to begin?

MR. BISHOP: Yes, Mr. Chairman.

Those in opposition to the imposition of antidumping duties have been seated. All witnesses have been sworn.

CHAIRMAN KOPLAN: You may proceed.

MR. GALES: Thank you, Chairman Koplan.

As our panel's first witness, I would like to introduce Mr. Frank Stapleton, President of MacPhersons.

CHAIRMAN KOPLAN: Good afternoon.

MR. STAPLETON: Good afternoon. My name is Frank Stapleton and I have worked in the art supply business for 34 years.

The company I head, MacPhersons, began in the 1930s as a small regional wholesaler in northern California and we've gradually grown to become the only nationwide wholesale distributor of name brand art materials.

We are a distributor that sells only to retail stores, including thousands of mom and pops for whom we are the prime supplier.
Contrary to what was stated by Tara, the distributor sector that we represent is growing. What I hope to do here is to explain my view of the nature of the U.S. market, the context behind our company's decision to import artists' canvas from China and the events that led to Tara's termination MacPhersons as a distributor of Tara's canvas.

First, the product. My direct experience with artists' canvas is largely restricted to stretched canvas, with only a small volume of canvas panels. We do not import from China either bulk canvas or digital print canvas. However, we do represent U.S. vendors of digital print canvas and expect this to be a growing part of our customer sales. In fact, this is the fastest growing part of this business.

Stretched canvas is a unique product category in the art and craft business. In the early days of my career, canvas was considered just one of many categories within the typical art supply store, one of the tools of the trade for professional artists and serious art students.

Up until this time, on the production side, the big dog in stretched canvas manufacturing was Tara Materials and its Fredrix brand. The Benator family
took control of Tara in the mid 1980s, with a focus on sales volume, production efficiencies and profitability which allowed them to take market share.

Traditionally, most art supply stores displayed canvas in custom built, cubby hole styled cabinets much like library books designed to contain the products in the smallest possible space. I'd like to call your attention to Exhibit 1. You've got this one in your packet.

This photograph reflects the fact that formerly store display was directed to customers such as professionals and serious art students who generally knew what they wanted. There was little attempt to market canvas to the casual users or hobbyists or for non-traditional uses.

There was very little product or merchandising innovation in canvas sales until the early 1990s, when a California-based home decor retail chain, Standard Brands Paint, created an art supply specialty division called The Art Store where the two managers decided to try something revolutionary.

They displayed canvas on shelves with the surface side facing out, shown in the second illustration.

Applying successful retailing principles,
The Art Store began to sell a range of canvas products and quality offerings, meeting not only the needs of professional artists, but also the needs of hobbyists. For some reason, creative people are inspired when they see rows of white surfaces.

The concept turned into a full blown program with stunning results. Canvas sales rarely exceed 5 percent of a store's art supply sales. The magic that these guys created resulted in their canvas sales topping 15 percent of the entire store sales, while generating additional sales of materials and implements needed to cover the canvas.

I should add that The Art Store's program was designed with American sourcing in mind and always operated without imports.

Through the innovative marketing of painting surfaces, a new generation of canvas consumers was created who began demanding a broader array of canvas styles, qualities and price points. Each of the products that are displayed against the wall here -- and I'd welcome questions later on -- show unique qualities that appeal to different type selecting official customers.

Suddenly, consumers had access to such painting surfaces as air brush, portrait, archival,
museum, home decor and more. Manufacturers on the look out for new product lines suddenly had many more selling options.

The result of all of this activity was an explosion in the sales of all painting surfaces. Tara has explained this phenomenon as a fad. MacPhersons saw this as a major trend in the canvas market. As a distributor, our company mission is to focus on helping our retailers achieve success. In short, growing our customers' business is our top priority.

This background is important in understanding the MacPhersons' strategy to position itself in the U.S. canvas market and its relationship with Tara. For over 25 years, we were a loyal customer of Tara. We paid our bills on time, we constantly promoted their products, we jumped on new items, and we gave them large orders.

Our decision to import canvas from China was never meant to displace Tara or our other domestic supplier, Masterpiece. The Art Store's experience demonstrated to me that there was a potential to turn around years of sales declines in the art materials sales. Not just ours, but in the retail stores.

Building up on the merchandising concept of The Art Stores, by 2000, we at MacPhersons discovered
that Chinese canvas could meet the needs of this
growing market with respect to the inherent value
afforded us by the price value balance that appeals to
new customers that was fueling this growing trend.

Artists' canvas today is not just used as a
printable surface, but is also used as a medium for
home decor, which is the fastest growing market for
artists' canvas.

This price quality differential is
illustrated in Tara's independent evaluation of the
marketplace completed in July 2001 which states
clearly that in all respects Tara canvas is superior
to canvas imported from China. I believe the study
was submitted on the record and in our brief.

MacPhersons' designed a plan to highlight and build on
the power of a complete and varied selection of canvas
painting products as a complement to Chinese source
canvas we felt that much of the high end and specialty
ranges should still be provided by U.S. suppliers.

From the outset, we were very open about our
plans for this program with our two domestic
suppliers, Tara and Masterpiece. We saw our new
product offering as a fresh way for our retail
customers to grow their business while at the same
time promoting the value and quality of U.S. made
brands.

We continually coached our sales force in the nuances of this vision and never would we encourage customers to reduce, eliminate or replace Tara or Masterpiece with MacPhersons' art alternatives brand of China canvas, nor would we allow our sales force to do so.

Our view, expressed continually to our customers, was the more styles, varieties, shapes and brands that you display the more you will sell.

Our customers bought into the concept big time. As proof, we often sold Tara, Masterpiece and art alternatives all on the shipment.

I had made a concerted effort to partner with Tara to increase our retail customer sales volume of artists' canvas. In 1990, at the hobby industry convention, I approached the senior management team at Tara to share the story of The Art Store's canvas program and to try to develop ways that MacPhersons and Tara could together develop a program from which our customers could benefit.

Potentially, the payoff for Tara was about a five-fold increase in sales from the industry average of about 3 percent of a store's sales in canvas to The Art Store's percent of the store in canvas.
However, we were unsuccessful in persuading Tara management that this new marketing approach presented a dramatic opportunity. This was because their approach up until then largely was we are the foremost name brand of canvas and people buy our product period.

Nevertheless, when we began selling our own line in 2001 we continued to support Tara. Astonishingly, and despite repeated supportive letters to MacPhersons, Tara lashed out and at the end of 2003 fired us on only 24 hours notice after years of loyal service, all of this in an overnight letter on December 29th.

Tara claims that the termination was the result of declining sales. However, the largest part of the decrease was due to Tara's increased direct sales to customers who had previously bought Tara products through MacPhersons.

We still wonder how dropping us could improve Tara's standing with its customers. We are serving a segment of the market that Tara concedes they did not serve.

In the first half of 2004, our sales on imported canvas decreased dramatically after Tara dropped us, primarily because importing was the only
viable way for us to make up the revenue triggered by Tara's dismissal.

When Tara fired us in 2003, our canvas purchases from them were nearly a million and a half dollars. Many of our loyal customers, some of whom were buying Tara's canvas from us and others who were buying direct from Tara, were so outraged by Tara's action that they were willing to examine any option to replace or diminish Tara's place in their stores.

In hindsight, Tara's strategy appears clear. It is my belief that virtually all the stretched canvas product that Tara shipped to our Reno, Nevada warehouse was made in Mexico. Interestingly, while Tara has complained about the devastating impact of low priced canvas from China over the last three years it has increased its own prices like clockwork every January 1st from 2002 to 2005, doing this at a time when presumably its costs were declining as a result of losing increased volumes of canvas production to Mexico.

There's a price list, a 2005 price list, in the packet that you could take a look at. I'd like to call your attention specifically to their device for indicating to a customer if a price has increased.

I think you'll see in the list there's a little up...
arrow for every item that's increased. I defy you to find an item that doesn't have an up arrow in their price list. And the top selling item that they've described as seven ounce canvas on the first page, Fredrix Red Label Canvas, is made with seven ounce canvas, the best seller, and it's showing an increase.

   After Tara dropped us, we increased our selection of purchases from U.S. producer Masterpiece Artists' Canvas. One of the few remaining regional producers of canvas, Masterpiece is located in San Francisco in perhaps the most expensive labor and commercial real estate market in the U.S.

   The fact that we replaced Tara's significant role in canvas marketing with similarly high priced products from U.S. producer Masterpiece underscores an important characteristic of the U.S. artists' canvas market. Customers seek the broadest possible assortment of products and price points.

   As I discussed previously, hobby quality products at the appropriate price point are just as important as premium quality and specialty products.

   Just to give you an idea of the market perception of Tara, since the filing of this case, Tara's image has gone from one of being thought of by retailers as a quiet pillar of the retail art market.
to something quite different. Actually, retailers
gave little thought to Tara and their Fredrix line,
assuming that their quality was high and that their
marketing and branding was adequate.

The high profile antidumping action has
caused many retailers to take a closer look at the
inconsistencies in Tara's quality and the shortcomings
of its marketing and customer support.

Given Tara's shift to Mexico, I've even
heard some retailers remark that Tara's marketing
theme of Buy American is hypocritical.

How dangerous and threatening was
MacPhersons' decision to offer a promotional canvas
line?

I refer to our exhibit in the handout that
shows the front cover of a guide that we print that's
called The Pocket PRicer and it was dated the year
2001, when we first introduced the promotional canvas
line from China. You will notice that I've
highlighted the items that we brought in and actually
those items remained static. We did not increase
selection of these products until after we were fired.

If you count those up, there's 23 of those.

Then on the next two pages, you'll see from the same
book our selection of Tara products and items
highlighted in pink are those items that we stocked and carried from Tara at that same moment. There are 230 of those items.

So 230 versus 23, that's 10 times more Tara product that we were offering at that time and offered continuously up to the moment that we were fired.

It's hard for me to understand how this could be construed as targeting Tara.

For us, price was and is important because it has allowed us to offer additional enhancements to product promotions and presentations as well as price to our retailers. It's all about value.

Let me make one additional observation about the retail art supply world. Even the smallest stores carry thousands of different products made by hundreds of manufacturers. Each of these suppliers has minimums for both individual products and for the total order. Ordering directly from suppliers like Tara generally offers a store better pricing, but yet requires significantly more storage space and inventory management.

This is because Tara has a relatively narrow range of art supply products. Since distributors like MacPhersons offer a full basket of art supplies from a nearby warehouse, our customers can purchase fewer
canvases more frequently and still receive free freight. This is a cost savings to them that is not related to the differences in prices of the canvas, but in the product range offered. This factor is particularly important for smaller retailers due to the high cost of shipping.

The combination of Tara's inflexible policies and cutting us off has isolated them from an important customer base. This is in contrast to MacPhersons' quick response just in time system that keeps the small, independently owned store customers satisfied with better in stocks, while strengthening their critical cash flows.

I'd like to read an excerpt from a letter addressed to Michael Benator, copied to me, in January of 2004 that illustrates this point. The writer is a retailer in Kansas City. It reads:

"I was told that your objection with MacPhersons has been that you feel that they are essentially competition to you by selling their less expansive canvas. I do carry their cheaper canvas next to your canvas, but it hasn't seemed to interfere with sales of Fredrix's canvas. The students and professional artists who want to work on inferior canvas choose the MacPhersons' brand of canvas rather
than going to my competition to buy it and those who recognize quality purchase your products from us. If anything, our Fredrix canvas sales have increased with the infusion of MacPhersons' brand because people actually buy both. Do I really want to pay huge freight bills from Fredrix relating to my canvas consumption? Or is it time to start looking for a different brand of canvas to replace my Fredrix brand? I'm honestly perplexed. With that in mind, I ask respectfully that you reconsider your decision concerning MacPhersons as a distributor of your products. Sincerely, Penny A. Cullers, Kansas State Student Union Bookstore."

Finally, we are finding that there is not enough textile visa available, which was discussed before and I hope you'll ask about that because we have direct experience on this, from our primary supplier, the largest in China, to cover even 11 percent of the demand of its U.S. customers. This effectively rules China out as a canvas source all together. The only product that we will consider ordering from China in the future is canvas board and Tara has proven beyond any doubt that they can produce these items cheaper than anyone in the world.
There is no need for a dumping case when the textile quotas effectively embargo artists' canvas.

Thank you.

MR. MAREK: Good afternoon, Chairman Koplan and members of the commission. My name is Alan Marek and I am the Director of Importing for Michael's, which includes artists' canvas as well as other arts and crafts materials.

Michael's is a unique arts and crafts retailer serving over 800 communities throughout the United States and employing in excess of 38,000 Americans.

As a retailer for arts and crafts and the hobbyists to professional artists, our line of products includes a wide range of artists' canvas.

It is my understanding that we are the single largest purchaser of artists' canvas from Tara and this continues to be the case even after our purchases of canvas from China.

During the preliminary conference, I appeared before the staff and testified concerning three issues which I will now review for the commission while providing updated information.

First, my role in procuring artists' canvas from China and the reasons for buying.
Second, our artists' canvas made in China fits into our retail sales strategy in relation to our purchases and sales of Tara made canvas.

Third, the role of price in the market both for our purchases and sales at retail.

My chief responsibility for Michael's remains to identify production capability for arts and crafts materials that are consistent with our retail philosophy. This involves attending trade fairs to first identify such product and manufacturers.

When I identify a potential product for Michael's, I then visit the factory. We are a large enough buyer to allow us to buy directly from the manufacturer and this gives us more control over the quality of the product and packaging.

My first encounter with Chinese canvas was at the Canton fair in late 2002. I saw canvas from at least five suppliers. Several of these suppliers were showing Phoenix produced canvas in their booth, so Phoenix appeared to be a major and reputable manufacturer.

I then arranged a visit to their factory in China because I needed to ensure that our source of supply has the capability to meet Michael's requirements regarding quality and volume.
Buying direct from the factory gives us more control over the product itself. We can provide our specifications to the manufacturer, changes to the product can be made if necessary, and then we drive the packaging aesthetics and marketing.

How the product is presented on the shelves to our customers has a direct impact on retail sales so control at the manufacturing stage is important to us.

Ultimately, we contract direct production that provides us with more flexibility and control than we otherwise would have were we to purchase exclusively from Tara. This allows us to offer a differentiated product to our customers.

I believe Paul Straquadine opined that Chinese makers simply copied Tara's product. This simply is not true. We beefed up the stretcher bars on the product, triple gessoed or coated the product, and designed our own selling label.

Once we were satisfied that Phoenix could meet our requirements, we decided to import from China. Our chases from China were for three SKUs, two different 16 by 20 and an 18 by 24 side stapled canvas.

We still carry approximately 15 times the...
number of Tara stretched canvas SKUs versus stretched canvas SKUs imported from China.

These canvases have been very successful with our Michael's shoppers who seek quality products at attractive prices. As demand for canvas has grown significantly, so, too, has demand grown for related art products.

If Tara claims price is the only factor driving a purchase decision, Michael's would sell only the lowest priced canvas available to us, whatever the source, yet this is not the case.

Michael's continues to sell Tara's Red Label and Creative Edge Canvas side by side with our canvas imports from China. Some customers buy only Tara canvas, some buy only our imports, and some customers buy both.

Michael's has experienced significant sales growth by offering and promoting our imported Chinese canvas at attractive price points, appealing to its growing diverse canvas customer base of hobbyists, do-it-yourself home decorators, and school projects. Thus, most of of the increase of our sales are -- that might otherwise have been made at higher price points.

In other words, much of our import volume did not displace Tara's Red Label or create alleged
sales but, in fact, were additional sales for a widening customer base for artists' canvas. We think it is important to understand that while Tara may claim that their business with Michaels has decreased during 2004, Michaels implemented an automatic replenishment inventory management system which reduced purchases and inventories. Nevertheless, it is my understanding that Michaels will continue to be a major purchaser of domestic canvas even as we continue importation of artists' canvas from China.

Indeed, Tara continues to be our major source of supply for canvas. Considering together the Tara and Chinese canvas offerings on our shelves, Michaels sold a sizably increased volume of total artists' canvas units by percentage in 2005 and will do so in 2006, based on our preliminary projections. These projections are tempered only by the recently imposed technical safeguard quotas on canvas, which causes great concern. These finite limits will cover only a fraction of what we sold last year.

At this rate, the quota constraints on canvas imports have effectively created a barrier to our future ability to obtain sufficient supply from our Chinese sources; and, in effect, have rendered moot the impact of any dumping case. To our mind, the
quotas already have provided an unwelcome embargo that
could threaten our ability to meet the growing needs
of our Michaels' customer base. In fact, we have been
told by our Chinese supplier that all their quota
allocation has been used up with only a small
distribution remaining.

Thank you.

MR. KANTER: Good afternoon, Chairman Koplan
and Members of the Committee. My name is Harvey
Kanter and I am President of Aaron Brothers, a
subsidiary of Michaels stores. Aaron Brothers is a
specialty frame and art store with locations in eleven
states, including Maryland and Virginia.

Our major market is in California and the
West Coast. Aaron Brothers now, almost exclusively,
sells canvas under its own private label. As we
develop our retail concept into a consumer-lifestyle
brand, rather than a reseller of a manufacturer's
label, our art supply assortments are dedicated
exclusively to the hobbyist and enthusiast artist,
including the student, not the professional artist;
and, as such, our canvas product variety is broad and
consists primarily of good and better, not best, art
supplies.

In 2003, as we sensed the growing demand for
different styles and shapes of canvas, we wanted to implement a new strategy to help us make the most of the opportunity at hand. We also believe that developing the Aaron Brothers brand would substantiate our lifestyle positioning in the marketplace and specifically in support of the product opportunity. We looked to Tara to help us meet this private-label process through Aaron Brothers' strategy on three specific levels, none of which were addressed to our satisfaction.

First, we wanted to provide an expanded and innovative array of products to a new breed of customers, including home decor enthusiasts, soccer moms, young students and amateur artists. These are customers who are inspired to use the expanded offering of canvasses for personal creativity to decorate their homes, do projects, scrapbooking and the like.

The array of specific products offered, first in the marketplace by us in a dominant way, was significant. They were offered under our own label, which we believed would help drive the Aaron Brothers' brand and continue to drive our positioning in the marketplace. Aaron Brothers' brand growth continues to be spurred on by the interest in the home decor
sector supported by canvasses broader array and appeal
of offering.

Second, we needed to insure that, by
introducing these products, we would not sacrifice
quality. And, third, the products to be presented
would require a broader array, attractive enough to
drive trial by new customers, and realizing a broader
offer was required for the consumer to try canvas
rather than using poster board, paper, or other less
sophisticated media for their art projects.

Again, to develop the Aaron Brothers' brand,
we believed we would need new customers to try us and
to compel new customers to try this avenue for self-
expression in home decor; and this, again, would drive
our unique positioning in the marketplace as well as
growing the canvas category in total. On all these
fronts, our efforts with Tara fell through. Tara
simply refused to recognize the evolving marketplace
and consumer needs, and the inherent sales-volume
growth, and was unable to meet the consumers' needs
for new products across an array of price points.

To be blunt, it would be fair to say that
they did not support Aaron Brothers' merchandising
strategy as defined as a private label brand of
strategy supported by product, price, promotion and
presentation strategies which was needed to address
the changing and evolving consumer. Also, Tara's lack
of consistent quality became an increasing concern for
us as we sought to move our quality and offerings to
drive our position in the marketplace.

