

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation No.:
CARTON CLOSING STAPLES FROM CHINA) 731-TA-1359 (PRELIMINARY)

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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation No. :
CARTON CLOSING STAPLES FROM CHINA) 731-TA-1359
) (PRELIMINARY)

Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Thursday, April 20, 2017

The meeting commenced pursuant to notice at 12:30
p.m., before the Investigative Staff of the United States
International Trade Commission, Michael Anderson, Director
of Investigations, presiding.

1 APPEARANCES:

2 Staff:

3 Sharon Bellamy, Records Management Specialist

4

5 Michael Anderson, Director of Investigations

6 Douglas Corkran, Supervisory Investigator

7 Lawrence Jones, Investigator

8 Mark Brininstool, International Trade Analyst

9 Cindy Cohen, Economist

10 Janet Freas, Accountant/Auditor

11 Benjamin Allen, Attorney/Advisor

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1 Opening Remarks:

2 Petitioners (Elizabeth J. Drake, Stewart and Stewart)

3

4 In Support of the Imposition of Antidumping Duty Orders:

5 Stewart & Stewart

6 Washington, DC

7 on behalf of

8 North American Steel & Wire, Inc./ISM Enterprises

9 Maroune Farah, Owner, North American Steel & Wire,

10 Inc./ISM Enterprises

11 Ross Tyndall, Management Consultant, North American

12 Steel & Wire, Inc./ISM Enterprises

13 Elizabeth J. Drake, Philip A. Butler and Jennifer M.

14 Smith - Of Counsel

15

16 Closing Remarks:

17 Petitioners (Elizabeth J. Drake, Stewart and Stewart)

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P R O C E E D I N G S

(12:32 p.m.)

MS. BELLAMY: Will the room please come to order?

MR. ANDERSON: Good afternoon and welcome to the U.S. International Trade Commission's conference in connection with the Preliminary Phase, Anti-Dumping Duty Investigation Number 731-TA-1359, concerning Carton Closing Staples from China. My name is Michael Anderson. I'm the director of Office of Investigations.

Among the staff here present from the Commission working on this investigation are to my far right, our Supervisory Investigator, Douglas Corkran, and our Investigator Larry Jones, and to my left, Benjamin Allen, our Attorney/Advisor, our Economist Cindy Cohen, our Accountant/Auditor, Janet Freas, and our Industry Analyst, Mark Brininstool.

I understand that parties are aware of their time allocations, and any questions regarding time allocations should be addressed with the Secretary. And I would remind you, when you speak into the microphones, if you'll please, each time, state your name for the benefit of the court reporter. And all witnesses must be sworn in before presenting any testimony. Are there any questions? Madame Secretary, are there any preliminary matters.

1 MS. BELLAMY: No, Mr. Chairman.

2 MR. ANDERSON: Very well. Let us begin with
3 opening remarks.

4 MS. BELLAMY: Opening remarks on behalf of
5 petitioners, Elizabeth J. Drake of Stewart and Stewart.

6 STATEMENT OF ELIZABETH DRAKE

7 MS. DRAKE: Good afternoon. I'm Elizabeth Drake
8 of Stewart and Stewart for the petitioner, North American
9 Steel and Wire, Inc./ISM Enterprises. First, we want to
10 thank the Commission staff for all of their work in this
11 investigation. We realize how busy the Commission is these
12 days and the work you do is essential to domestic producers
13 like the company before you today.

14 This case is about the survival of the domestic
15 industry in the United States. ISM has been a well-known
16 major brand of carton closing staples for decades. But a
17 rising volume of imported Chinese staples that began in the
18 early 2000s put mounting pressure on the domestic industry.
19 Other domestic producers were forced to close their doors or
20 shift to other products. By 2010, North American Wire was
21 in bankruptcy, and ISM was on the verge of bankruptcy.

22 The current owners bought both companies with a
23 vision. They did not buy these companies to simply strip
24 them of assets and move on. They were committed to reviving
25 integrated production of carton closing staples in the

1 United States. They believed that the company's
2 well-recognized brand and quality assets would permit ISM to
3 make a viable comeback. They were committed to keeping
4 production in the United States and supporting American
5 manufacturing jobs.