As in most any business, it is crucial that
the quality level meet the level for a particular
product. In other words, customers don't want to pay
Mercedes prices for Volkswagen quality, particularly
if that quality is not dependable. While purchasing
canvas from Tara around this time, we began noticing
incidents related to unsatisfactory quality.
Customers complained to us about Tara-produced
canvases purchased in our stores. We witnessed
specific instances of warped canvases, twisted and
bent stretcher bars and experienced problems with
mislabeled canvases, reflecting the wrong size or an
incorrect brand.

The source of our frustration with Tara's
quality during the last years that we did business
with them, specifically 2002 through 2004, may be the
fact that Tara began supplying our spined canvas from
our facility in New Mexico as opposed to either of the
two-sided, or stabled-back-t-canvas. It appears that
by moving their spine production to Mexico, Tara

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 gambled on quality, and, as Mr. Friedman testified earlier today, there was a learning curve to be experienced in the move to Mexico.

Such a learning curve is attributable to a move and is not uncommon. Yet, it is unlikely, if it is sustained, that it will help a business such as ours continue to grow. Still, wanting to implement our strategy, we have been unable to rely on Tara to join us in this opportunity. Due to the concerns that I mentioned, we had to find an alternative means to get spined canvas into our stores.

Since spined canvas was now only offered by Tara from its Mexico facility, our alternative options were limited. There was no U. S. production of spined canvas in 2003 and we decided to give China a look. We discovered that the Chinese supplier, specifically the one that Alan mentioned, was willing and able to meet our first two requirements: diverse product lines, the right-price value equation. And the key question was: whether they were able to meet our quality requirements. This was a comprehensive and affirmative: Yes.

Since then, we moved the majority of our canvas program to our Chinese supplier. Quality has been consistently good. In fact, we rely on an
internationally recognized testing lab to test the quality of our Chinese canvas regularly and it meets all of our specifications. In addition, the fill rate has almost been perfect.

    It is interesting to note that since the time that we sourced originally from Tara, through the time now sourcing overseas, that we have actually not changed our promotional plan. Aaron Brothers has neither increased or decreased its promotion, and, typically, we only promote twice year, in ten weeks out of 52, or 42 weeks at regular price. This has actually been a promotion-in-place for over 30 years: It is our annual one-cent frame sale.

    The point on fill rate requires one further comment. Unfortunately, we have been unable to meet our fill rate from China in 2006 and the foreseeable future. This is because we believe the textile category 229 quota will impact our business as it already has.

    Chinese canvas, since January, has already been completely used up by the supplier Alan mentioned. Events, such as our back-to-school event, will now be compromised by quota resurgence. In total, our $4.5 million-dollar canvas business is now very much in jeopardy; and, in the near future, we
expect a suffering of profits as well as sales.

Lastly, as a side note, I would like to say a few words about the importance of the growth in the digital print-canvas business. This is the fastest growing subset of our canvas sales, and it only underlines the continuing growth of the overall larger canvas category. For Aaron Brothers, we are in our fifth year of continued growth; and, most recently, in the last 24 months, it has accelerated. Our move into China has been irrelevant in this growth in our business.

Thank you very much.

Mr. KLETT: Good afternoon, Mr. Chairman and Members of the Commission, my name is Daniel Kilett. I am an economist with Capital Trade Incorporated.

There are four points that I want to make on causation: First, a large percentage of subject imports are stretched-artists' canvas, while a large percentage of U. S.-production of artists' canvas is not stretched. Even within the stretched-artists' canvas category, there is significant product differentiation. Also, U. S. producers export artists' canvas. For these reasons, a large share of U. S. production does not even compete with subject imports.
Second, you don't have actual profitability data broken out between bulk rolls in the subject canvas, and you don't have actual price data for U. S. producers broken out for retail and distributor customers as you had requested, for reasons explained in our brief. Petitioners know this, or they should know this, and for them to attempt to draw distinctions in pricing or profitability on this basis to support their affirmative causation argument is flawed analysis.

Third, with respect to volume effects, you have heard testimony that artists' canvas imported from China created additional U. S. demand. In fact, many purchasers reported that artists' canvas from China enabled them to sell more canvas even as they continued to sell U. S.-produced canvas. Your own Staff found aggregate U. S. demand to be relatively elastic in the range of two to four, consistent with what you have heard about the availability of canvas at lower prices generating additional demand from casual users.

Fourth: Tara's Mexican operations. Tara had a manufacturing presence in Mexico well before imports from China were a significant factor in the U. S. market. Based on Census data, the first year of
importation from Mexico was in 1997, at least four years before China had any meaningful presence in the U. S. market.

Please look in my exhibit: Capital Trade Exhibit 1, which is a graph reflecting artists' canvas imports form Mexico from 1999 to 2005. The growth in imports from Mexico was greater from 1999 to 2002 when imports from China were small than from 2002 to 2005. These trends reflect the fact that there were, and continue to be, clear financial advantages to producing stretched-artists' canvas in Mexico as well as freight advantages for serving West Coast customers.

Tara's behavior before China was a factor in the market, and the comparative economics, especially given NAFTA, indicates to me that this shift was inevitable. Tara's position that import competition was the only reason for the production-location shift is just not credible.

Finally, there is one point that I want to make that goes to the heart of your analysis. You heard today from Tara, and from our clients, primarily about U. S.-stretched canvas and imported-stretched canvas; however, Petitioner defined the scope more broadly, and the U. S. industry includes all U. S.
producers of the like product. Industry condition and causation must relate to the industry as a whole on this basis, not just for stretched canvas. These other products include: bulk rolls, canvas panels, and digital-print canvas.

I have some samples of digital-print canvas. I will hold these up and then I can pass them around. This is a digital-print photograph of a street scene in Paris. I think they cropped out the burning Peugeot. We sent this digital picture to David Adamson Editions, an art dealer and publisher. First of all, this is a blank piece of digital-print canvas. This firm then digitally transferred the photo to the digital-print canvas.

By the way, this digital-print canvas has a receptor coat, as we have discussed and as was discussed this morning. Also, on this picture, you can see that there is some white space around the outside which will enable it to be stretched and framed if the consumer wants to do so.

As you have heard, this is a fast-growing part of the artists' canvas market and we can pass these up too. The reason I show this product is the Petitioner asserts that U. S. companies that produce digital-print canvas are not part of the U. S.
industry because their value-added is minimal. However, they provide no factual support even though you have value-added data for some digital-print producers in the record, which Petitioner completely ignores, and we have calculations in our pre-hearing brief on the value added.

These data show that U. S. digital-print converters are U. S. producers based on criteria that you have applied in other investigations. In addition, in other investigations where you have considered whether to include or exclude converters or fabricators, there have existed both integrated producers and converters of the like product. So, if you had excluded the converters, there would still have existed producers of the like product, that being the integrated producers. In this case, you heard testimony this morning from Tara that it does not itself produce the inkjet canvas.

If you have no integrated producers of inkjet canvas, by default, you must include the converters as the U. S. industry because that is the only industry that you have. I submit that you need not even get into the value-added analysis for whether U. S. producers of digital-print canvas is in the industry for that reason.
Based on information available to us through your latest day-peel release last week, there appears to be a significant gap in the Commission's data recording coverage of the U. S. industry. It is my understanding that the 95-percent industry coverage reported in your Staff Report uses the universal firms identified in the petition which completely ignores U. S. producers of digital-print canvas. And with the complete absence of responses from a number of these producers, I don't see how you can know what is your U. S. industry coverage represented by the questionnaires that you do have.

Normally, when you have a relatively high coverage of the U. S. industry, you can be reasonably assured that the results are representative of the industry as a whole even if you don't have data for all the producers. The situation in this investigation is different. Look at the most recent questionnaires you have received and how their data affected the U. S. industry's performance indicators in the aggregate. To the extent data for U. S. producers are absent, you cannot be confident that the aggregation you now have is representative of the condition of the U. S. industry as a whole.

Thank you.

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MR. DOWERS: Good afternoon, Mr. Chairman and Members of the Commission, my name is John Dowers. I was the President and Chief Executive Officer of Utrecht Art Supplies for over three years, serving from November 2002 until January 2006, just about two months ago. I am now on the Board of Directors of Utrecht and have taken a position at another company within the investment group that owns Utrecht.

We are a small to mid-size retailer with 35 stores around the country. Utrecht is located in Cranberry, New Jersey near Princeton. It was founded in 1949 as a premier supplier of the world’s finest artists’ linens and canvas. We are highly dedicated to serving professional and student artists. We are not a direct importer of canvas but rather purchase the product as a retailer through various vendors.

As such, we feel that we may have a more impartial and independent perspective on what has transpired with regard to the U. S. market in this case. For decades, until May 2004, one of our key vendors was Tara. I am here to tell you how the end of the relationship with Tara was sympathetic of Tara's complacency with regard to both customer-quality needs and shifting market trends.

As I will discuss, these issues began to
fester in 2003 at about the time we believe that Tara began shipping a large quantity of its canvas made at their Mexican facility to our warehouse on the East Coast. As such, Tara's problems clearly predated any significant imports of China. In fact, they may have directly sparked an increase in imports as customers looked elsewhere for supplies.

Unlike Tara's product, the level of quality of the imports matched the price points at which they were offered. Between 2003 and 2004, Utrecht became increasingly troubled by Tara's declining quality with respect to their product line and service. I should however yield that Tara was making products for us, so it had the Utrecht label on it.

During that time, we received an unusually high number of documented consumer complaints regarding Tara's products, specifically the complaints noted: poorly constructed canvas panels, partially primed rolls of canvas, as well as mislabeled goods that were sent in original sealed factory cartons to the Utrecht warehouse.

We also received a call from an experienced artist who complained that their finished oil painting was experiencing adhesion problems on the Tara canvas branded Utrecht. As this disturbing pattern
continued, we felt it necessary to negotiate an agreement with Tara whereby Tara would extend damage allowance, half a percent, to Utrecht. This allowance was intended to address all the quality inconveniences on Utrecht's private label program and the branded goods that it was purchasing from Tara.

After agreeing earlier, however Tara suddenly announced to us in October 2003 that it would no longer honor this damage-allowance agreement, opting instead to rely on a senior quality director in its warehouse with the hopes that he could eliminate unacceptable merchandise that was making its way to our warehouse and its customers. Despite this new appointment, Tara's problems continued.

Finally, in December 2003, after continued frustrations triggered by Tara's non-responsiveness and our belief that the Utrecht brand was not getting the attention that it deserved, I requested a meeting with Tara's president, Michael Benator, and gave him a detailed agenda of the issues of concern and plans for working to grow our respective businesses.

In January 2004, we met with Mr. Benator and Paul Straguadine in our facilities in New Jersey. The meeting only further reinforced our impression that Tara was taking Utrecht's business for granted. Not
only did Tara barely address the quality concerns outlined in the agenda and raised by us at the meeting, but unexpectedly chose the occasion to announce an increase in the hurdles to achieve our annual-volume incentive. There were oftentimes rebates that occur with certain incentives.

I would also like to note, too, that about $42,000 has been documented that was returned to us for credit for some of the product that was damaged. That would equate to on sales of a little bit under $1.6 million, or about a four percent total, which is not a very acceptable rate.

The other thing that we sort of mentioned in the course of that meeting is that we had felt -- and I had been in that position for a little over a year plus. We had a new buyer and, at that point nobody from Tara had been to our facilities. They hadn't come to meet me, they had not gone out of the way to meet a customer that they were doing about a $1.5 million with, so we had to actively promote this meeting. In fact, the feeling was fairly deep that we said it was like a marriage where one of the spouses had chosen to move out and separate but hadn't told the other spouse.

Apparently, they had accord because the next
day they sent us flowers and chocolates and told us that they apologized after the meeting. Under the circumstances, this was truly more than we could accept. After careful deliberation, on May 26, 2004 in a face-to-face meeting, I informed Mike Benator that we would no longer source from Tara. Consequently, we choose to move our private label, our Utrecht stretched-canvas lines and stretcher bar business to both a domestic and a foreign producer who we considered better vendors.

Tara's alienation of Utrecht came at a peculiar time given the invigorating transformation that the industry was experiencing and that Frank described in detail. In recent years, our industry has diversified and grown significantly. There are new products and a wider array of choices available to increasingly more sophisticated consumers. In our stores, we have seen nearly a doubling of increased in the number of product offerings. A few years ago, we carried about 50 sizes of canvas and now we currently offer 100 plus.

This revolution within the industry has also produced solid revenue growth. Within the past fiscal year, we have seen a 33-percent increase in unit value and a 45-percent increase in retail dollars.
Interestingly, the majority of this growth has occurred in the high-end domestically manufactured product. We began a relationship with Kansas-City-based Signature Canvas after we parted ways with Tara. This is clearly an outgrowth of the industry's ability to promote new and different canvas shapes, sizes, depths, and to better communicate these exciting offerings to the consumer. Consistency of quality could also be cited for this growth.

Tara's inadequate response to consumers' quality concerns came precisely at a time when Tara should have gone above and beyond to bring customers around and establish reliability and trust in its Mexican-made canvas. Instead, Tara let these concerns drag on too long, or failed to adequately address them, until like a self-fulfilling prophecy customers like us began to look elsewhere.

Thank you very much.

MR. GALLAS: Mr. Chairman, that concludes our direct testimony. We would like to reserve any remaining time.

CHAIRMAN KOPLAN: Certainly, and I want to thank each of you for your direct presentation. I would say the same thing that I did this morning that, in responding to our questions since we have more than
one table of witnesses, if you would continue to
reidentify yourselves for the court reporter each
time. Thank you.

Mr. Gallas, you argue, on page 20 of your
brief, that: "within each of the broad canvas-type
categories, there are additional product distinctions.
For example, for stretch canvas, there are a multiple
of dimensions, frame depths, canvas weights, canvas
types, canvas adhesion methods, priming and quality."

And you illustrate your point with a
description of the seven types of stretch canvas that
you say are produced by Tara in a 16-inch by 20-inch
dimension. In collecting its pricing data, the Staff,
in order to get accurate comparisons, further divided
one of the types into three pricing products: Products
2, 3 and 4. Pricing products are generally chosen to
be representative of conditions within an industry.
The pre-hearing Staff Report notes, at page 5-18,
that: "For products one through five, the prices of
imports from China were lower than the U. S. producer
prices in all 63 price comparisons."

Taken with the increase in import volume and
U. S. market share by subject imports, why would I not
conclude that the importers of the subject product are
buying market share through persistent underselling?
Mr. Klett: Chairman Koplan, this is Dan Kilett. I will try to handle that initially. It is true that you had underselling across the board, but I think in the testimony today, you have heard that one of the advantages of imports from China and one of the reasons that imports from China, the volume has increased is that they offered a product at a lower price point that generated additional demand. So I don't think that you can conclude, or make the correlation between the underselling -- or, you can make the correlation between that the imports from China available to price point and the increase in imports from China, but I don't think you can draw --

CHAIRMAN KOPLAN: I am saying when they go head-to-head that is what I am finding in our Staff Report. These are price comparisons.

Mr. Klett: These are price comparisons and they are going head-to-head, but what I am saying is that when you look at the market overall, your point about the correlation between -- can't you infer therefor that the increase in the imports from China, and their increase in import market share, was at the expense of U. S. producers.

I don't think that you can draw that conclusion because to draw that conclusion, you have
to assume that the increase in demand and the increase in market share is completely independent of imports, and imports actually created demand in the market by offering product at lower price points for consumers that would not otherwise have bought artists' canvas. So this is not a situation where you have a commodity with flat demand where, when you see underselling, you see increases in import-market share, you can make the inference that that increase was at the expense of U. S. producers. I think your Staff estimated that demand was relatively elastic which indicates that lower prices generate additional consumption. In your purchaser questionnaires, a number of purchasers indicated that they buy both domestic canvas and imports, and that the imports are in addition to what they bought from U. S. producers.

CHAIRMAN KOPLAN: Did you want to add anything to that, Mr. Gallas?

MR. GALLAS: No, sir.

CHAIRMAN KOPLAN: No, all right, thank you. If you can expand on that a bit more in your post-hearing, I would appreciate it.

MR. GALLAS: I will.

CHAIRMAN KOPLAN: Thanks. Again, I will
direct it to you, Mr. Gallas, but if you want Mr. Klett to jump in with you again. You assert in your pre-hearing brief, at page 15, that there were some problems with the pricing data collected by the Staff but that "even accepting the data as reported, there is no evidence supporting a finding of material adverse-price effects associated with the competition from subject imports."

Tara asserts, at page 33 of their brief, that "the price comparisons also demonstrate the extent to which import underselling has prevented U. S. producers from raising prices to cover their increased material and production costs, and, in some cases, even forced them to reduce prices."

If I find that the cost of goods sold is a share of sales by domestic producers increased over the period of investigation, while subject imports undersold the domestic products and gained market share, isn't that evidence of price suppression?

Mr. Klett: The increase in the ratio of costs of goods sold to sales is an indicator of price suppression.

CHAIRMAN KOPLAN: Right.

Mr. Klett: But then you get to the causation question: Was that price suppression caused
by subject imports? One of the things you look at is
the underselling, but you don't just look at the
instances of underselling and the magnitude of
underselling. You also look at: Are there reasonable
patterns in the data that suggest that underselling is
commercially significant in terms of causing U. S.
prices to be lower than they otherwise would have
been?

And when you see underselling on a nominal
basis, but when you also see some U. S. prices going
up, some going down, some relatively flat, that
suggests to me that you should question whether the
nominal underselling is a cause of the price
suppression that you measured in the aggregate based
on your costs of good sold to sales ratio.

CHAIRMAN KOPLAN: I think I did get into
that actually this morning with the first panel to an
extent. Thank you.

Let me turn to the floor industry witnesses
if I could. No reflection on you, Mr. Klett, but I
would like to hear from them on this one.

Your brief asserts, at page 23: "The
testimony at the conference from both Petitioners and
Respondents' witnesses confirmed that the increase in
import volume from China is due largely to an increase
in demand for Chinese artists' canvas that would not otherwise have occurred."

In your experience, are subject imports generally less expensive than comparable domestic products for those types of artists' canvas in which domestic products and subject imports compete?

Who wants to begin?

MR. STAPLETON: This is Frank Stapleton.
CHAIRMAN KOPLAN: Yes, Mr. Stapleton.
MR. STAPLETON: I would say that generally the answer to that is: Yes.
CHAIRMAN KOPLAN: Okay, Mr. Dowers?
MR. DOWERS: Mr. Dowers, yes.
CHAIRMAN KOPLAN: Mr. Marek?
MR. MAREK: I believe --
CHAIRMAN KOPLAN: Is your microphone on?
MR. MAREK: Chairman Koplan, this is Alan Marek. I believe that is correct.
CHAIRMAN KOPLAN: Thank you. And Mr. Kanter?
MR. KANTER: Yes, that would be correct.
The only thing that I might add is that there is an element on what we were buying. It is not just I guess the way you referred to it this morning as the price per square meter, but the other components that
we are building into it and the value inherent in that
beyond just the pure costs, packaging, spec, quality,
time line, et cetera.

CHAIRMAN KOPLAN: Thank you.

Now, let me stay with all of you, if I
could. For those types of artists' canvas in which
subject imports and domestic products compete, have
you generally decreased purchases of domestically
produced artists' canvas and increased purchases of
imports from China since 2002?

I believe, Mr. Marek, you gave a partial
response to that at the Staff Conference, and that is
at our transcript at page 130. So why don't I start
with you and let you respond to this question first.

MR. MAREK: Chairman Koplan, this is Alan
Marek. I believe i stated that in 2004, we had a new
inventory management system put in place which --

CHAIRMAN KOPLAN: Would you move your
microphone closer.

MR. MAREK. Yes. In 2004, we put in a new
inventory management system which allowed us to better
balance our inventory and it lowered our purchases.
However, in that same year, while that happened, we
actually sold more Tara product to the tune of 15
percent than we did the prior year.

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I believe you questioned this morning how that could be, and I don't recall the Tara Respondent, but I believe that the answer was: Well, it could have been new store growth. Our new store growth might have been from three to five percent, but certainly there is real growth besides. But if you push that to nine, there is still quite a delta involved that would show that the canvas business was running at a faster clip than the rest of the company.

CHAIRMAN KOPLAN: Okay, for my colleagues, I would like to just get the answers from the others.

MR. KANTER: May I answer?

CHAIRMAN KOPLAN: Yes, Mr. Kanter.

MR. KANTER: Our canvas business has actually, as I said, been on a five-year run. It actually has accelerated more so in the last two-and-a-half years. It is important to note that the canvas business, and our sourcing supply, is inherently now based in China more than the U. S.

And with the growth in canvas categorically, it is self-fulfilling that the growth in Chinese imports will grow. It is not a very easy thing to move back and forth between domestic and import sourcing. So, inherently for us, our business has grown in China. It has grown as a result of the
business and the inherent sourcing that we have already embarked on now for some two-and-a-half years.

CHAIRMAN KOPLAN: Mr. Dowers?

MR. DOWERS: Yes, I mentioned that our sales had grown 45 percent over the past fiscal year and the vast majority of that was actually from the domestically sourced product that we would service professional artists and students. And I would probably say that 80 percent of the growth came out of the domestic art-quality product.

CHAIRMAN KOPLAN: And Mr. Stapleton?

MR. STAPLETON: You saw the --

CHAIRMAN KOPLAN: Is your microphone on?

MR. STAPLETON: You saw --

CHAIRMAN KOPLAN: Now it is.

MR. STAPLETON: You saw that the items that we carried in relationship to the Tara items. We targeted that program very narrowly, and our sales, according to Tara, actually had declined in the time period prior to when they fired us. That was explained entirely by a very large customer shifting from us to direct. Tara knew that, so the actual sales out-the-door, if you added it all together, our sales in domestic canvas were up during that period of time, marginally up, but they were up.
CHAIRMAN KOPLAN: Thank you.

Thank you for indulging me, Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman, and I join in welcoming all of you here this afternoon. I appreciate your being here and your willingness to answer our questions and provide information.

Let me ask you to explain to me a little more about the private label because a number of the issues about when there were decisions to switch away from Tara that seem to relate to how. And I guess this is for Aaron Brothers, how they were going to market themselves and promote themselves. But I am just curious whether that change over time -- in other words, if you had and maybe Michaels is a good example, but I am not sure.

But if you have a Tara product marketed as its Frederick branding and then there is a private label, has there always been a price differential? In other words, you saw the Frederick label as being the higher end and then you have a private label that is meant to compete, but people know that it is lower priced and it doesn't have the same branding. Is that what was going on? Is that still going on here, and...
has it changed over the period of investigation with
the introduction of Chinese products and some of the
private labels?

MR. KANTER: I will attempt to answer that
in two different ways. One, the brand is important
and as less and less retailers are players in the
marketplace, specifically in the category, the
Fredericks and Tara brands are obviously important to
the business for them and they have an inherent cost
associated with marketing those brands.

So, if we were Aaron Brothers and had gone
down the Utrecht path originally, which is to buy our
good through them, we would have had some base
platform of fixed expenses and we would be actually
supporting for their branded business.

Said another way: Aaron Brothers' brand
business allowed us to actually package the product in
a different format than under Fredericks or what have
you. If you looked at our full assortments of this
past Fall some of our product actually talks to home
decor, not canvas for the sake of artistry, if you
will, or art, but actually home decor and decorating.
And actually, in May coming up, we are converting an
entire eight-foot gondola run to literally talking to
the customer about decorating with canvas, outside the
scope of really art. It is really using other uses for the category.

So, from a branded perspective, it really has much more meaning to us than Aaron Brothers' brand in positioning the marketplace.

VICE CHAIRMAN OKUN: Do others have comments on the branding aspect?

MR. MAREK: May I --

VICE CHAIRMAN OKUN: Mr. Marek.

MR. MAREK: At Michaels, we took a position whereby we were able to offer a greater assortment of product at varying price points which opened up the product category to many more end users than what previously existed. That is what created the sales lift. Prior to being able to do so, we had a relatively flat business.

But once we did that, once we put in our own private label with enhanced features at price points that were more affordable to students and to entry-level hobbyists, that not only created a new source of business for us, but it also bleed over to the step-up products once they became comfortable with the entry-level products. When you buy a canvas, you also have to buy other art supplies as well. So, in effect, it benefitted the entire store and our customer base.
VICE CHAIRMAN OKUN: Okay. Mr. Stapelton?

MR. STAPLETON: Yes, I just have one quick thing to add to that and that is: This is a phenomenon that is sort of restricted I think to very large retailers. At a certain point, some large retailers believe that their store name is a more significant brand than many of the branded products that they have in their store.

As a distributor of many named brands, that is impractical for us. The little retailers that we serve, really need the strong brand name to validate the quality of the product because consumers, they shop the stores. Their store name really doesn't mean anything the way say Target's store name means a significant thing to most of the consumers that shop there.

And you have some, like Aaron Brothers, that really has sort of carved that out. Michaels, on the other hand, has basically said: We have a tiny little selection of value-priced stuff that we can offer on a promotion, but, for the most part, we really are all about brand. I think that is an important distinction that each one of these instances has a different way of viewing this; and brand is very, very important to us, and maybe less so to the other retailers here.
VICE CHAIRMAN OKUN: Okay. Mr. Dowers.

MR. DOWERS: Yes, John Dowers, to answer your question quantitatively: We typically look at 25 percent as a minimum as a delta between what you are looking for on a national brand and our own brand. If you can't do it for more than that and provide some value, we don't do it. We do do it clearly in paint and our stores are merchandised that way against the market leader.

In canvas, just because of the sheer size of the canvas department, the amount of space it takes relative to the relative size of the stores, which is about a 5,000 square foot, the size I would say of a Radio Shack, slightly bigger. We weren't able to make that comparison, so it was all Utrecht. But what we did decide to do is to do a good, better, best kind of a flow in terms of our ranges of products.

VICE CHAIRMAN OKUN: Okay. That is helpful. I am also trying to understand. In some of the questions this morning, we talked about whether the increase in apparent consumption is due to a different product being offered that then appealed to what you described as your soccer moms or your home decor, or whether it is the same product just at a cheaper price branded with a name on it that therefore is in the
stores.

So, I guess I am asking for your response on that because, on the one hand, I hear and appreciate the quality issues that you have talked to and some of the relationship issues, and they are obviously important in businesses and there has been a lot of documentation provided on those, so I will look at that.

On the other hand, I am trying to understand if Tara is seen, as many of you say as having been this quality leader on this high-end product and people are going to stay with them and all you are doing is bringing in something else for the rest of us who, like me, have kids and I am saying: Yes, I want the cheap product. It will go out the door.

I am trying to make sense of that because it cuts a couple of different ways. So I am just trying to understand: Is Tara good enough quality that there is no way that you could get it at the price point you need to market it, to what you see as a different category versus -- you know, you had some problems with Tara and the Chinese were there. They came in and they were cheap, take them, and look what happened since then. So do you want to respond back there?

MR. KANTER: This is Mr. Kanter.
VICE CHAIRMAN OKUN: Yes.

MR. KANTER: There is actually a multi-component answer in that. First of all, Aaron Brothers has extended their sizes. So, in the marketplace, six months, a year, a year-and-a-half ago, 12 x 12 squares became a very significant size in decorating.

And, in direct comparison, because we are owned by Michaels and we share a lot of information on anything we want and we can see that Aaron Brothers is much more trend oriented or faster with the customers, so we have been in squares. Michaels hasn't got there until recently.

Then, in addition to that, most recently, as part of that gondola run that we are talking about changing in May, we will be launching another size and shape which Phil can add to his brief, but I want to talk about specifically here, it again extends us as a retailer by offering something that may or not be within the Tara mix, or for that matter the others, and to do that; and to extend yourself before the markets there, we need higher mark-up to basically offset the risk inherent in running 165 stores with the new product size and shape that may or may not be received by the consumer well. That would be No. 1.
The other thing I guess, which is relevant in answering your question, is that the innovation provided by Tara, and/or some of the self-direction by us, it should be a leading-edge merchant, if you will. If you were to look at some of our advertising, and again, Phil, we might show that May ad that I referenced yesterday. We will show you an ad that will support that in our post-brief. I guess, we are positioning ourselves not very much around price, and you will see in our advertising in May that really the ad talks to home decor and price is part of it. But it talks to decorating in a whole other realm of the business which is different and unique, and probably more unique in the art-supply business which is very oriented towards price for many reasons.

VICE CHAIRMAN OKUN: Okay. Yes, Mr. Gallas.

MR. GALLAS: Well, just to add to that. I think the clients have illustrated what I said earlier today about the way that they have promoted through events and looked to grow the product that they have created the demand for people like my wife and I, who are addicted to the House and Garden channel and all these house channels where people do the cheap-sheet decoration. This is the way you do it and Aaron Brothers basically in the brochure he referenced that
we will attach to our brief, it basically gives a blueprint for how people can make a wall of art, grouping together very small canvases. It tells them what paints to use, how to wash the paint. I mean they are the ones who have created the excitement for the impulse purchase. I wouldn't think normally to go and purchase a canvas, but when I think about: Well, this corner could use something and I could just follow their pattern in their brochure. It is a very clever way to decorate very inexpensively.

VICE CHAIRMAN OKUN: Okay. I appreciate those comments. My red light has come on. I will have some follow-ups.

Thank you, Chairman Koplan.

CHAIRMAN KOPLAN: Thank you. Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you and I too would join my colleagues and welcome you. We appreciate your staying with us and answering these questions this afternoon.

Let me follow up just a little bit with where you just left off because let's just say I accept this. I confess to being, I think, a real soccer mom that has actually not purchased any canvas since my high school and college painting days, but
nonetheless, if I take your argument, okay, you've got all this new demand out there to use product for something perhaps a little bit differently traditionally, I'm still stuck on why does that necessarily mean you have to get it from China? That's where I'm trying to understand it. You talked about this 12-by-12, if I opened up page 1 of the exhibits that you brought from the 2002 price list, and there I see Tara offering a 12-by-12 product. So help me understand what it is about this new thing that requires it being an imported product from China?

MR. STAPLETON: Can I address that?

COMMISSIONER HILLMAN: Sure.

MR. STAPLETON: This is Frank Stapleton. When we first introduced our program, and it was a small-scale product selection, we really had this customer in mind, and we saw this as complementary. We did approach Tara about this, and they glossed over it. They actually described the program but kind of put a negative spin on it. They used the words, "stack it high, and watch it fly," and they said there was a trick in raising the retail price up 20 percent and then giving a 40 percent discount off of that.

The program that these guys in California that we sort of patterned our program after really
took all of these elements. They took a merchandizing approach, they took a retail price approach that was higher, and they offered a constant discount.

Now, to reach you, Commissioner, and possibly you, Commissioner, if you go into a Michaels store, you go into an Aaron Brothers store, or you go into one of our customer stores, and you're not going in there to buy anything except maybe an Xacto knife or some glue for a kid's project, you're not going to be thinking about what the possibilities are for this canvas, for what you could do with canvas.

You're not thinking canvas at all. You haven't used it since college, so you need something to grab you. You need something to say, hey, this is something I could do, and one of those things is a stack in the middle of the store when you walk into the store. Another one is a sign dangling down saying 40 percent off. Of what? You don't know what the price is. You wouldn't know what the price was if you tripped over it, but 40 off means something to you.

Now, that might get your attention, and you might be thinking about a wall in your kitchen or somewhere else in your house where this is something that you might do, and pricing being able to do that for us -- now I'm just speaking about MacPhersons at
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this point, and that is, for us, we went to Tara, and we proposed this idea to them, and it was problematic because --

COMMISSIONER HILLMAN: From a price standpoint or problematic from a production standpoint?

MR. STAPLETON: I think it was problematic for them just in general because it wasn't what they did. I'm not exactly sure. I laid the program out. I described it entirely to them, and it would have required some partnering, which might have required a creative look at pricing.

Part of this thing was, when you see the canvas over there, this concept, reaching that customer, really needed a wrapped canvas or a spline canvas because the consumer who is buying that doesn't want to deal with the staples on the edge. They really would like to just put it up on the wall and not have to worry about a frame. So it required a wrapped canvas. You heard them describe it. That was a problem for them to begin with. They didn't have a way of doing that cheaply. It was more expensive than doing the side-stapled canvas.

Well, since -- I don't have any data to support this, but they have pretty much phased out
stapled canvas in favor of wrapped canvas without staples on the edge, and I believe they have done it by finding production efficiencies, either in Mexico or through automation, to equalize the price, but at the time, the difference between side-stapled canvas and wrapped canvas was between 15 and 20 percent, a premium.

Now, even with that, as a wholesaler buying from a manufacturer who was selling to retailers directly at pretty much the same price they were selling to us, it would be very difficult for the equation to say to the retail store, you can offer this at a retail price that you can then discount 40 percent, and you can still earn 40 percent yourself to operate your store. The economics weren't there for us to do it.

Now, creatively, they could have said, "I love the concept. Let's sit down and work through it," yet the meeting lasted about 15 minutes when we first described it.

COMMISSIONER HILLMAN: Mr. Marek, did you want to add anything again, focusing on this issue of -- I understand what you're describing. I'm still trying to understand why it necessitated imports.

MR. KANTER: Commissioner Hillman, can I
jump in for a moment?

COMMISSIONER HILLMAN: Sure.

MR. KANTER: I want to try to specifically answer your question. Aaron Brothers has the spline-back canvas as by far its majority of the assortment. Stapled-sided, stapled-back is barely offered, if at all. Literally, the majority of our two core programs, our opening-price program and our medium-program, are both spline backed, and as we already testified, or I did, we had some challenges out of the Mexican category or their facility there. That's number one.

Number two, there wasn't a whole host of opportunities to buy it other than the resource that we found in China, and that has a perceived value that's higher, but we also needed to make sure that we maintained that opening-price and mid-priced category.

So the answer to your question actually is yes for what the specific offer was and the specific product we carry, and then inherently to the other question I already answered with Commissioner Okun, relate to the marketing of the product, the packaging, the labeling, all of those things that we do on our own, those are more inexpensive to do when you're not burdened by the overhead of a brand of business in the
States.

But the answer to your question is yes, but it's for a whole host of reasons which, when you put them all together, make sense why we were faced with what we did.

COMMISSIONER HILLMAN: I appreciate those answers. If I can touch just for a minute on the quota issue, which you've raised. I just want to make sure I understand it in terms of perspective. It's my understanding that Category 229 had been under quota, but it was dropped very early in the 10-year phaseout, dropped early on, meaning there has not been a specific limit on Chinese imports since -- I think it's 1998. So, presumably, fairly unlimited access to this product until the new quotas came on in 2006.

You need your microphone on.

MR. STAPLETON: I'm sorry. In 2001, we stopped having to deal with quota. Our very first year that we imported canvas from China was the second half of the year 2000, and at that point, the textile quota was still on.

COMMISSIONER HILLMAN: Okay. Obviously, we can look at it, but it is my understanding that the category 229, which has a wide range of stuff in it -- it's a huge chunk of specialty fabrics -- had had a
specific limit on it, so under the Chinese bilateral, it would have had a specific limit on it, and it would have had a group limit under the specific limits, et cetera, that were dropped, as I understand it, on this category in 1998.

I'm just trying to understand. At least, it would be my perception that there has been, therefore, relatively free access to however much anybody wanted of products in Category 229 until 2006. So I'm trying to understand whether you think that's right. In other words, whatever the volume of shipment was in 2005 was not affected by anything else.

MR. GALLAS: Phil Gallas. That is correct. With 2006 came the textile safeguard quotas, which, of course, applied to Category 229.

COMMISSIONER HILLMAN: What I'm trying to understand is what is your perspective as to why 229 was included in this bilateral agreement. There had not been a petition filed by the industry on this product. The fact that it was dropped as early as it was in 1998 is generally viewed as an indicator that it is not an import-sensitive category of product, very few restraints on any countries elsewhere in the world, and this has never been viewed as a particularly sensitive category of product, and no
petitions filed. So I was just curious whether you
have an understanding about whether it was one of the
other parts of 229 that drove the reimposition of a
quota on this category. It seems to me very odd that
you would put a quota on Category 229, among the least
interesting to the textile industry of all of the
categories I could think of.

MR. GALLAS: It's for specialty fabrics. It
comprises around 65 different HTS numbers. Of those
65, there are only two HTS numbers that have to do
with canvas. I do not know the reason why that
particular quota category was targeted, but the point,
of course, and I know where you're headed, but the
point that these people are saying is now that it's in
effect, essentially it has created an incredible
shortage compared to the ability to bring in the
product. I know that quota is a factor that you have
considered in the past. It's just one factor, but it
is certainly not a frivolous argument, especially when
we consider threat.

COMMISSIONER HILLMAN: Given the light has
come on, I will come back because I do have a lot of
questions on how the allocations are working and some
other things on it. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.
COMMISSIONER LANE: Mr. Gallas, I must say that until last week I didn't know what HD TV was, and now you're the second person I know that has actually watched one of those channels, so congratulations, and I'm glad there is a market for those channels out there.

Let's go to Mr. Stapleton. I understand what you said, that when you got into this product and decided to do a new, innovative marketing that Tara didn't seem to be all excited about it, and then you went to China. Could you tell me, though, what the placement of the product in the stores has to do with whether or not it's from China or from a domestic product?

MR. STAPLETON: It has no bearing on it whatsoever. The placement in the store has to do with building the demand, but there are other factors for building the demand. As I sort of pointed out to the other commissioners, the idea behind this marketing plan was that many people walk into the arts supply store to buy many things, but if you take the numbers, only 3 to 5 percent of them are looking for canvas, and what these guys did in California, by creating this sort of multitiered marketing program, was to...
prove that actually five times that number would
actually buy canvas if sort of presented with enough
of a compelling reason and the product staring them in
the face.

If they put it in the back of the store, and
they hid it away in cubbyholes like this, it was never
going to happen. If they put signs out that showed
the product at a discount, and they stacked it up, you
know, and let it fly, then they would actually sell it
to a bunch of people that weren't intending to do
that.

So it really doesn't have to do with that
whole concept I've just described except for the
pricing component. Let's say the pricing component
that relates to a nonproducer, a distributor or
importer, being able to sort of carry out this
program, none of that really has to do with China
except that part.

I should add Michaels as an example because
they have seen an explosion in canvas sales, selling
Tara, and what they did was not the 40-off thing, but
they took an approach to displaying the canvas face
out in all of their stores, and that had a huge impact
all by itself. So each one of these elements has an
impact.
COMMISSIONER LANE: Okay. Thank you.

Mr. Gallas, I'm not sure who should answer this, but you have stressed in your prehearing brief and in the preliminary phase of the investigation that the Commission should focus on why Tara decided to shift some of its canvas operations to Mexico. In what should the Commission incorporate this information into its material injury analysis?