6 But the surge in Chinese imports continued year
7 after year. From 2014 to 2016, depending on the public data
8 source used, imports of Chinese staples are estimated to
9 have grown by 17 to nearly 70%. This increase came at the
10 direct expense of ISM, which lost sales and market share to
11 rising Chinese imports.

12 Chinese imports were able to gain market share
13 due to several factors. First, carton closing staples are
14 mostly made to standard sizes and specifications and are
15 highly interchangeable, regardless of source. Producers
16 will make staples that fit other manufacturers' stapling
17 tools and advertise them as such. As a result, these highly
18 interchangeable staples compete primarily on the basis of
19 price.

20 Second, carton closing staples are sold mainly
21 to distributors who will handle both domestic and Chinese
22 staples, and most sales are on spot market. This makes
23 price competition even more intense.

24 Third, Chinese producers have demonstrated a
25 willingness to deeply undercut domestic prices and lower

1 prices in order to gain market share. Our petition
2 estimates that carton closing staples from China are dumped
3 at margins as high as 263% and undersell domestic product at
4 margins ranging as high as 84%.

5 Mr. Farah will testify that Chinese staples have
6 been quoted at prices that are not only below their own cost
7 of production, but below even the cost of just the primary
8 raw material. As a result, ISM has been faced with an
9 impossible choice.

10 If the company tried to lower its prices to meet
11 the dumped Chinese price, it would've guaranteed its own
12 eventual demise. The only option was to hold prices, reduce
13 costs and try to increase the sales volume. In past years
14 prior to the surge in Chinese imports, ISM had been able to
15 achieve sales volumes that were many multiples of its
16 current volume, allowing it to better utilize its capacity
17 and cover fixed, as well as variable, costs.

18 Due to the loss in volume to Chinese imports,
19 however, current sales volumes are far, far below the
20 company's capacity. This makes it impossible to cover both
21 fixed and variable costs, even while trying to hold prices
22 steady. The result has been significant and sustained
23 losses for ISM throughout the period of investigation.

24 This has forced the company to lay off workers
25 and reduce hours. It has also deprived the company of the

1 ability to make needed capital expenditures and to engage in
2 any significant research and development or major marketing
3 activities. The current trends are not sustainable for ISM.
4 The owners of ISM simply cannot keep pouring in their own
5 funds to cover the losses the company has suffered due to
6 Chinese imports.

7 If relief is imposed, the company will have the
8 opportunity to greatly increase its sales volumes using
9 existing equipment. This will allow it to better use the
10 employees it currently has, and to hire more workers. To
11 cover its costs, to earn a profit and to become viable for
12 the long-term.

13 If relief is not imposed, the company and its
14 workers are at risk. As the last remaining domestic
15 producer of carton closing staples, this would also put the
16 survival of the domestic industry in jeopardy. For all
17 these reasons, we hope the Commission will make an
18 affirmative, preliminary determination in this case. Thank
19 you.

20 MR. ANDERSON: Thank you, Ms. Drake.

21 MS. BELLAMY: Will the panel please come
22 forward?

23 MR. ANDERSON: Welcome to the panel and, as you
24 can tell, there's a lot going on at the Commission today,
25 and it's nice to have our own cozy, little room here. So

1 welcome to our visitors and our panelists today. And we
2 look forward to your testimony. Ms. Drake, please proceed
3 when you're ready.

4 MS. DRAKE: Thank you very much. Good
5 afternoon. Elizabeth Drake for the petitioner. We would
6 like to begin with some testimony, starting with Mr. Farah.

7 STATEMENT OF MAROUNE FARAH

8 MR. FARAH: Good afternoon. My name is Maroune
9 Farah, and I'm one of the owners of North American Steel &
10 Wire/ISM Enterprises. This case is vital to the survival of
11 our company. If we cannot get relief from dumped imports of
12 carton closing staples from China, if we continue to lose
13 sales to Chinese competitors, and if we continue to bear the
14 significant losses we have seen in recent years, it will
15 simply no longer be tenable for us to stay in business.