MR. KLETT: Commissioner Lane, this is Dan Klett. I think the reason for getting at why Tara shifted production from the U.S. to Mexico is important to your analysis because, to a degree, it explains a portion of the decline in their U.S. production. So to the extent that they shifted to Mexico for reasons other than imports from China, I think that's relevant to whether you can draw a correlation between their production declines and Chinese imports because if they had shifted to Mexico for reasons other than competition with imports, then imports weren't the cause of the shift.

The point I was trying to make in this graph was that the shift began well before imports from China were even a factor in the market. It seems to me there is at least a component of their decision to shift to Mexico that is not import China related.
MR. GALLAS: This is Philip Gallas. I would just add that the story you heard this morning was some kind of cause-effect argument that Chinese imports arrived on the scene, and, therefore, we had to shift to Mexico. But as you'll see in our brief, especially using the APO information on the record, the chronology is quite different, and the census statistics certainly show that China was a blip, an insignificant amount coming out of China when Tara made its decisions.

COMMISSIONER LANE: Okay. Thank you.

How does the range of products offered by artists' canvas producers in China in terms of shapes, sizes, canvas, fabrics, price points, et cetera, compare with the range of products offered by U.S. producers and by Tara in particular?

MR. DOWERS; John Dowers. I can speak to it. At Utrecht, we found that the offerings were significantly greater, and it could be a number of factors: the more sophisticated operations that we found with the operation in Kansas City that we ended up with, a more skilled workforce, things like a language barrier when you're trying to design an oval -- what's the radius? what's the diameter? how does that work? -- those kinds of elements; the fact that
you could also easily hop down there and go see it, again, for a small-to-mid-sized operator.

So we found that the domestics, or certainly our confidence level in a domestic supplier to provide us with a lot more shapes and sizes and creative opportunities was certainly more domestic. At least, that's where we spent our time and energy. So we found that to be superior to what we did in China.

COMMISSIONER LANE:  Okay. Thank you.

The only pricing product for which pricing data were mixed, evidence of underselling and overselling, was Product No. 6, the canvas panels. How do U.S.-produced panels and panels imported from China differ? Are there quality differences?

MR. STAPLETON:  Frank Stapleton taking a stab at this. From a quality standpoint, I think if you look at India, the Indian canvas panels have a superior core. In China, I think the chip board is a little harder to get, or at least quality chip board. In the U.S., it's readily available. The chip board sort of determines the dimensional stability of the board. It won't buckle, and that's important if you're going to put it into a frame.

So the differences in quality, I think, are sort of related to that. In China, you end up having
to pay more money to match kind of the U.S. operation.

COMMISSIONER LANE: Okay. If I were a professional artist, and that's all I did, and let's say I was a very successful professional artist and sold my work for thousands of dollars, where would I go to buy my supplies and my canvases? Would I go to some of you all?

MR. DOWERS: John Dowers with Utrecht. The odds are pretty good, if I was to stereotype an artist, probably a decent chance you're living in the city, probably even tied to the university that you might have gone to school at, possibly even teaching. The artist community is a pretty emotional occupation. You don't always do it for the money, but there is a very good chance you would be in one of our stores because, again, we're smaller, and we tend to focus very, very clearly on fine artists' supplies.

MR. STAPLETON: Let me just take a quick stab at it. There is a little bit of an 80/20 rule that works with the artists. There are sort of artistic centers, and I would say if you were to plot them on the map, they relate to New York City as kind of the premier one, Los Angeles probably being the second one, Chicago being the third, and then there is kind of a group of artists that's sort of distributed
out into the countryside. The larger art materials
stores that have the largest selections are in the
largest centers.

One of the things that we've tried to do
with our program is encourage wider variety because
there has been a movement from the artistic community
to move out into the suburbs or into the countryside
where they might shop at arts supply stores that
previously wouldn't have had much of a selection.

COMMISSIONER LANE: If I were the same
serious, professional, highly successful artist, would
I care if my canvas came from the United States or
China?

MR. DOWER: Personally, I don't think so. I
think you would evaluate the quality with the
confidence that you had. You would evaluate the
quality yourself. You would look at the thickness.
You would look at the weight. You would hold it up to
the light and see if there are any pin holes. You may
prep it to make sure that there wasn't any leaching,
i.e., any materials coming through the canvas. You
wouldn't want that. You may check to see if it was
archival, and you would probably try it and experiment
with it, and time would have told you that that, in
fact, was a superior product.
COMMISSIONER LANE: Okay. Thank you.

CHAIRMAN KOPLAN: Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman, and welcome to the afternoon panel.

Mr. Klett, let me start with you, if I could. Earlier, the chairman asked a question about cost of goods sold. I thought I understood that better after my discussion with this morning's panel than I did after I heard your response, so let me go back and just touch on those things to make sure that I've got this straight.

Often, if we see an increase in cost of goods sold, we would see it as an indication of some price suppression, cost-price squeeze. That would be the right term, cost-price squeeze. In this investigation, it's a little harder for me to know for sure what to make of it because we have a real change of product mix during the period of review. When we look at cost of goods sold for the industry in aggregate, we see a relatively stable situation. The same applies when we look at what's happening just in bulk, and it's when we look at what's happening in finished canvas that we see an increase in cost of goods sold over the period.

I'm wanting to make sure that I understand
that. What do you think accounts for the three different patterns when we have the three different items?

MR. KLETT: I think the different patterns you have between the bulk and assembled cost of goods sold-to-sales ratio is just -- I have to be careful about what I say for APO reasons, but I think it's based on an artificial method in which the profitability was split between the two categories. I think it's a purely mathematical result.

I don't think it has anything to do with your being able to derive any conclusions for your causation analysis, as Mr. Thompson said, by saying that the fact that the cost of goods sold-to-sales ratio for assembled canvas because it's going up and for bulk canvas because it's flat, and you have more competition in the assembled canvas, therefore, that shows causation and an adverse effect. I don't think you can come to that conclusion because I don't think the data were reported correctly to even make that comparison, is my short answer -- well, it's my answer. That's my explanation.

COMMISSIONER PEARSON: Would there be an issue in regard to the finished canvas with a shift in general toward more expensive canvases? I think I
understood the testimony that there has been a shifting away from stapled easily around the edges and do something that's more expensive to tie up that back edge of the canvas. So if you have that happening over the period of investigation, would that potentially be a factor that would influence cost of goods sold relative to sales?

MR. KLETT: It could, but I think when you're dealing with a very heterogenous product like this, when you're looking at your cost of goods sold-to-sales ratio, to a certain extent, it automatically controls for shifts in product mix to the extent that even though there may not be a one-to-one correlation, that your lower-cost products, such as a canvas panel, also, on average, have lower prices so that if you're shifting from stretched canvas to canvas panels, you're going to see declines in our average unit value but also declines in your average unit cost.

So from a product-mix perspective, I still think your cost of goods sold-to-sales ratio is still a reliable indicia, providing you have accurate data, in terms of evaluating whether there is price suppression.

COMMISSIONER PEARSON: Okay. Well, if there is something that we should know in the post-hearing
brief about cost of goods sold, by all means, go ahead
and explain it.

Now, let me, if I could, go to the issue
that you've touched on here, and that is the data
problems, and I know you mentioned that in your direct
testimony, but I wanted to go back and make sure I
understood what you were saying.

I think that you argued that the lack of
questionnaire responses from companies that are
involved in the business of making the digital
printing canvas may have skewed our data overall. Is
that correct?

MR. KLETT: That's definitely what we're
saying.

COMMISSIONER PEARSON: Can you explain what
the most serious deficiencies might be in our data and
offer any suggestions on how they might be rectified?

MR. KLETT: There's two areas in terms of
data that we see a problem. One is just having full
coverage of the industry, and we feel that your
precedent indicates that converters that produce
digital-print canvas should be part of the industry,
whether you apply a value-added analysis or just by
virtue of the fact that those are the only producers
of digital-print canvas, so they have to be the
I think it's also important to recognize that in terms of biases to your data that even if it's only -- let's say you had some sense of what the total market was, so based on your questionnaire responses, you knew what percentage coverage you had, and let's say you had 90 percent coverage. For purposes of sales and volume trends, that might be reasonable to presume that that coverage is good enough, so that 90 percent reflects what the overall industry is. When you get to profitability and bottom line, missing individual producers in terms of the operating profit level can actually have a disproportionate effect, greater effect, than their 10 percent based on sales revenue and volume, especially when what you're missing, if there is an indication of the producers you're missing, are in a part of the market that's doing very well, if you don't have data for those producers, then I think you should be worried about whether the data you do have does reflect the condition of the industry overall.

COMMISSIONER PEARSON: You would ask us to infer that in a part of the industry that's growing rapidly that firms would be able to be more profitable than in parts of the industry where they might not be
MR. KLETT: Well, I don't even think that you need to infer that because you do have some information from digital-print canvas producers. So I think you have actual information about how that sector is doing versus the rest of the market based on not complete coverage but at least some information from that sector of the market. So I don't think you necessarily need to just make an inference.

COMMISSIONER PEARSON: Okay. You probably know this. I might as well ask it. Have those companies for which we do have information that are involved in the digital side of things, is that information included in our financials currently?

MR. KLETT: It's not included in the financials in the staff report. There was a note in the staff report indicating that the data came in too late to be included in your financials, so at least in the staff report, the financials do not include some producers just because they came in too late to be included in the prehearing staff report.

COMMISSIONER PEARSON: Okay. Mr. Gallas?

MR. GALLAS: I would just add that in our brief we did reference those questionnaire producers' responses that did come in regarding digital-print
canvas, and we addressed the value added and production, and you'll see that if you are able to obtain more of those producers' questionnaires, the complexion of your prehearing report findings will change significantly.

I would like to go back to something I heard this morning. We had one exhibit in our prehearing brief that tried to take an assessment of all of the digital-print canvas producers who we encouraged you to send questionnaires, where their different questionnaire responses stood and what was the status. We only made confidential the entire exhibit because it was BPI. It was the APO information. That's why it just happened to include in that confidential exhibit some public e-mail addresses of these companies. Of course, e-mail addresses are not confidential.

But I was a little puzzled because it was my impression when we, months ago, gave you comments on the questionnaires, the draft questionnaires for the final, I could swear that we made as a public exhibit the names of all of those companies, and, of course, we served the other side. I may be wrong, but that's my recollection. So I believe the other side should have had the name of all of those companies.
COMMISSIONER PEARSON: Thank you, Mr. Gallas.

Mr. Chairman, my time has expired.

CHAIRMAN KOPLAN: Thank you, Commissioner. Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman, and I join my colleagues in thanking all of the witnesses for spending this afternoon with us answering our questions.

One of the things that I'm trying to understand with regard to pricing for this product, when we make our determination, we have to look at the price to the first customer, which would be either the price to the distributor or the price to the retailer, and not the price that you all charge your customers further down the line. There has been some discussion about what the price difference is between domestic versus Chinese products of the same general type or private label versus proprietary label.

So what I want to ask and have some of the retailers answer for me is can you describe for me, either here or, if it's confidential, in your brief, if you take a product that's as comparable as possible in terms of size and quality, what is the typical retail price spread between a domestic product and the
Chinese product, and how is that different from the spread between the price that you, as a retailer or distributor, pay to the factory for the domestic versus the Chinese product?

MR. KANTER: I just want to make sure I understand the question. Your first question was with regard to the retail. Is that correct?

COMMISSIONER ARANOFF: That's right.

MR. KANTER: And your second question was cost?

COMMISSIONER ARANOFF: Yes.

MR. KANTER: On a retail basis, there is not an all-or-nothing answer. In many cases, we will import from overseas with inherently higher costs on the end, once we have it here, as opposed to the end when we first buy it. So when we buy it overseas, we buy container load. We warehouse the inventory. We have carrying costs, inventory costs, cash flow impact, and things of that nature, in addition to packaging and production and all of that stuff. So our retails very often could be the same, if not actually higher in some cases, because it's branded Aaron Brothers, and we hope, at some point, to get a cachet element to that brand.

So there is not an all-or-nothing answer to
say that the Aaron Brothers brand is more or less, whether it's imported or domestic. That's kind of a nonanswer answer, but it's not as black and white as I think that you were looking for. If I'm wrong, and you want more, I can try to answer differently.

On a cost basis, we do expect when we go overseas -- it doesn't matter whether it's China or anywhere else -- when we go overseas, we expect a minimum of 20 to 25 percent lower costing to pay for all of the burden that we have to incur -- the liability, FOB -- our FOB price, wherever it comes from, is when we take ownership. Of course, we have insurance, but we carry insurance costs. If the goods fall off a container off a ship, and as much as I hate to hear that, every once in a while we hear that as an excuse why we didn't get goods -- there are many inherent risks in actually taking ownership of goods from overseas.

So there has to be a significant cost differential for us to actually leave a domestic resource because a domestic resource pretty much can buy, and if we've done a good job forecasting out the needs of our retail business to the resource, we can basically buy today and get it in four weeks or what have you, whereas overseas it's 90 to 120 days, and

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there's many other inherent elements.

So the answer to your question is typically 20 to 25 percent. Sometimes it might be greater if the risk is greater. Sometimes it might be less if we can't actually source it domestically.

COMMISSIONER ARANOFF: One of the things I'm trying to get at is, as I take the Petitioners' argument, their argument is you guys can go to China, buy pretty much the same product, maybe a little bit lower quality sometimes, for a price that is so much lower that your cost spread acquiring it from China versus the U.S. is huge, and you can then charge a lower price at retail but actually be collecting more money in the end. I guess I'm trying to determine whether that's true.

MR. KANTER: It's actually interesting. Through the issue of quota and our loss of goods, and Phil might want to reference this specifically -- I will tell you the resource, but there is a resource that we've explored most recently as a week ago to buy domestic-based goods because of the lack of quota. The cost differential in this case, working with that resource, is about 15 points. It's as low as 12, as high as 17, points more expensive to buy domestically. That's not the normal deal, but that resource has...
worked with us. So, again, it does vary. It's not quite "black and white."

COMMISSIONER ARANOFF: Okay. I appreciate that.

Let me ask the retailers who are present here, do you all sell the digital-print canvas product?

MR. KANTER: We do not in any significant measure. We buy basically, as was referenced earlier, product that is printed on, but it's already executed with artwork as opposed to the third party we buy it from.

COMMISSIONER ARANOFF: Anybody else who is a retailer?

MR. DOWERS: John Dowers, Utrecht. We currently do not, given the scope of our stores and focus on the traditional artist and size of our stores, we currently do not.

COMMISSIONER ARANOFF: Mr. Marek?

MR. MAREK: As the sourcing guy, I can't tell you exactly if, in fact, we do or we don't, but I don't recall seeing it in our store.

MR. STAPLETON: I have seen it in the Michaels stores.

COMMISSIONER ARANOFF: I'm trying to figure
out whether it's inherently a different group of retailers that sells that. That was something that some of my colleagues touched on with the Petitioners this morning, whether there was a completely different channel of trade through which the digital stuff was traveling.

MR. STAPLETON: Can I answer? Frank Stapleton.

COMMISSIONER ARANOFF: Go ahead.

MR. STAPLETON: We sell packaged goods that retailers can sell with an array of other products that will work through ink jet media. So digital canvas is one of those packaged goods, and it's sold in pretty much all retail arts supply stores. It's not a huge factor; it's one of a selection.

COMMISSIONER ARANOFF: Okay. We were told this morning by the Petitioners that Chinese producers are capable of producing this digital print product, and, Mr. Gallas, I know you argued in your brief that this part of the industry is insulated from competition with the Chinese industry, so I wanted to ask you if you have anything to add based on what we hear this morning. If it's true that the Chinese can produce digital-print canvas and that some of it actually has been imported into the United States, are
there quality issues? Is there anything keeping them out of the market, or is this isolation of the market that you've described sort of about to end?

MR. GALLAS: It is my impression when I wrote that, in talking with my clients, that there were no imports of any significance coming into the country from China. Whether that picture has changed, our clients are not aware of any source, and these are the guys who would know because they account for a significant amount of the stores that would sell this sort of thing.

COMMISSIONER ARANOFF: Okay. Well, that leads me to my next group of questions, which really has to do with how much this group of witnesses actually knows about the Chinese industry. I think it was Mr. Marek I heard indicate that you had visited your supplier in China, which is the Phoenix factory, who is one of the Chinese producers who is represented here. But for the rest of you who have purchased Chinese product, do you know who the factories are that you're getting the product from? Do you feel that you know who all of the producers in China are?

MR. STAPLETON: I can take a stab. This is Frank Stapleton. I visited two factories over there, and those are two of the three named Respondents. So
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Conda and Phoenix, I have visited.

COMMISSIONER ARANOFF: Okay. My understanding is that the third named Respondent is not actually a factory; it's a trading company that doesn't actually produce the product itself. Is that correct?

MR. GALLAS: Phil Gallas. That's my understanding. Yong Su buy product.

COMMISSIONER ARANOFF: Do we have on record information as to from where they get the product that they are exporting?

MR. GALLAS: That would be under APO at the Commerce Department.

COMMISSIONER ARANOFF: Can we get that submitted to us on our record under APO?

MR. GALLAS: We can give it a shot.

COMMISSIONER ARANOFF: Thank you. I think one of the issues that obviously has been important in this case is the Petitioners have raised the issue of whether we have complete data on the Chinese industry, and while it appears that the numbers that were reported in the questionnaires match up pretty well with official statistics on total imports, at least by some measures, I guess, not by value measures maybe, we really don't know how many producers there are in
China, which casts some doubt upon the capacity utilization data that we have in our record. So it would certainly be helpful if you all know who other producers are that are not represented here, if we could have that information.

MR. GALLAS: Commissioner Aranoff, if I could speak to that, having been involved in a Commerce proceeding, I will tell you that when the Department of Commerce selected, made its selection of mandatory respondents, the two mandatory respondents selected accounted for the preponderance of exports coming out of China. They captured the producers. The third one we mentioned is just a separate-rate respondent, and its volume pales in comparison to the others.

MR. STAPLETON: Could I throw one thing out? Frank Stapleton. As we're dealing with this visa quota issue, we understand that the total amount of visa that's available to the Chinese producers of canvas right now is somewhere in the neighborhood of 700,000 kilos, and from what Phoenix has told us, they are entitled to about 480,000 of that. So that will give you an idea of what portion of the total amount that's been granted they have been given, and it was apportioned out by volume.
MR. KANTER: And that 700,000 is out of 33 million, so --

MR. STAPLETON: 3.3 million.

MR. KANTER: 3.3. Sorry.

COMMISSIONER ARANOFF: Okay. I appreciate all of those answers, and I don't mean to cast aspersions on your statement that what you know about represents the vast majority of production but simply to round out our record, it would be helpful to know who the entire industry is, where the trading company is getting its supply from, and the answers to some of those questions. So thank you, and I'm sorry for going a little over my time, Mr. Chairman.

CHAIRMAN KOPLAN: No problem.

First, as a matter of course, Counselor, you're correct. On December 1st in your comments on questionnaire responses you did in fact provide a public list of what you claim to be the digital producers.

MR. GALLAS: So everyone has been on notice of their identity.

CHAIRMAN KOPLAN: Yes. That is my understanding from staff. And I see that counsel for the Petitioners is acknowledging that as well.

Thank you for noting that. I double checked
with staff and you're correct.

If I could come back to the four industry
witnesses, it's a two-part question and I'm following
up on how I finished up with you all. Am I correct
that you claim that subject imports at the entry level
are to a different class or kind of customer? If so,
what documentation can you provide to show that your
sales of subject import products from China are to
retail purchasers who would not have purchased
artist's canvas except for the availability of the
less expensive product from China?

MR. KANTER: This is Harvey Kanter. In our
case I don't think we could actually provide
documentation. I think it's more to the essence of
our business concept and how it's evolved. We don't
carry the better goods that John Dowers represented,
the linen canvas, for instance. We know who our
customer is, her approximate age, that 70 percent is a
woman. We know that a reference to soccer moms is a
reality through store intercepts. And we only offer
the opening price and the middle price categories.

And as we've expanded the categorical use of
canvas, our business has actually accelerated and we
believe that is, although we believe it's correlated
directly, there are no facts with which to support
that other than the growth in the business and the
growth in the presentation of the opportunities to use
the product.

CHAIRMAN KOPLAN: Let me see if I can
shorten this. Can an of you provide documentation?
Mr. Stapleton, Mr. Dowers?

MR. STAPLETON: I don't think it's possible
to provide it. I think the documentation that we've
been working on internally is that the average, I mean
I can provide you the documentation that I've given
which is that the average retail store does three
percent of their volume in canvas, and if they aim
towards this customer they can achieve 15 percent. I
can give you documentation on that.

MR. KANTER: And actually to Frank's point,
without telling you the exact number, he is very
directionally accurate with our business. In our
business, Aaron Brothers has a very sizeable, sizeable
penetration in canvas, and we could provide that
information, but it underlines the growth we've had in
the business and the change in the assortment as I've
described it.

CHAIRMAN KOPLAN: Mr. Dowers, Mr. Marek, is
your response the same?

MR. DOWERS: Yes, ours would be similar.
We'd be at about probably five and a half percent and we've seen a growth probably from about four percent over time. This is percent of our total sales.

CHAIRMAN KOPLAN: Mr. Marek?

MR. MAREK: The only thing that I can add to this is, in that I'm not the buyer for the category, as my testimony pointed out when in fact we did add the Phoenix brand China canvas to our merchandise mix, we had a significant lift to overall business and Tara's business in that year to a previously relatively flat curve. So in effect, when we looked at it and the merchants asked questions about where was this all coming from, I believe that's where that information came and that's the way we marketed the product going forward.

CHAIRMAN KOPLAN: Thank you.

If I could stay with the group of you, what share of the finished canvas sold in your stores is accounted for by sales to the "less exacting customers" who I assume are what you characterize as beginning students, do it yourself home decorators, and budget minded customers such as mothers of school age children also mentioned in your brief at page 24.

MR. KANTER: Harvey Kanter. I don't have a hard number. We believe it's probably somewhere 60 to
70 percent. We don't offer most of the professional grade products in our mix at all. The lion's share of our business to those folks would be out of pure convenience. We are located in a multiplicity of very convenient places outside of the city where if you're actually a professional and you need something quick you can come in, but unlike John's place, they carry just a whole host of professional grade products. We don't.

CHAIRMAN KOPLAN: Certainly an estimate is acceptable, so I'd ask the other three folks. Mr. Dowers?

MR. DOWERS: Yes. John Dowers. Our estimate would be about ten percent of our clientele I guess would be hobbyists and those folks interested in beginning price points.

CHAIRMAN KOPLAN: Thanks. Mr. Stapleton?

MR. STAPLETON: This would be really gathering information from our customers and I think my guess is that if the customer has done this style of merchandising they might see that perhaps 70-80 percent of their volume was for the serious artist or serious student, and the people that have done this style of merchandising would see that it was probably just the reverse.
CHAIRMAN KOPLAN: Mr. Marek?

MR. MAREK: I'm sorry, I'm not qualified to answer that question.

CHAIRMAN KOPLAN: Okay.

What type of subject artist's canvas would be purchased by someone decorating a home?

MR. KANTER: Can you repeat that one more time?

CHAIRMAN KOPLAN: Sure. This is from having read the brief.

What type of subject artist canvas would be purchased by someone decorating a home?

MR. KANTER: For Aaron Brothers, we believe our product which is not staple side or staple back, but splined, would be the perfect example, and that's probably why our whole assortment looks like that. You can basically paint it and hang it. It requires no frame or anything of that nature. It's not all or nothing as I suggested, but it's more that than not.

MR. STAPLETON: It's usually related to that aspect. There's wrapped canvas. But also to certain size and shape configurations, typically squares are appreciated for that particular usage because you can take nine squares, 12 inch squares, and put them up on the wall as kind of a mosaic, painting each one a
different color.

Another configuration that's really popular for home decor is what they call landscape which would be say 10 or 12 inches tall and 24 to 30 inches wide. Again, you can do very simple geometric painting on those surfaces to coordinate with the color scheme in a house.

CHAIRMAN KOPLAN: Mr. Dowers?

MR. DOWERS: The only thing I would add to Mr. Stapleton is that a lot of times it's the deeper, thicker size canvases and then also sometimes interesting shapes as well.

CHAIRMAN KOPLAN: Mr. Marek? Again not qualified? Okay.

Mr. Gallas or Mr. Klett. In your brief at page 24 you attribute much of the asserted increase in demand for artist's canvas in general and subject imports in particular to consumers who are unlikely to purchase canvas at prices generally paid by more exacting consumers. What documentation if any can you provide that these sales are in fact to retail purchasers who could have purchased domestic product but simply chose instead to buy less expensive artist's canvas from China?

MR. KLETT: I don't think we can provide any
documentation based on solid evidence in the record. I think I have to defer to our customers.

CHAIRMAN KOPLAN: I'm only asking because your brief seems to imply that, you have that argument in your brief.

MR. KLETT: We do have the argument, but I think the brief supports that through the kinds of statements made by our industry witnesses here that the lower price points generated additional demand to customers that would not have bought at higher price points. That's the documentation.

I think there's also documentation we provide in our record that the purchasers, and we provided cites to purchaser questionnaires, where purchasers said that we buy both domestic and we buy imports and our increase in import purchases are in addition to what we buy from U.S. producers. So I think you have documentation in your purchaser questionnaires to support that point.

In terms of being able to actually quantify it empirically, we did not do that.

CHAIRMAN KOPLAN: Thank you.

The public staff report at Chapter 5, page 20, reports the findings of the staff concerning the lost sales and lost revenue allegations made by
domestic producers of artist canvas. On that page there are six findings reported. Five of the six purchasers reported shifting at least a portion of their purchases of artist's canvas from U.S. producers to subject imports from China.

Taken together it appears to me that purchasers have switched a significant share of their purchases of artist canvas from domestic producers to subject important.

Can you respond to that?

MR. KLETT: I can't respond to each of the specific ones, but just some general points.

CHAIRMAN KOPLAN: The specifics are BPI.

MR. KLETT: That's right. But just in general, a couple of general observations, Mr. Chairman.

I think you need to look at number one, where that purchaser was buying from in terms of whether it was, for example, Mexican produced versus U.S. produced. Mr. Kanter, for example, well, I won't get into that.

Also I think there are a number of lost sale allegations there where there's a, in the right hand box it says no response and I think there actually is information in the record that you can make some
inferences for those customers in terms of what their actual response to the allegation based on looking at their purchaser questionnaires or whatever. I'd be happy to go through customer by customer in our post-hearing brief.

CHAIRMAN KOPLAN: I'd be happy for you to do that. Thanks.

Vice Chairman Okun?

VICE CHAIRMAN OKUN: Thank you. And again, than you for all your responses.

Mr. Dowers and I guess Mr. Marek, for companies, for purchasers who are purchasing domestic product along with imported product, you're the two in that case, right? And post-hearing you can look at those again, purchasers who have done this.

My question is, a lot of your argument is on the attenuated competition and that's why I think we've had a lot of questions about which products are produced in the United States by U.S. producers versus China. And I heard I think Mr. Stapleton, you used the word complementary in describing it. That what you were trying to propose to the domestic industry was a complementary approach where you saw it as not cutting into their business and in fact increasing the pie for everyone.
I think it's possible to look at this record and say in fact the pie has increased. Consumption is up. So while market share for the domestic producers is down, the pie is bigger.

What I'm having a hard time trying to sort out is whether that's likely to continue if I were looking forward, and then looking at the record we have whether we see impact from the imports.

So I'm most interested for those who continue to buy domestic whether you can provide additional information post-hearing on which products you're buying from domestics, which products you're buying from subject imports, for me to help better understand where they're the same and where they're not if there really is distinctions, and then help me understand what pricing has done during the period of investigation. In other words if the domestics have come in for your same product, for the product line that you're buying from them, if they've come in and increased prices and you've paid them, despite the fact that you were also carrying a subject import line.

Is that information you can provide? Is it information that you can glean from the other questionnaires? Mr. Klett, I'll ask you that first.
MR. KLETT: I'll have to look at the purchaser questionnaires. I may be able to glean some information from the purchaser questionnaires to the extent some of these folks here submitted them. I can attempt to answer your question through a review of those questionnaires.

VICE CHAIRMAN OKUN: Okay. I'm less focused, obviously we all take our different perspectives into here, of proving which customers are buying what, but I am interested in are you still selling as much and more of what the domestics are selling at the same time you have subject imports in the market because that might demonstrate to me that it is in fact a pie that's growing and that subject imports at a price point are going to continue to keep this expanding market. That may not be enough causation for me personally.

But I'm having a hard time sorting that out because on the one hand you've argued domestics don't produce the same stuff, and I'm looking to the product list and trying to figure out is that true or is it because like the spline product was a Mexican product that had quality problems and that's why you went somewhere else.

So I'm still having a lot of trouble sorting
out is it not the same products or is it really a
complementary market in some aspect in the stretched,
I guess. Then for the bulk and the digital, there are
other arguments to be made there.

MR. KLETT: Commissioner Okun, just one
observation. To the extent you do see some declines
in consumption of U.S. produced, an element of that
is, or could be the shift from the U.S. to Mexico as
well so there's that added dimension of looking at
this --

VICE CHAIRMAN OKUN: Which is why I'm asking
for that additional information which is I can take
that. But again, number of production workers and
other things can go down when someone decides to shift
to Mexico. But I'm still trying to sort that out
versus some of the information which you've testified
to which is if they had quality problems with a
product that would have been a competing product that
Tara was offering and it was a product being produced
in Mexico, again, it could be a legitimate business
decision to say I'm going to take the Chinese one
instead, but I'm trying to link that up with again
what we have in the record, what we have in the record
on financials to see if it's, in my view, consistent
with your argument of complementariness or attenuated
competition in this industry.

Mr. Dowers?

MR. DOWERS: I'll speak for Utrecht. If the data, whatever data Dan needs we can easily supply to him because we've got scan data on a pull-through basis and we can clearly identify this as domestic or imported and be able to show those segments so you'd be able to see fairly clearly that in fact the total's grown and in fact there is a complementary nature to the products that your offering a wide range.

Again, ours would skew closer to the fine artists than say Michaels or Aaron Brothers, but with scan data that's easily made available.

VICE CHAIRMAN OKUN: Okay.

Then Mr. Klett, I wanted to come back to you on the argument with regard to whether those companies who are producing the digital print should be considered included in the domestic industry. I know you've covered it in a number of responses.

But you said something in one of the responses saying this was a case where you don't have an integrated producer, you essentially have to include all of the converters who have someone producing the like product. I was trying to think through that in a case where if the like product is
both what we're calling bulk and finished whether that
makes sense to me. That would be the first point.

The second point would be can't we logically
draw a distinction between a converter who qualifies
as part of the domestic industry and someone who's
maybe slapping something on with little --

To me it seems very factual whether we
decide to include the digital print side converters as
opposed to being forced to because Tara isn't doing
all of that.

MR. KLETT: The reason I made that argument
was if you look at your preliminary opinion there's a
statement in there talking about canvas kits. It says
canvas kits are part of the like product and canvas
kits are part of the scope and therefore we have to
find a U.S. producer of canvas kits and if we can't
find a U.S. producer of canvas kits we have to find
something comparable.

So I think the same logic applies. If you
have digital print canvas as part of your like
product, part of your scope and part of your like
product, then you need to attempt to find a U.S.
producer of digital print canvas, using the same logic
that you applied with kits in your preliminary
determination.
What I'm saying is that if the only producers of digital print canvas are converters, then that's the part of your U.S. industry producing that like product.

VICE CHAIRMAN OKUN: Maybe it's a little circular then because again you have to decide whether to include producers --

MR. KLETT: And the distinction I was making was that when you typically have a situation where you have a decision as to whether to include converters or fabricators or not, you have both integrated producers and you have converters. So even if you were to decide not to include the converters, you still have a domestic producer of the like product.

If all you had were the converters and you didn't include them, you wouldn't have a producer of the like product. That was the logic I was trying to convey anyway.

VICE CHAIRMAN OKUN: I see what you're saying.

MR. GALLAS: Can I?

VICE CHAIRMAN OKUN: Yes, MR. Gallas.

MR. GALLAS: I would just add, putting aside that issue that it's difficult to grasp and going back a bit, and then going back to the basic value added,
more traditional analysis, in responding to your earlier question I believe it was Mr. Benator who admitted that Tara formerly engaged in digital print conversion and he admitted in his response to you that not only was there a proprietary coating applied, but also additional equipment which strongly belies the claim that this is just some coating slapped on and it's minimal. I mean you do have data in the record from the digital print producers who did respond. You can see for yourself the value added, and one of them relayed the production steps. We spelled that out also in the brief.

But I think it's clear that if you have a proprietary coating that itself has to encompass a lot of R&D and if it requires additional equipment, then there is additional production.

VICE CHAIRMAN OKUN: Commissioner Aranoff may have already asked you all to brief, as she did I think the earlier panel, which is when looking at this particular issue of whether the converters of each of the products which is converted in some way should be included as a domestic producer through our traditional analysis of that, but also compare that to the converters of the domestic industry would agree should be in there so that we can have a comparison of
those as we evaluate it.

With that, I don't think I have any further questions, as I know the textile question's going to be covered. So thank you very much for all your answers.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you.

Just a brief question while we're on this issue of the inkjet product. Two other issues that I wondered if you could also add into this briefing of this. One would be whether the Commission should as a legal matter make any distinction if on the domestic side of it, to the extent that there is production of product it's done under a toll basis as opposed to a complete sale of the substrate to an independent, unrelated company that then put the inkjet coating on. If that were to be the situation does it change the factual matter given the Commission's normal practice of treating toll production as clearly part of domestic production. So as a legal matter to brief that.

Then as a factual matter, whether what we should make of the fact, we heard the testimony this morning that you just referenced, Mr. Gallas, in terms
of the expense of the equipment and the proprietary, et cetera, nature of this inkjet coating. If the vast majority, as I understand it, of the time what's being coated is not in fact artist's canvas, it's normal photographic paper. In other words the same equipment that these inkjet people are using, the vast majority of the time it's not going to make this product, it's going to make whatever, the photographic stock stuff as opposed to artist's canvas that's coated. Help us --

MR. GALLAS: May I respond to that last point, Commissioner Hillman?

COMMISSIONER HILLMAN: Sure.

MR. GALLAS: As your preliminary opinion observed, all artist canvas is used as a medium for the graphic expression of art and your preliminary says particularly involving paints or inks. That was the point. That it also encompassed whatever creative surface was being applied to this canvas. It doesn't change the fact that the Petitioner who divined the scope of this case included digital print canvas. In the myriad of products it's all -- And what is happening here as far as like product, it is all a myriad of products without a bright line under the six factor test.
I think you have here one like product and also one industry, and in that one industry is included these people. It doesn't matter if they put a photograph on that surface and then hang it on their wall or if they apply paint. It is still canvas used for the same basic end use and all of the other factors, there are more similarities, commonality as you have used the term of the six factors, than differences here with the digital print canvas. We'll address that further.

COMMISSIONER HILLMAN: I understand the point on the like product. It's not as clear to me when we then get into the who is included within the domestic industry whether it is appropriate to include someone for whom this is a very small part of what they do is putting this coating on top of canvas as opposed to putting it on photographic paper.

MR. KLETT: Commissioner Hillman, I think the data is broken out that way factually. The people that provided data to you on their digital ink operations I think provided you or they should have provided to you the data with respect to their capital expenditures and depreciation and employees and what not just with respect to the production of the digital ink canvas.
So even if that company may be, maybe that company may take the digital ink canvas and put a photograph on it or may run digital paper through the same coating machines, they should have reported data to you that was specific to just the digital print canvas.

So there's a lot of situations where you have companies that do a lot of things, but they were asked to report to you data just for the subject digital ink canvas, and we're presuming that's what they reported to you.

COMMISSIONER HILLMAN: I'll take a look at it, but if there's anything on these issues you want to add in the post-hearing brief, I would welcome that.

If I can then go back to the textile side, just because I am trying to make sure I understand the nature of this restraint on the quota side. And maybe it's that I need to understand how the Chinese, why and how from your perspective the Chinese are choosing to do the allocations the way that they're doing them, because as I understand it there were no effective restraints after the quota was lifted in 1998 until 2006. So presumably if you look at historical trade in this category, it would have been arguably
unrestrained between '98 and 2005. And then as I understand it what was negotiated was take whatever the total level was in 2005, give it a 15 percent uplift, put a quota on it at that level for 2006, give it another 15 percent uplift for 2007 and another 15 percent uplift or whatever the numbers work out to 2008 with all your requisite swing and carry forward and carry over and all that standard textile stuff in there.

I'm still struggling with why then the allocations come out the way they do in terms of what you're describing as only 700,000 kilograms in a 33 million kilogram category in which there's a lot of other stuff that I would not have presumed was heavily traded prior to now. I'm trying to understand why this is as strong a restraint as you are describing it to be.

MR. STAPLETON: This is Mr. Stapleton talking.

First of all, it's 3.3 million, not 33 million. 3.3 million is what our supplier estimates they need in order to ship last year's amount of canvas to the U.S..

COMMISSIONER HILLMAN: Like I said, it's one of these ones where I'm looking at the Annex 1 of the
agreed levels of certain products in the China Bilateral Textile Agreement under Category 229, and it tells me that the 2006 level is 33,162,019 --

MR. STAPLETON: That's the total okay.

COMMISSIONER HILLMAN: Total.

MR. STAPLETON: I'm just saying for --

COMMISSIONER HILLMAN: I'm just trying to understand how do we get from there to the allocation for canvas.

MR. STAPLETON: I can't really speak for the Chinese government, but I think I have an idea of how they've done it. Basically they said let's take all of the kilos of these various categories that were shipped into the United States and let's find a way to, and I believe that the quota was set up to match so that there was not an increase in shipments into the U.S. in that aggregate group of products. So that number being 33 million or whatever the number you gave was the number that they did not want to exceed. They didn't want to put any more pressure on the U.S. industries in those categories. So they set that number up.

Now the subset, which is artist canvas, added up to what did I say, 740,000 kilos. That's what the artist canvas portion was and that's what the
Chinese governments aid to all the Chinese exporters to the U.S., this is what's going to be available for you in allocated visa. The visa is the mechanism by which they control it.

So they allocated out, and I'm just taking Phoenix's case. They allocated 480,000 kilos to them.

Now why is there a difference? Not between the 33 million, because I can't answer that. I don't know what all the other categories are. But the difference between our 3.3 million of what we say is needed for Phoenix alone versus the 480 that they've been allocated. What's the difference between those two? And I'll explain that.

Tara knows about this and they could probably explain it better than I can because they were involved in 2001 in this issue and we still had it on at that point. And I think you'll dig into this and you'll find that I'm right on this.