16 In 2009, North American Wire filed for
17 bankruptcy. Soon after, ISM was also close to declaring
18 bankruptcy. The two facilities, which had once been part of
19 the same ISM company, were located across the street from
20 each other in Butler, Pennsylvania. One had equipment to
21 draw and coat wire, and the other to produce staples from
22 the wire. The only other bidders for the wire company were
23 banks that had no interest in reviving production and only
24 planned to sell off the assets.

25 But I saw an opportunity. I researched the

1 staple industry and the history of the company. The company
2 had been able to achieve significantly higher volumes in
3 prior years, multiples of what they were currently selling,
4 shortly before the time of acquisition and all in existing
5 equipment.

6 I planned to put the plants back into operation,
7 restart wire and staple production and grow the business to
8 fill out the existing capacity. I believed in an integrated
9 facility producing value-added products under a well-known
10 brand name could thrive under the right management and help
11 support good manufacturing jobs in America.

12 With my own funds, and some assistance from
13 family members, we bought the wire plant and everything in
14 it, sight unseen. I bought the staple company soon
15 afterwards. We consolidated the wire and staple production
16 under one roof, and we started production in 2010.

17 Unfortunately, rising volumes of low-priced
18 staples from China have made it impossible to reach the
19 production volumes we need to be viable as a business. Even
20 with our assets acquired out of bankruptcy, our fixed costs
21 are just too high to continue trying to cover with our
22 current low volumes.

23 We simply have too much capacity we still cannot
24 fill because we are not able to increase our sales and
25 production. The reason we have not been able to achieve

1 what we envisioned for our company is unfair competition
2 from imports of carton closing staples from China. While
3 public data on import volumes are not available, our
4 petition estimates that the volume of imports from China is
5 significantly greater than our own volume, has been rising
6 absolutely and has been rising relative to our own volume.

7 As imports from China have increased, we have
8 lost sales and market share. Imports from China have been
9 able to gain at our expense by deeply undercutting our
10 prices. Based on a confidential price quote, we estimate
11 the Chinese staples undersell our own products by margins
12 ranging from 44 to 84%. In some cases, we have heard of
13 staples from China being offered at prices that are lower
14 than what it would cost us to buy copper wire to make our
15 own staples.

16 This aggressive price competition is simply
17 unsustainable. When your primary competitor is dumping
18 product at margins that range from 80 to 263% and quoting
19 prices for finished product that are lower than the cost of
20 the primary raw material, there's simply no way to survive.
21 Because we cannot lower our prices to match Chinese prices
22 without driving the company into the ground, we have been
23 forced instead to sacrifice significant sales volumes.

24 The large number of lost sales and lost revenue
25 allegations we submitted are just a sample of the volume we

1 have lost. When our customers see Chinese staples available
2 for so much less, they do not hesitate to shift suppliers.
3 In addition, not only do we lose sales, but we have no
4 chance to grow the business effectively by having to compete
5 with these dumped staples in the market.

6 To deal with this loss in sales volume, we have
7 had to lay off workers, forego needed capital expenditures
8 and put off research and development efforts. We have
9 trimmed expenses everywhere we can. In prior years, before
10 the acquisition, ISM, as a well-known brand, had been able
11 to support sales volumes many multiples of our current
12 volume, with a sales force of just three people.

13 We retained those sales people when we acquired
14 the company, but as we kept losing sales to Chinese imports
15 and endured sustained losses, we had to reduce our sales
16 force to one. Even that sales person would support
17 significantly higher sales volumes if we weren't not
18 constantly being undercut by much lower Chinese prices. We
19 have tried to promote our product as "Made in the USA", but
20 the price is usually much more important.

21 In short, none of our efforts have been enough.
22 We continue to have to pour money into the companies year
23 after year and month after month to fund the losses caused
24 by Chinese imports.