The U.S. Customs Department has decided that the product itself is the determining weight, for the finished product, the determining weight for the quota. Now in the case of stretch canvas, any one of these products you'll see, there is a little bit of canvas stretched over a lot of wood.

If you take a pair of pliers and you strip...
off the canvas and you weight it on a scale, and then
you take the total before that and add it up, you're
probably going to find out that something like 95
percent of it is not canvas.

China was reporting to the U.S. the total
number of kilos of canvas in our category to Customs,
but Customs says to hell with that, what we want is
the total weight of the product.

So now we have something like, it's 88
percent more in visa that we need in order to satisfy
the total, and we're caught in a meat grinder right
now.

COMMISSIONER HILLMAN: I appreciate that.
That is very interesting.

Is it your perception that there is anything
that you can do to the canvas to substantially
transform it by enough that it no longer counts under
the 229 quota? In other words you would have the
tariff shifted into another tariff category?

MR. STAPLETON: We've thought of that. Send
it to Mexico, have it stretched there, all kinds of
stuff. There's no way to do it. You can bring the
canvas separately. We've been in touch with a Customs
attorney on this thing and it is very dangerous for us
to play with any of these concepts. No, there aren't
any. As far as I am aware.

COMMISSIONER HILLMAN: It's very interesting to me that that's how they're choosing to do the weight in terms of how they're doing the allocation.

MR. STAPLETON: We have a letter actually that we can supply to you that actually was written in 2001 for our Customs attorney in Chicago explaining this, and it just went off right after so we didn't have to deal with it. But they were explaining the whole process of how this was. The precedent was set in tents, tent stakes, the tent itself. It's considered the aggregate tent that you're buying, not the canvas in the tent.

Welcome to our world, is all I can say.

COMMISSIONER HILLMAN: Part of this obviously is there are just so many different fabrics that are within this category of specialty fabric, I would assume the majority of which from looking at what they are, are sold as a fabric. Again, without any of the wood, grommets, et cetera, et cetera embellishment. So you're in this odd end of this odd category product.

I'm still struggling with why did we end up with a quota back on a product that has not ever been viewed as import sensitive.
MR. STAPLETON: I would love to understand that as well.

COMMISSIONER HILLMAN: I was hoping you could tell me.

MR. STAPLETON: I wish I could. The government is arcane. We didn't even know you existed before this thing.

(Laughter).

COMMISSIONER HILLMAN: I appreciate those answers.

MR. GALLAS: I will look into it.

COMMISSIONER HILLMAN: Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Lane?

COMMISSIONER LANE: Thank you.

I think my question is for Mr. Kanter. In response to a question from Commissioner Aranoff you referred to multiple costs that you incurred dealing with imports. you mentioned inventory costs, cash flow costs, port related costs, and maybe others. We generally take great pains to make sure that questionnaire responses on pricing reflect price at the same point in the supply chain for both import prices and domestic prices.

Are you suggesting that the pricing data we
received is not reflective of wholesale prices at comparable points in the supply chain?

MR. KLETT: Commissioner Lane, this is Dan Klett.

I'm not sure Mr. Kanter knows --

COMMISSIONER LANE: I'm sorry. I thought he was the one that answered Commissioner Aranoff.

MR. KLETT: He was, but I'm not sure he's aware of how the data was collected in your questionnaires in terms of being able to respond to whether it's reflective of comparable pricing at a comparable point of distribution.

So if I could answer, and then if Mr. Kanter wants to confirm or amplify.

We have no problems with the data as collected in terms of being comparable. The only caveat to that is that we don't think the pricing broken out by distribution channels is accurate. But in terms of, and it's not because of the way you asked the question, it's just based on the way some of the data were reported.

But in terms of the accuracy of the data with respect to being collected at a comparable point in terms of excluding inland transportation costs and all factors like that, we have no criticisms with the
MR. STAPLETON: Excuse me. This is Mr. Stapleton. Could I just quickly throw something in?

There's a huge difference if you take, and this was not reflected in the information that was gathered. There's a huge difference in the way product that's imported, as large a product as is imported from China on stretch canvas compared to buying it from a domestic supplier. I'll take a quick instance and that is Masterpiece. Masterpiece is located in San Francisco. Our warehouse is in Reno. It's 140 miles away. We can order on a weekly basis from them and carry very little on hand. The less you carry, the less space it requires so the square foot in your warehouse needs to be much larger.

The second thing is the longer you carry it. The longer you have to carry it because of the lead time that's required, the more gets damaged. It sounds crazy, but there's an inventory term for it that's called the K cost.

COMMISSIONER LANE: Called what?

MR. STAPLETON: K cost, the letter K. It's usually figured at about 25 percent of the value of the product. It really has to do with things like the amount of space, the amount of time, and what can
happen over time to a product, and that was not reflected in any of the questionnaires that we had to fill out.

MR. KANTER: Commissioner Lane, I do want to go back.

My interpretation of the question relative to what I thought I was asked versus what you just asked. I was not referencing the documentation was wrong, I thought what I heard was what is the retail value or price point of that and what is the cost value and has there been a specific reason you went overseas. I tried to articulate the cost basis of -- The first cost basis is not necessarily the same as the landa [ph] cost basis and the reason we went overseas. Whether that's clear or not, more clear now I don't know.

But relative to Dan's point, I was actually answering a different question, or so I believed.

COMMISSIONER LANE: Okay, now this morning I asked a question that apparently I didn't ask very well and I certainly wasn't sure that I understood the answer. Then Commissioner Aranoff asked the same question much better than I did, but I didn't understand the answer that she got either. So I'm going to try again. I'm going to start with Mr.
Stapleton, just because you've been so nice that I think we'll give you a shot at this.

(Laughter).

If I buy a Chinese import canvas and I pay $2 for it and I go to Tara and I buy the same canvas and I pay $4 for it. Then I decide to sell it in my retail outlet. What kind of markup do I put on both the Chinese and the domestic product? Do I then sell both of them at $6? Or how do I price those two products, knowing that my cost basis is different.

MR. STAPLETON: Let me take a stab at that. I'll take a retain price. Let's take a $10 retail price.

A $10 retail price would have the consumer buying that product from us at about $3. I mean not the consumer, the retailer would buy it for about $3. For sake of the illustration, the Tara product, same item, would be sold for $8. That would be the $8 retail.

So what we would recommend to the retailer is to take the $10 retail which is inflated, they described it that way and it's true --

COMMISSIONER LANE: And that would be for both products?

MR. STAPLETON: It's the same thing. No,
theirs in theory is not an inflated price. It's their product at $8 versus our $10 reflects, I don't know what they put into it. But ours is sort of pegged at we want to be priced above theirs, but the trick is that we want to have the retailer offer a 40 percent discount off of that $10. So now we're at $6 is what that product would sell for.

So typically, if you went to look at Michaels as they promote Fredrix canvas, they're offering the $8 item most of the time at a 25 percent discount. So take $2 off of that.

COMMISSIONER LANE: Then the $3 Chinese product and the $8 U.S. product are both selling retail for $6.

MR. STAPLETON: That's right.

COMMISSIONER LANE: That's the answer to my question. Thank you.

I have no further questions.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson?

COMMISSIONER PEARSON: Earlier I believe someone on the panel had indicated that there was Mexican production the U.S. market prior to when Chinese product began entering the U.S. market in any quantity. Is that a correct statement? And can you
document that?

MR. KLETT: I'll have to look at the import statistics. I know the first year that the Mexican product was in the market was, at least based on census data, was 1997. I don't know if there was definitively no Chinese imports at that time. But if they were, they were very very small. So I can look at the census statistics over that comparable time period and provide the information to you.

COMMISSIONER PEARSON: Mr. Gallas?

MR. GALLAS: I would just add that in our pre-hearing brief we did give the chronology and go into more detail and we used proprietary data on the record.

So you will see in that brief the chronology. And the census statistics -- Basically the decision to move was prior to China being a true factor in the market.

COMMISSIONER PEARSON: Okay, I will go back and look at the brief. We've heard a lot of things here today so I forget what I know or what I think I know or what I ought to have known but forgotten.

But it's a relevant issue for causation in terms of trying to understand what have been the effects of Chinese imports on the domestic industry.
So if you have anything based on today's testimony, anything that you would add to the record to clarify it further, by all means please do that.

Mr. Dowers, you had mentioned quality issues as one of the reasons that Tara, your relationship with Tara deteriorated. The question that I have is were those quality problems coming from Tara products produced in the United States or produced in Mexico or both? Or don't you have any way of telling.

MR. DOWERS: I don't have any way of telling. I don't know if we, Tara took some of the goods back. They may have better records than we did. I don't recall differentiating between the two, it just occurred around the time that apparently increased production was occurring. But that's more knowing that now than it was knowing it then. But we did not as part of our reconciliation and cleanup differentiate between the two products.

COMMISSIONER PEARSON: Okay.

Another question then, there was a period of time late in 2005 between when the preliminary duties had gone into effect and when the textile quota issue became a problem at the start of this year.

What was happening in the marketplace then? Was Chinese product still coming in? Has it been
coming in, paying the duty, and business has been
going forward?

MR. KANTER: Yes, actually it is really, I
wouldn't say our exclusive resource, but it is our
single greatest resource. We have continued to do
that and until literally last week we were not
negatively impacted by the quota. At this point
Phoenix does not have enough quota to ship the orders
that exist on the books, yet alone the future orders.

In specific reference to our order flow, I
believe the documentation would support this, and if
it does not we should make sure it does in terms of
providing you the facts, but our order flow has not
changed materially other than in line with our
business trend. So we haven't pushed any extra orders
in from China or slowed them down to deal with the
duty. We've just addressed the business needs from a
demand basis.

COMMISSIONER PEARSON: Any other comments?

MR. MAREK: Alan Marek. I'd like to add to
that that Michaels has taken a similar posture.

Tara is by far and away the majority of our
skews carried from and the majority of our business.
The amount of imports that we've pulled in from China
to satisfy our marketing needs has not changed
significantly because of any of these proceedings since the initial filing was made. All we're doing is bringing in what we need to satisfy our marketing initiatives.

Up until the imposing of the quota where at this point we don't have an idea as to whether or not we'll see another order from China.

COMMISSIONER PEARSON: In the hypothetical situation in which there was not the textile quota problem and there was an antidumping duty in effect as per this hearing, what would be happening in the U.S. market? Would we see continued imports from China just because as you look around the world there is no other source in the near term that could fill the market niche that the Chinese product now is filling?

MR. KANTER: I believe at some level that would be a true statement, and we have obviously addressed our retail pricing to deal with the negative margin impact. We've seen an increase in retail sales greater than unit sales because obviously a customer seems to be somewhat negatively reacting to the increased retails, but it's still growing, just not as fast. And we at this point, no different than I said before, don't have an alternate source at all at this moment in time. To set that up, we drive the
specifications, the quality, the production line actually through Alan, and we would have no alternative other than a longer term horizon.

MR. STAPLETON: Can I throw something out?

COMMISSIONER PEARSON: Please.

MR. STAPLETON: One of the people who was involved in our group in the preliminary is no longer here and they have essentially given up on this process in favor of leaving China as a sourcing place and going to India.

So there are all kinds of things on the table. I can speak for my company only. We're staying with China just in hopes that some kind of result that is sort of less onerous than sort of initially appeared was going to be the result.

Of course now that the quota's in place it's sort of like a moot question. The only reason that we're hanging here now is in the hopes that we might get our tariff money back. That's really, and it's considerable.

COMMISSIONER PEARSON: Are you suggesting that this industry is flexible enough so that if China becomes a non-competitive supplier due to quota reasons or others that somewhere in the world there would arise other competitive producers of artist
canvas? And that you --

  MR. STAPLETON: Without a doubt.

COMMISSIONER PEARSON: -- from India or from other countries?

  MR. STAPLETON: Without a doubt.

COMMISSIONER PEARSON: over what timeframe would you expect that type of change to happen?

  MR. STAPLETON: That supplier that I'm speaking of that was herein the preliminary, they're saying that two four they'll be up and running and be able to ship canvas from India. They already have a color manufacturing facility there and their partner in that facility has wanted to get a canvas program going and it just provided the perfect opportunity for them to jump on that particular thing.

  MR. KANTER: Commissioner, I think I might paint it slightly differently.

  For Aaron Brothers it is not as easy to move. I know who he's referring to. they are primarily a branded resource. We do not do private label business with them. The brand is very important that they represent but we would look at a longer term horizon. At some point we would obviously try to evaluate our options, no different than the reason we have made the actions we've taken today, but it would
not be a very quick move for us. It's a very sizeable part of our business.

MR. DOWERS: Commissioner, I can speak to that as well. We did after, after actually purchasing our product from China through Mr. Stapleton and MacPhersons after we left Tara, and then went, we believed that a significant tariff was potentially going to be put in place. We actually shifted ours, which again was a smaller quantity relative to some of the others here to India. And that did take time actually to find someone who could actually meet our demand and begin to ramp up. So I would say probably you're looking at a year or two before someone could significantly handle some of the demands that the U.S. market would put on that.

And typically in a couple of stages, one, first from a labor standpoint, getting trained labor in place and then moving towards a more capital intensive solution which is exactly what our Indian supplier plans on doing to enhance the size of his operation.

COMMISSIONER PEARSON: Thank you.

Mr. Chairman, my time has expired.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Aranoff?
COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

One of the arguments that you all make in your brief and that we have heard from you this afternoon is that the artist canvas market in the U.S. has expanded largely because of these innovative marketing and pricing strategies that you've adopted. One of the things that I'm not sure that we've yet pinned down is -- We saw the pictures at the beginning of the testimony of placing the canvas one way versus the other way. And there's nothing about that placement that inherently requires the importation of Chinese product as opposed to just turning around the domestic product.

So I guess my question to you is, wouldn't this have grown the market even if there were no Chinese product? What's the link that necessitates the Chinese product with respect to the marketing program? Because as far as I can tell, it expands it to a lower price point and that's the only thing that's unique.

MR. STAPLETON: Frank Stapleton, let me try to answer.

We have evangelized this concept, the three-part concept, and it really required us to have
canvas. Commissioner Lane asked me to sort of go through the economics of a individual product, but if we come down to the $3 on that $10 retail item that we had, we actually have as an importer, or as a buyer of domestic product, we have to have a margin in that. At that point we're acting like the prime supplier, the importer, and we're reselling it to retailers.

So if that concept is going to be sold to retailers and it's not intuitive for them. Most retailers will say huh uh. Canvas is a destination purchase. When an artiest gets an inspiration they make a note to come down to the store and it doesn't matter where the product is in the store, they'll find it.

So we're kind of swimming upstream with the retail community to try to sell them on this idea. And we can't sell them on the idea of an inflated retail price and a shorter profit margin for them. There has to be at least the same profit margin they would get if they were buying it on kind of the old model which is buy from Tara at approximately 60 percent off of the retail price and mark it up to the retail price and offer sales of 25 percent off regularly. So that wouldn't work if it was coming
through us.

So we needed to have some way that we could participate in this thing. And I mentioned that we got together with these guys in 1990 and we didn't actually come on with the program until 2001. I couldn't find a way to do the math until China came on-line. Tara wasn't interested in participating and it wouldn't have worked with Masterpiece. It needed something else. I'm only describing ours.

COMMISSIONER ARANOFF: When you say Tara wasn't interested, one interpretation that I could put on Tara wasn't interested is Tara, there's no inherent reason why Tara couldn't produce a 12x12 product which is one of the new ones you were talking about. In fact I think we see it on one of their lists.

MR. STAPLETON: And they did.

COMMISSIONER ARANOFF: Right. It's not that they can't make any size, shape or level of quality. I could interpret it as saying it's because in the range that you're offering, at the bottom of that range they can't make any money off of selling you a product that will sell for as low a price as you want to sell it.

MR. STAPLETON: But I don't think they gave it any thought, I really don't. I think that like the retailers who blow me off, have blown our sales people
off, basically saying it's a destination purchase and
don't bother me with this rigmarole about presentation
and discounting off the list and all this other stuff,
oh, and the exploding market. You know, it takes some
swimming upstream. You have to have some vision and
belief that this thing is actually going to result in
this.

I was not able to convince them. And the
art stores who at a certain point they were selling
to, the numbers did not speak to them. I heard from
the proprietor of the art store that Tara was blown
away at the numbers that were doing through the art
store in canvas, yet they didn't string the dots
together. They didn't say gee, what made up this
magic that sort of explodes your sales? They chose to
ignore it and to be a producer.

This is America and you do whatever the heck
you want if you're in business, and they chose to do
something. They chose not to jump on this thing.
They chose when presented with a concept to present
inflexibility. To me that's a hallmark of what we're
dealing with here. We have two people that are part
of this petition in a field of ten people. That maybe
tells you something.

COMMISSIONER ARANOFF: I understand what
you're saying, but I guess I'm thinking even if that
were true back three, four, ten years ago, that they
didn't see the potential, that it's pretty obvious now
that this concept is working. You would think that a
wise business person would admit to the error of their
ways and try and turn things around. And yet what
they're telling me, what I heard from Tara this
morning was the low end product, the low end imported
products are selling for less than our cost or
production. So even if we buy the concept we can't be
part of the program because we can never serve that
part of the market.

MR. KANTER: Commissioner, there's a couple
of things you said I would love to try to enunciate.
The direct answer to your first question is
yes, relative to price. There is a relevance to the
price but that is only one component of a multi-
component answer. The reality is first of all,
Fredrix or Tara is selling branded goods, number one.
Number two, the whole concept of what we're talking
about presenting has many more components to it.

The price that we retail it out is not the
opening price exclusively, so our import program is
not just the opening price. There is absolutely in
the marketplace canvas priced below our product. Our
product inherently is more expensive than opening price because of the manufacturing, the spline versus staple sided. But in addition to that we carry the opening, if will, spline program which is, I don't know on a quartile basis probably in the second quartile. But then in addition we carry what was referenced today multiple times as the deep well canvas which is probably the second from the top quartile. We don't carry the highest level because that would be then different fabrications, i.e., linen and things of that nature.

But a couple of times we've referenced that China is opening price and the cheapest product, and it's not. In our case we spec it out specifically to what we want. One component of that is the value, the price/value equation about what the product specs are and what you pay for it.

But then among other things you have from Aaron Brothers an exhibit which actually articulates what Frank has continued to say in a more modern context, which is this wall with the stuff phased out, and if you were to look at the later Aaron Brothers exhibit you can see there's a wall and it has words like inspire and draw and paint and art and create because that's the concept that we're selling, and
we're actually charging somewhat slightly more money because it's private label branded Aaron Brothers, and it's under the impression that it's only available at Aaron Brothers. Now the reality is that's the impression we're trying to create in the marketplace, that Aaron Brothers is offering an exclusive product and it's a concept, not a piece of canvas.

The direct answer to your question, good, bad or indifferent is that price is absolutely a component of it but it's not opening price, it's not exclusively the cheapest product that's available in the market, and we defined it on a multitude number of feature benefits if you will, price being one of those.

COMMISSIONER ARANOFF: Okay, I appreciate that answer. If there's anything that either side wants to add in their post-hearing brief on this issue of sort of price value and Tara's ability or any domestic producer's ability to fit into that, it would be helpful.

Let me ask a legal question that I just can't resist. Mr. Gallas, in your brief you argue that the Commission can't find that declines in sales of the domestic stretched product are "totally the result" of competition from subject imports.
That's not really the standard material injury by reason of the subject imports, and I think my understanding of the standard is significantly lower than was totally the result.

Do you want to comment on whether or not we can still find injury even if we find that the decline in sales of the domestic stretch product had multiple causes?

MR. GALLAS: That's a good question, but I think the real point is, and I think you've heard from all the witnesses, there are many factors at work and I think this really, my statement probably went to causation. I think you see that there were many other circumstances at work here so that Tara's tabloids oversimplification that everything stemmed from Chinese imports, that isn't the true picture either.

I think you have to decide which of the two views of the market based on that chart I showed you earlier today is the correct one. I think the portrayal of the market from this group is the much more accurate portrayal which makes it that there just is not enough of the causation factors here available to show injury or threat of injury to this industry.

COMMISSIONER ARANOFF: Okay, I appreciate that answer.
My time is up. Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you, Commissioner.

I don't want to beat this to death but I've got to come back to this 229 quota. I kind of want to walk through it with you. I haven't done this yet but I want to pick up on what my colleagues are doing.

First of all, I go back to your brief which is filed on March 21st. On page 48 of your brief you state, "Based on information provided by our importer clients it is our understanding that the Chinese government has allocated only 500,000 kilograms annually towards artist canvas under the category 229 quota when there are many other products, two HTS numbers for canvas out of 65 HTS numbers."

Now your footnote to that references the Department of Commerce, ITA at the Department of Commerce.

You say that given the fact that the prior import levels before quota in 2005 were over five million kilograms, the safeguard quotas pose a dramatic reduction in canvas imports, and then you go on with that argument.

Commissioner Hillman referred to this Memorandum of Understanding between the governments of the U.S. and China concerning trade in textiles and

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apparel products, Annex 1. Annex 1, as she cited, shows 33,162,019 kilograms under special purpose fabric.

This, as I understand it from staff, this document is a public document. It's not actually in our record yet but it will be in our record very shortly, like after the hearing. It's not formally in our record at this moment but this is public.

There is nothing in this document though, when I look at it cover to cover, nothing that makes reference to this quota that you're referring to under that cap. There's no reference to it.

The reference in your brief is information from your importer clients. That doesn't get me there.

This afternoon I've heard a figure of 700 to 740,000 instead of 500,000.

Unless I have documentation that covers this since it's not in here, I can't get there in terms of this special cap within the cap. Okay? So just a statement that based on information from your importer clients, that does not get me there.

So for my purposes, if you can document your argument beyond what I've got so far, I would appreciate that very much.
MR. GALLAS: We are seeking to get an official document from the Chinese government that can explain its allocation. So far there is --

CHAIRMAN KOPLAN: -- to such an allegation.

MR. GALLAS: I understand what you're saying, but we have the anecdotal evidence of our clients, and talking to the largest exporter, the Microsoft of Chinese canvas --

CHAIRMAN KOPLAN: There's too much involved here for me to base my --

MR. GALLAS: I understand.

CHAIRMAN KOPLAN: Let me just finish.

MR. GALLAS: Go ahead.

CHAIRMAN KOPLAN: To base where I'm coming from on anecdotal evidence, okay? Because I'm looking at a written agreement that's a public document soon to be included in our own record. I can't get there on anecdotal, okay?

MR. GALLAS: Okay.

MR. KANTER: Commissioner, the hard facts, and I heard what you said and I'm sure we'll do that.

CHAIRMAN KOPLAN: I hope so.

MR. KANTER: As of Friday, this thing has happened so fast that literally as of Friday we could not get visas to release our goods to bring them into
the country. And as of Saturday we, Michaels and Aaron Brothers, were literally making decisions how to allocate between the two companies where the goods needed to come. Then we went back to the resource and literally tried to negotiate with them how they allocate their quota.

But the hard facts, and obviously I understand what you said in that document is not there. The hard facts are we not able to get visas for our goods because we're out of quota. Now how that comes to be in the document you reference I don't know, but we are not getting the goods that we need and that's what we'll probably have to follow up on obviously. But we're not getting them.

CHAIRMAN KOPLAN: I don't have them, and since you all raised this in your brief I'm saying I need something more tangible than anecdotal material. Okay?

Thanks.

I've got one last question.

Mr. Klett or Mr. Gallas. You note in your pre-hearing brief pages 19 to 22 that due to the product mix of U.S. produced and imported artist canvas competition from subject imports is limited. However, record evidence indicates that U.S. producers
have experienced declining production in sales for
precisely those products that are imported in large
volumes from China, specifically pre-stretched canvas.

    In my opinion, that demonstrates, at least
right now to me, an adverse volume impact of subject
imports.

    For purposes of the post-hearing I'd like
you to go back to the record and respond to that using
the BPI information that's available to the both of
you and respond to where I am right now on that point.

    MR. KLETT:   We will do so.

    CHAIRMAN KOPLAN:  Thank you very much.

    With that I will turn to Commissioner
Hillman.

    COMMISSIONER HILLMAN:  Thank you.

    I don't want to keep staying on this textile
quota, but let me just by way of background, I will be
honest.  When I first heard this argument about the
textile quota I didn't take it as seriously as I might
have because it was my understanding, again, these
quotas are expected to be a 15 percent uplift, et
cetera, et cetera, so that whatever else might happen
with the quota in terms of difficulties, it would not
result in a cut in anybody's level of imports.  It
would only result in a limit on the level of the
increase in the imports, so that we were going to be
making our decisions in this case on this assumption
that whatever China had achieved in terms of its 2005
levels of imports, we could assume if the quotas were
done in the way that they've always been done since
the MFA existed that they would be coming in at a
level somewhere in the order of 15 percent above
current trade.

So I thought okay, I can make my decision in
light of that.

What you've said, however, about this
difference between the way the weights are being
calculated suggests to me that this is not the normal
way in which textile quotas have always, since
whenever, been applied.

So what would be helpful for me as you're
thinking about this is I would like to understand,
again, because our data in looking at it is in square
meter equivalents. The quota is calculated in
kilograms. There's normally the standard 13.6
conversion factor to go from kilograms to SMEs but
you're telling me that's not what's happening in this
case. So it's making it hard for me to understand as
a practical matter how the quota is going to affect
the total volume coming in. Calculated in either
kilograms or SMEs, it's not clear to me how to translate what you've said about them weighing the frame, which is again not a normal textile thing that gets done, as part of the way in which they're determining the usage of the quota. That's where I'm struggling with this.

So if there is a way that you can help us understand, again, I'm still not understanding why the allocations are what they are, but you're going to get me whatever you can get from the Chinese government. Right now it's more trying to understand why it is that we should assume that the quota is going to result in this dramatic cut. I hear you saying it's a large cut in the total volume of what can come in under this quota. That is not normal in the textile world. They're orderly growth agreements, they're not cuts. So something different is going on. I'm assuming that the something different is this issue of weighing the frames.

So if there's anything further that you can put on the record that would help us quantify the degree of the cut that is coming as a result of them including the weight of the wood, is how I'm hearing it, and I want to make sure I get it right and that we have from your perspective what you think is the total
volume of imports that would be permitted under the
229 quota in this category in the way that Customs or
the Chinese government or whoever is doing this
measuring and interpreting, is going to read this
agreement.

MR. STAPLETON: Commissioner Hillman, I
think it might be helpful to have internal
correspondence either from us or from Michaels
relating to the clearing of current shipments. It
would explain this really well. Because the supplier
applied for the visa and filled it out, let's just say
for the sake of argument they asked for 4,000
kilograms for a 40 foot container, and the weight of
that containers was 25,000 pounds or whatever the
equivalent is in kilos. When Customs got this, and
they're the ones that have to police the quota. When
they got this they said there's a disconnect here.
The weight of the container is this and the amount of
visa that has been secured is this and these don't
work.

If you guys can share that privately --

COMMISSIONER HILLMAN: And then what I need,
because again where I'm having trouble is translating
the kilograms and/or the square meter equivalents that
we have versus how much it weighs once you put it on
the frame. I don't know that we have that on the
record. So I don't have any way, even if I accept
your figure of 750,000 kilograms as the effective
limit, I can't then backtrack from that into how much
that results in comparison to our data. Maybe that's
not clear --

    MR. STAPLETON: If you'll accept this, I
think that our supplier, Phoenix, could provide you
with a last year, 2005's worth of data, how much
kilograms of canvas was in that year that were
exported to the United States, and what the total
weight of that exportation was of the product. That
will tell you immediately what the --

    COMMISSIONER HILLMAN: Again, where my
problem is is in theory, the way this is supposed to
work is you're supposed to take whatever that 2005
number is, add 15 percent to it, and that's what you
get in 2006. Yet what I'm hearing you tell me is
that's not what's happening.

    MR. GALLAS: Phil Gallas.
I was involved with this current crisis.
I've had numerous discussions with CEDA and Customs
headquarters liaison with CEDA. I can provide you
correspondence, a confirmation of this problem with
Customs, apparently a misunderstanding between the
Chinese government and the U.S. as far as what is counted towards the quota. Is it just the fabric itself or is it the total finished article? Apparently, and we have a copy of it, there's a 1989 directive from Customs headquarters that said you had to count the whole finished article. The Chinese government is saying that wasn't our understanding, and yet the U.S. government, of course their policy is to count the whole finished article.

So I think that is creating the crisis in applying the quota which has created such a shortage.

COMMISSIONER HILLMAN: Whatever you can put on the record. Again, what I'm looking for at some level is your estimate of what this results in in terms of total imported amount in 2006, how you understand it under the way it's being interpreted and whether there's anything that's being done in any way to affect that interpretation that we should be aware of. Because there is all these different ways of measuring this and I just want to make sure I understand what that means in terms of actual import volume that would be expected in the absence of any change in this 229 quota.

I understand you can't go into why the Chinese government allocated it the way they allocated
it, but we'll leave that aside.

If I can then go more again to a legal argument. As I sit here and think about these arguments about the growth in the demand of the market, that your ability to bring in the lower price point Chinese product, to market it in a jazzier, snazzier way, has grown the market. Let's just say I accept that, and as a general matter our view is not that the domestic injury can claim injury if they didn't get more than X share or even didn't get any share of a growing market. In other words if they just held their own one could make an argument that they're not injured by all of this other activity going out there that they're not participating in.

My problem is when I look at the numbers, their sales in the finished canvas in terms of volume and dollars, et cetera, have gone down.

That's where I'm struggling with the -- Let's say I accept the argument that they didn't participate in the new fangled part of the market, but how do I read this data as saying that they didn't still lose in their, if you will, traditional market given that sales went down, sales volume went down, production went down, all these things went down in the finished canvas where the Chinese are
participating.

MR. KLETT: You're then assuming I think that the focus of the inquiry is just the assembled canvas and you leave completely aside the rest of the industry that includes bulk canvas, includes digital canvas, includes canvas panels, so on and so forth.

I think Mr. Thompson said that the fact that there was this divergence between assembled canvas and the other types of artist canvas basically made his point because it indicated that it was in the assembled canvas where things were going south and it was in the other areas where things were going north. I don't think that's how you look at it.

It's injury to the industry as a whole. It's not injury to that part of the industry that competes most directly with imports and give less weight to that part of the industry that competes less with imports.

I think the other point is that, and get back to the Mexico situation. Clearly part of the reason the assembled canvas is going south was the shift to Mexico. So I think there was a question from Commissioner Lane as to we said it's important to know why that happened.

Obviously our story about why that happened
differs from Tara's.

But I think the main point is that you have
to look at the industry overall, not just to that part
of the industry that competes most directly with
imports.

MR. KANTER: Commissioner, could I just add
one thing?

In addition to what Dan said, if you look at
just the three of us and answer why their business has
decided, the eliminated him as a distributor, the
quality issues with John forced him to look at another
American manufacturer as well as India, and in our
case the manufacturing and production spec that we
have wasn't available through another American
resource at the volume level we were trying to do and
the other resource opportunity was China.

So in all three cases, I wouldn't say we
were forced to make decisions, we weren't, but leaving
them and going somewhere else regardless of who, it
could have been another American resource, was almost
a fait accomplis.

COMMISSIONER HILLMAN: Thank you very much.

CHAIRMAN KOPLAN: Thank you Commissioner.

Commissioner Lane?

COMMISSIONER LANE: I have no questions.
CHAIRMAN KOPLAN: Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman.

Following up on Commissioner Hillman's question, as a legal matter Mr. Gallas, how should we analyze the shift of a substantial portion of Tara's production of finished canvas from the United States to Mexico as we are trying to understand injury to the U.S. industry? And if you don't want to go into it all now, put it in the post-hearing. But my reading of the record would suggest that there's pretty close to a one-to-one shift of U.S. product, what had been U.S. production to now non-subject imports, and I'm guessing that's Tara product coming out of Mexico.

So it's not clear to me whether the injury that might be suffered by the U.S. industry here would be similar to what we see in many cases.

MR. GALLAS: I'd like to develop that further using proprietary data in the post-hearing brief.

COMMISSIONER PEARSON: Okay. Keep in mind I'm not an attorney, so when I ask for a correct understanding of the statute I do need that.

MR. GALLAS: Certainly.

COMMISSIONER PEARSON: The final point, Mr.
Chairman, my final point. I do, despite what it might appear, I do actually work kind of hard at trying to apply the law in a thoughtful and appropriate manner. However setting that aside I'm actually very interested in the outcomes of our decisions. What happens in the marketplace when we decide as a commission either to go affirmative or negative on a dumping case?

In this one, this case seems to me to be different than many. It looks to me as if because of the textile quota issue that Respondents are in a world of hurt regardless of what we do on this dumping case. On the other hand, Petitioners at a minimum are in a world of change regardless of what we do. I'm just wondering, could you comment on that? Does it make a lot of difference what we do in this case, in this investigation?

MR. GALLAS: Of course your decision will have a big impact on these folks. Not to mention as Mr. Stapleton commented, from the time of the preliminary determination by Commerce on November 7th, they've had to post security with U.S. Customs based on the preliminary margins found by Commerce. They've now come to a final. If this were to proceed to a dumping order every time they want to import the
goods, if they are able to get the supply from China, they will have to post then cash deposits instead of a bond, having the option of a bond. So it will become also a cash flow consideration.

That will certainly enter into the way they do business and they'll have to consider their sourcing options. It has an inevitable effect.

I think what they were trying to communicate today, and I understand we need to come up with more evidence as far as allocation of quota and so forth, but it's clear to me from hearing from my clients the last few weeks who have been calling in crisis mode that there is definitely something going on that has limited their source of supply that is attributed to the quota. To the point that they are all scrambling to try to figure out what to do.

So we think the quota itself, in and of itself is going to be a major impediment to their being able to import this product in the future. On top of that to have a dumping duty, it will certainly have a double impact.

COMMISSIONER PEARSON: Adds insult to injury from the standpoint of your clients.

MR. GALLAS: So to speak, yes.

COMMISSIONER PEARSON: I do understand.
There are still winners and losers based on our decision. It just seemed to me a little less clearcut than some cases we deal with where it's much more transparent what might happen than it is here.

Mr. Klett, are you about to say something?

MR. KLETT: No, I was not.

COMMISSIONER PEARSON: Wise decision. I think I'm going to stop too.

For Mr. Stapleton, you mentioned earlier that you didn't even know we existed until you got into this situation. I would just observe, I hope you aren't in the position of concluding that you're getting a lot more government than you have paid for.

(Laughter).

MR. STAPLETON: I would have to say I'm impressed. I sat on a federal jury once and it was at the time that the O.J. Simpson thing was going on and there was a lot of disrespect for the jurisprudence system at that time. And I would have to say that I feel the same way today as I did sitting on that jury. I'm very proud of what I've seen.

COMMISSIONER PEARSON: Thank you for that comment.

Mr. Chairman, let me end there. I have no further questions.
CHAIRMAN KOPLAN: That's a good ending.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman. I have only one question, but alas, it's sort of a long, meandering question so it may not be as short as my colleagues are hoping.

I wanted to just one more time try to get my arms around this idea of the shortage that you all see happening or developing because of the quota situation, and so I just want to make sure that a couple of facts that I heard today are correct and then ask my question.

What I heard from you was that Phoenix, who seems to be the major supplier at least to the group who is present here, has used up its quota and can't send anything else to the United States in 2006 unless something changes on this dispute with Customs. Is that correct?

MR. STAPLETON: No. As far as I understand it it's meted out on a quarterly basis. I think we're actually going to have to get a letter from the Chinese government, a letter from Phoenix, a letter from you explaining the process in order for you guys to put all this together. I'm sure we can in narrative form explain it through all of that.
But as I understand it, there is a quarterly amount that's doled out. We are at the end of the first quarter and there's nothing left.

COMMISSIONER ARANOFF: So they've used up the first quarter quota and it's the last week in March, so that's not terrible.

MR. STAPLETON: Right. But it was used up in basically about ten containers.

MR. GALLAS: Excuse me. I just want to ask my clients, isn't this the time you begin your back to school inventory ramp-up?

MR. KANTER: Phil, to your point, the reality is our shipment right now will use up, we're going to get 70 percent on the first shipment on the first week of the second quarter, and that's it because the quota's gone for the second quarter. So out of 100 percent of our on-order, 70 percent is available to us vis-a-vis the visa that is available for the quota. And it's done. So now we don't get good again until basically August.

COMMISSIONER ARANOFF: I was also under the understanding, partially from what Petitioners said this morning and partially from what I've been told by our staff, that some part of the quota is either reserved for bidding, it's not allocated out but you
can buy it on the open market and that even the stuff that is allocated can be sold on a secondary market so that the limit that you all are up against may not be the real limit, depending on the cost of purchasing additional quota. Is that true?

MR. GALLAS: It's a given from the time of bilateral quotas that there's always been a secondary market, but it's a seller's market and it's a limited market. And people traditionally, zealously want to use their own quota for production and if they don't use it up traditionally -- pre-expiration of the MFA as you know, they would take away the quota if they didn't use their annual allocation. But there was always the secondary market to be able to sell the quota if you had some extra left over. But it's hard to find. People don't advertise, on Craigslist I have quota for sale. It's very hard to find and it's expensive.

MR. MAREK: Commissioner?

COMMISSIONER ARANOFF: Yes.

MR. MAREK: Our China resource has spent the last couple of weeks searching high and low under every rock, going to people that had quota within the 229 bucket and has come up with nothing. The reason is, as Phil pointed out, reluctance to sell might be
one reason. Another might be because it's early in the year. They don't want to lose forward. This is brand new so they don't know what to expect. But the bottom line is the net result of all our efforts to date has been zero.

COMMISSIONER ARANOFF: I appreciate those answers, and those were really only the lead-up to my question which was if you can't get as much as you need from your Chinese sources and the testimony that I thought I heard was that most of you are not in a position to develop an alternate non-subject source that's acceptable in say less than a year, maybe longer, and you brought in a bunch of inventory in advance of the dumping duties and the quotas, but I don't know how long that's going to last you, maybe some of you can tell me that.

At some point in 2006 you get to a place where you can't get any more Chinese, you've run out of inventory there's no non-subject source. Am I going to go into your store either now or in six months and see manu fewer shelves devoted to artist's canvas because you're just going to sell less? What am I going to see? Are you going to find a domestic source? You've sort of said there aren't any more. What's going to happen?
MR. MAREK: Commissioner, Alan Marek.

First of all, if we don't get any relief, if there is no relief on the China side for delivery of that product, there is going to be a huge void in the supply chain to fulfill our marketing plans, as we explained them to you, and the success of those and the customers we've satisfied over the last couple of years.

What are we going to do? At this point, we're using all of our resources, aside from the time we're here now, to try to find a way. Our China factory is approaching the China government in Beijing. He is a very small factory relative to others in Category 229. He is a very small piece of that 229 bucket. His concern is he is going to have a difficult time in convincing the Communist Chinese government to listen to him in terms of the weight issue and how that's relegated. He has no idea how long that's going to take, but because this has happened so quickly, and because we wanted to appear here today, we really haven't sat down as a company and decided what steps are we going to take next. Right now, we're frantically scurrying around, trying to find answers to those questions.

COMMISSIONER ARANOFF: Okay. I appreciate
those answers, and if there is anything else that any
of you wants to add -- also, you had mentioned a
company that's not represented here today that's
pursuing a supplier in India in a shorter period of
time. If you could provide in confidence that
information for us, that would be helpful.

I understand that things are in flux for
you, and I'm just trying to sort out, assuming that
everything goes badly for you, you don't fix your
quota problem, you don't find another supplier this
year, I'm trying to figure out what the market will
look like, so I would appreciate anything you can add
on that. In fact, I would also invite the domestic
industry to respond to that question as well.

Thank you, Mr. Chairman. I don't have any
further questions.

MR. MAREK: Commissioner, may I just add one
other thing? Alan Marek.

COMMISSIONER ARANOFF: Sure.

MR. MAREK: I thought I heard you say, and
maybe I misunderstood you, that we were building up
our inventories or whatever before the quotas came
into play, et cetera. To my knowledge, and, again,
I'm not the buyer, and I'm not in inventory
management, but to my knowledge, that certainly didn't
occur at Michaels or Aaron Brothers, as Harvey just said.

MR. STAPLETON: That didn't happen at MacPhersons either.

MR. MAREK: And the reason is because, first of all, a lot of this took us by surprise, number one, and, number two, we don't have any, at least, again, at Michaels, we don't have any reason to build up inventories. We order as we need it. We plan things out. It takes a longer time.

Harvey pointed out earlier that the order and receipt process for a Far East buy is significantly longer than it is in the U.S. We have safety stock. We order additional inventory to cover that, but it's all done in advance of when we need it. So when you look at the scheme of things, we may have had product for the last couple of months while this has just first hit us -- right? -- but that's quickly running out, and when we do, in fact, get release of goods overseas, or when we can even get an order processed and built, then the time between that happening and it arriving to port here and then getting into our warehouses for distribution is going to extend the receipt in the stores.

COMMISSIONER ARANOFF: I understand. It may
have been that I heard from Petitioners this morning.

MR. GALLAS: I was just going to say -- Phil Gallas -- that that was purely speculative by Petitioners. They never made any allegations of critical circumstances at Commerce, so there is no evidence on the record before the Commerce Department of any surge created as the result of the filing of a dumping petition.

COMMISSIONER ARANOFF: Okay. I'll ask all of your or, alternately, our staff if we can get on the record statistics that would cover the months leading up to monthly data that leads up to the imposition of the duties and the beginning of the quota so we can just take a look at that issue. Thanks very much.

CHAIRMAN KOPLAN: Thank you, Commissioner.

I don't have any questions, just an observation. When the gentlemen were talking about being shut down until August and not having any source of supply, I noticed, I think, that Mr. Straquadine's hand was up. It's up again. So there might be a source right here in this room for you.

MR. STAPLETON: Commissioner, not for us.

They fired us.

CHAIRMAN KOPLAN: He's got his hand up
again. I'm not going to get involved in the
negotiation. I'm just mentioning what I'm observing
in the room.

Let me see if there are any other questions
from the dais. Commissioner Hillman?

COMMISSIONER HILLMAN: Just one quick one, I
think, for post-hearing. You claimed originally that
Tara's financial reporting to the Commission was
inaccurate, and in between then obviously there has
been a verification of the Tara data. I'm just
wanting to make sure I understand whether you still
believe, in light of the revised verified data, these
discrepancies exist -- again, I'm going specifically
to the issue of the allocation between the Mexican
production versus the way Tara allocated its expenses,
U.S. versus Mexico, and if so, if you could lay that
out in light of the verification of the data in your
post-hearing brief.

MR. KLETT: I would be happy to. I haven't
seen the verification report, so as long as that's in
the Thursday APO release, I would be able to comment
on that.

COMMISSIONER HILLMAN: I understand. It's
all APO, and it's in the verification report, but I'm
just wanting on the record for you to comment in your
post-hearing brief on whether you still think there are issues that need to be looked at on the expense allocation.

MR. KLETT: I will do so.

COMMISSIONER HILLMAN: Thank you very much. And with that, I have no further questions, but thank you all very much for your answers.

CHAIRMAN KOPLAN: Thank you.

Ms. Mazur, does staff have questions of this panel before I release them?

MS. MAZUR: Mr. Chairman, the staff has no questions.

CHAIRMAN KOPLAN: Thank you. Let me give you the time remaining. Petitioners have nine minutes remaining from their direct presentation. Respondents have 11. So that can be used for rebuttal, and then, of course, you both have five minutes for closing on top of that. My understanding from the secretary is that, Mr. Thompson, you don't have any questions of this panel before I release them because you want to save all of your nine minutes for rebuttal.

MR. THOMPSON: That's the case.

CHAIRMAN KOPLAN: That's correct? Well, then with that, I will release the panel, and we will
start with Petitioners' rebuttal and then go to
Respondents' rebuttal.

(Pause.)

CHAIRMAN KOPLAN: You're asking for one
minute, Mr. Thompson?

MR. THOMPSON: Yes, Mr. Chairman. We're
just deciding on who is going to do the rebuttal
presentation.

CHAIRMAN KOPLAN: One minute.

(Pause.)

(Discussion held off the record.)

CHAIRMAN KOPLAN: Are you ready to proceed?

MR. THOMPSON: Yes, Mr. Chairman.

CHAIRMAN KOPLAN: Okay. You've got nine
 minutes; not that you have to use it all, but you've
got nine minutes.

MR. STRAQUADINE: Good afternoon. Paul
Straquadine. I, too, appreciate everyone's time. I
know it's been a very long, arduous day, and I
appreciate your attention and your time in this
matter. I do apologize that much of what's been
discussed today sounds almost like a divorce court
proceeding, and it certainly wasn't our intention to
bring our dirty laundry in front of you.

I do believe, though, that the Respondents
made several statements that are very indicative of this petition and very indicative of the artists' canvas market. I believe that Mr. Stapleton referred to the partnering that was addressed with Tara Materials, the partnering to take the book shelf-style merchandizing into the front-faced merchandizing, and partnering, I will submit, is a very nice marketing word for price. Partnering is an allocation or a merchandizing allowance or something that means Tara reduced their price.

We are not retailers. We have never been retailers. Tara is a manufacturer. We make product. We would certainly never choose a merchandizing scheme that says, stack our product in the back of the store, book shelf style, where no one sees our beautiful labels and our lovely, white canvas. But we do understand that it does help sell canvas.

I worked with the West Coast retailer who did the front-facing concept, and I saw the success of it when I was there. So it's not that we are in opposition to that merchandizing dream. What we are in opposition of is being able to reduce prices to Chinese levels in order to fund that marketing for a large distributor or for a large retailer.

I believe that the other term that Mr.

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Stapleton used was he was speaking to the soccer moms and saying that you need something to hook you and bring you in, and that would be price. That 40 percent off sale; I know he used the term "inflated retails," and I think that's indicative of a kind of bait-and-switch philosophy that is basically overused in merchandizing and marketing today where people want to mislead a consumer that the value is greater and that their discount is more attractive. So I would say that that is still all indications leading toward price.

In the situation of Aaron Brothers, in terms of specifications of product and working with manufacturers who could hit the three points that were necessary, I believe price was a part of all three of those. Price was involved with quality, price was involved with the specification process, and price was involved with price.

I would also submit that Mr. Marek made reference to Michaels' purchases of private labels from China not growing the market. From our sources at Michaels, our buyers and merchandisers there, we have been told on several occasions that the China-sourced product has been promoted and priced substantially lower than the previous product made by
Tara, and thus the sales were increased as a result of that.

MR. TWITE: Good afternoon. My name is David Twite. I'll go quickly on this.

There was a point made this morning. The Commission raised some questions about the distinction Tara makes in our inclusion in domestic production the conversion of bulk canvas and assembled stretched canvas and our exclusion of the process of adding an ink jet-receptive top coat. The distinction lies in the nature of the resulting products and the percent impact the conversion has on finished value. Specifically, the stretching operation substantially transforms the product and results in a multitude of products that can be sold interchangeably with competitive product in the art materials market.

The salient point here is that they become different products but still in the art materials product category. In addition, the value add of assembling and stretching canvas represents over 50 percent of the cost of goods. Alternatively, the top-coating process adds a much smaller percentage cost of goods, and the resultant product is primarily altered to be a calibrated consumable for use with specific manufacturers' printer inks.
In this sense, the top coating is really the first step in the transformation of the product into finished art reproductions or wall decor items, which is a very different product category. An appropriate analogy would be the transformation of wood into various sizes of dimensional lumber versus the application of paint primer to make it more paintable.

I did want to comment on another thing I heard. Mr. Kanter from Aaron Brothers commented on the circumstances surrounding their decision to stop purchasing from Tara. While I cannot comment on the factors they ultimately based their decisions on, I was present at all of the meetings and correspondence they had with Tara concerning this decision and, therefore, can confidently attest to the topics discussed at these meetings.

There were two. Was the Chinese product comparable in quality? They wanted to confirm the weight of the fabric, the number of coats of jesso. They even asked us to test the product with regard to certain performance characteristics. In short, they wanted to know if they were comparing like product.

Two: Could Tara meet or come close to the prices offered by the Chinese competition? In the first face-to-face meeting we had when the topic was
broached, we were told that we would have to become very aggressive with the pricing, but they wanted to stay with Tara because of the confidence they had in our historical relationship.

At the second meeting, our price-rollback offer of approximately 20 percent was dismissed immediately as inadequate. Catherine Henkins, who is responsible for this product category, indicated that we would need to have a price reduction of 45 to 50 percent for it to be attractive enough for them to stay with us.

At no point was quality deficiency on the part of Tara product a topic or a reason given for Aaron Brothers' interest in changing vendors. To paraphrase Catherine's words, the margin implications are just too completing, referring to the Chinese canvas.

At no point was size selection raised as a criticism against Tara nor desire on the part of Aaron Brothers. They didn't come to us looking for a greater assortment.

Now, I want to make one final comment. This is really a hugely unfortunate place for us all to end up. Every member of the industry that is present here today would rather be doing something else. Tara
initiated this petition because we believe that we
having disadvantaged in the marketplace in an unfair
and illegal way. We do not have access to all of the
competitive data that would determine exactly to what
extent this is occurring.

We hope for a positive outcome. We
appreciate the Commission's efforts in determining the
truth, and we look forward to getting back to
business. Thank you.

MR. I. BENATOR: Michael Benator. I wanted
to point out that Mr. Klett's diagram, his Exhibit 1,
shows the greatest growth in Mexican production was
from 1999 to 2002 before China came into the market
and saying that Tara is switching production to Mexico
even before China. All of that growth we can document
and support that related to the splined canvas that is
specially produced where it is stretched on the back
with a vinyl spline, all of that production has always
been made in Mexico and has never replaced any U.S.
production.

Regarding the Respondents' comments as far
as if the quotas limit them from replacing the Chinese
with other product, I firmly concur that the U.S.
manufacturers could respond. The only difference is
we can't respond at the same price. There are also
other countries that have plenty of capacity, and the only real issue is the China price.

I think we're out of time.

As far as MacPhersons, the issue that we can't price our prime contract for the distributor to sell to the retailers and below Tara's net price so he can maintain a favorable margin, the real issue is the price, the price that we sell it to him for that he then has to sell it to the retailer for. By getting a Chinese product, he was able to buy it at a low price, then be able to mark it up and sell it so the retailer could sell it below Tara's price, and he could still make a favorable gross profit margin.

The issue as far as why we can't price Michaels' private label, Aarond Brothers' private label, and Utrecht private label products at the aggressively advertised sales prices with a better margin is because our margins and our prices are already as tight as they can be, and the only way for these big box retailers to switch to another private label brand and improve their margins again is price.

CHAIRMAN KOPLAN: Thank you.

MR. I. BENATOR: Thank you very much.

CHAIRMAN KOPLAN: Mr. Gallas? You've got 11 minutes. Could you repeat that with the microphone
on? I was enjoying it.

MR. GALLAS: Mercifully, I'm not going to use all of that time. You have all been incredibly patient. You've listened to a very interesting day of testimony. I'm really struck by how apt the chart I showed you this morning is. It shows the stark contrast of two diverse views of the four Ps and the market as viewed by my clients and as viewed by Tara.

Innovating merchandizing and marketing of canvas started in the mid-nineties, and it sparked the changes in the industry which we're seeing today. Those innovations were by my clients, the importers and retailers, who quickly sensed these changes and tapped into the growing market opportunities. They were the ones who offered and marketed the new products and catered to a new breed of consumers. They created the demand that you've seen through all of your data. You see that the demand is growing.

A lot of you have seen all of these positive trends that show that there is more than enough demand to satisfy not just the domestic industry but also the Chinese product. There is an enormous demand that's been generated by this new breed of consumer and by the marketing efforts of my clients.

Tara, on the other hand, has made a
financial decision to move its canvas production to Mexico to capitalize on the lower labor there. This decision compounded its current predicament because the way they handled things, they specifically failed to address quality problems, as you've heard repeatedly, and nurture clients which resulted from this move. They fired key customers. They alienated key customers. These problems predated imports, and that will be developed further in our post-hearing brief.

These problems increased largely due to Tara's failure to recognize the potential of its market and its customers. Tara continues its disingenous stonewalling regarding the digital-print canvas. Mr. Twite's points were totally irrelevant to the Commission's criteria for deciding whether a converter is part of the U.S. industry. Clearly, these producers are part of the U.S. industry when you look at the producers' questionnaires before you, and we will talk about the value added and the like in our post-hearing brief.

Even though Tara has included digital-print canvas in the case, they have been less than forthcoming in allowing the Commission, in identifying the universe of these digital print producers and
allowing the Commission to ascertain the data to know whether or not they have adequate coverage to make this decision on the industry as a whole. In fact, your recent opinion in the preliminary on lined paper contained a footnote chastizing the petitioner in that case for impeding the Commission's investigation by changing the scope and not having data collected in their questionnaires consistent with the scope.

I realize that scope is something a little different, but I think the same general point applies here, that Petitioner is the one responsible for the Commission not having the data sent out to the industry that you would have normally done. I think it's even more egregious since this has happened at the final phase of your investigation.

You've heard the anecdotal evidence. We will try to get you more documentation. Something is seriously going on with the textile quota that is impeding my client's abilities to be able to source their goods from China. This is something real and concrete. I understand the Commission's need for concrete evidence, and to the extent that we can get the Chinese government to be more forthcoming in their allocation of the quota, we shall provide it, and we certainly can provide you our correspondence with

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Customs headquarters and their directive and and so forth on this recent issue.

I think the positive trends that Commissioner Hillman, Commissioner Pearson, and others identified, and Chairman Koplan -- there are many different indicia here that you have before you that show very positive trends, that the prices are increasing, and that demand is going up and apparent consumption, et cetera, et cetera. All of those positive trends you mentioned show a healthy industry. It doesn't show your typical case where you really have an unhealthy industry that would show truly material injury or threat of injury.

Here, you have a healthy industry, and you have to remember, Tara is not the whole industry. Granted, they are the petitioner here, but you don't have the whole industry. There is more than them. You have to consider the injury to the industry as a whole, and I think that when you obtain the information from the digital print producers, you will have that information to show, and it will change the overall picture of the health of this industry.

I would like to thank you all for your patience. I would like to thank you for allowing us to come before you today, and I'll reserve my further
comments for our post-hearing brief. Thank you.

CHAIRMAN KOPLAN: Thank you. We will now go to closing remarks.

MR. GALLAS: I have nothing further.

CHAIRMAN KOPLAN: Okay. So you're not going to use your five minutes for closing.

MR. GALLAS: No, I will not.

MR. THOMPSON: I would be happy to buy them from him.

CHAIRMAN KOPLAN: To do what, to buy them?

MR. THOMPSON: To buy them from him.

Thank you again, Mr. Chairman. Just a couple of points, sort of a theme without a pudding, if you will, or a pudding without a theme on my points, but there are a number of issues that I would like to address that were raised in the testimony by both sides today.

First, Tara discussed the price effects of the imports, and then we heard Respondents come in and talk about the importance of price points. Now, to me, that's a euphemism, price point being let's get it as cheaply as possible and use that as a lever to either force Tara's prices down, which has occurred, or use it as a reason to buy from parties other than Tara, namely, the Chinese suppliers.
Now, Respondents made the point that there has been an expansion in demand because of the "lower price points." Now, that just may be, but here is the problem. When U.S. companies buy from China, they don't just buy the section of the supplies that they need that is limited to consumers that would not otherwise purchase artists' canvas. No, they buy the entire range from China. So if there is a percentage, which the Respondents have not been able to define, of parties that would never buy artists' canvas at U.S. prices, that's one point, but, in fact, they are buying their entire range from China, including the products that Tara previously sold and that were being sold in the U.S. market.

So we might have some price effect on that expands demand, which, as I said, has never been defined, but most of what is coming from China is replacing product that was already being sold in the United States market, and Michaels Stores is a case in point. We heard Michaels discuss before how its sales of Tara's Fredrix canvas have increased over the past few years. That's true, but it's incomplete.

Michaels sent its private label purchases to a Chinese supplier back in 2003. I've seen the numbers during the hearing. If you add up all of
Tara's sales to Michaels, starting from 2003 to the present, they have actually declined. Fredrix may be up, but the private label is down even more than that increase.

So we have Michaels as a case in point where an entire product selection, the private label, was replaced by Chinese canvas, and the reason for that was that China provided a lower price than the United States.

Now, further on Michaels, let me note Michaels' impact on Tara's decision to expand its production in Mexico. The Respondents have made the point that Tara couldn't have moved to Mexico because of Chinese competition because they moved their production there before the imports really grew in a big way. Well, the problem was, and this is why Tara moved when it did, Michaels had announced that it was moving its private label sourcing from Tara to China back in 2003. At that point, the imports hadn't started. Michaels had announced that it would be importing in the future.

So Tara, faced with the realization that one of its biggest customers was now moving to Chinese product on the basis of price, sought to do what it could to lower its overall costs and do what it could
to meet the price points that the Respondents had
referred to today in anticipation of that loss of
business, and, sure enough, the imports followed.

Another point, just to leave you with this:
Tara does produce print canvas itself. There was a
misstatement by Respondents' economist. Tara is a
producer. Thank you.

CHAIRMAN KOPLAN: Thank you. Thank you to
all of those who participated in today's hearing. I
also want to thank the staff for its assistance to us
in this investigation.

Post-hearing briefs, statements responsive
to questions and requests of the Commission, and
corrections to the transcript must be filed by April
4, 2006. Closing of the record and final release of
data to parties by April 19, 2006, and final comments
are due April 21, 2006. With that, this hearing is
adjourned.

(Whereupon, at 5:43 p.m., the hearing in the
above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Artists' Canvas from China

INVESTIGATION NO.: 731-TA-1091 (Final)

HEARING DATE: March 28, 2006

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: March 28, 2006

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
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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).

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SIGNED: Christina Chesley
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