25 If we are able to obtain relief from dumped

1 imports of carton closing staples from China, I still have
2 great hopes for the company. We could easily double, triple
3 or more our production volume on our existing equipment.
4 While our raw material costs would go up with higher
5 production volumes, we would be able to operate much more
6 efficiently.

7 We could make significantly higher volumes with
8 existing workers who are underutilized and hire more workers
9 if production volumes increased enough. This would allow us
10 to meet my original goal when we bought the companies out of
11 bankruptcy, to make productive use of quality assets and
12 create good jobs for American workers. Increased sales and
13 production would allow us to cover our fixed costs, earn a
14 profit, grow the business and the employee base and become
15 viable for the long term.

16 If we are not able to get relief, I'm afraid it
17 will be the last straw for ISM. There's simply no way for
18 us to continue pooling funds into a company that is barely
19 holding on against the tide of dumped imports from China.

20 In the years that we have owned this company, we
21 have not been able to secure any bank loans or government
22 grants or assistance because of the losses which stem
23 directly from a lack of sales due to unfair competition from
24 Chinese staples. Instead, we used our own monies, and
25 borrowed from private parties, because we believed we could

1 get the company profitable.

2 However, for as long as we have fought, and our
3 workers have tried, it is a hopeless fight when your main
4 competition operates in an environment that is not a free
5 market. Over the years, we have spent millions of dollars
6 in the United States in Pennsylvania on salaries, taxes,
7 services, utilities, raw materials and other expenses.

8 These monies would not have been spent, and the
9 people and community would not have benefited had we not
10 purchased the company and had the vision and belief that
11 U.S. manufacturing and the American worker could compete
12 with China. The business would've all ended up in China and
13 those monies would've been lost to Chinese competitors that
14 use unfair dumping and price undercutting to seize market
15 share.

16 As far as we're aware, ISM is the only producer
17 of carton closing staples left in the United States. Other
18 companies have closed their doors or changed their product
19 focus. This petition is our last hope. An affirmative and
20 swift determination is critical, not only to our company's
21 survival, but to the continued existence of the domestic
22 industry. I look forward to any questions you may have.
23 Thank you.

24 STATEMENT OF ROSS TYNDALL

25 MR. TYNDALL: Good afternoon. My name is Ross

1 Tyndall and I am the management consultant in North American
2 Steel & Wire/ISM Enterprises. I've been with the company
3 since 2012 and I oversee all the company's day-to-day
4 operations, including sourcing, production and sales.

5 ISM is an integrated production facility. We
6 draw wire rod into wire. We then anneal, pickle and coat
7 the wire. Most carton closing staples are made from copper
8 coated wire, but some are made from zinc galvanized wire if
9 they're going to be used in applications that may be exposed
10 to moisture, like produce packaging, for example.

11 The wire is then fed into either a staple-roll
12 making machine or a stick staple making machine for the
13 final phase of flattening the wire, adhering the flattened
14 wires to one another with glue or tape, and stamping out and
15 forming the final staple stick or rolls.

16 The manufacturing process is the same for both
17 stick and rolls through the wire-making process and it only
18 differs in the final phase, depending on which machine is
19 used to form the staples.

20 Staples in both stick and rolls are available in
21 the same sizes. For example, a C staple is, in stick form,
22 is manufactured using wire that is 037 by 074 of an inch,
23 has a crown of 1-1/4 inches, and is available in leg lengths
24 of 5/8ths and 3/4ths of an inch.

25 MR. TYNDALL: -- standard our one rule has

1 staples made from the same wire, has a stick of C staples,
2 has the same crown size, and is offered in the same leg
3 lengths. The only difference between the stick and roll is
4 which stapling tool it will be used in, but the final
5 staples of the same size, once fastened to the box or
6 carton, will be indistinguishable.

7 Roll staples tend to be used in higher volume
8 applications, because they're available in longer lengths of
9 1,000 to 5,000 staples per roll, which requires fewer
10 changeovers. Roll staples are also used in faster pneumatic
11 staplers, but there is overlap in use with stick staples,
12 which also can be used in pneumatic staplers that take
13 sticks.

14 Regardless of the form of the staple or the type
15 of stapling tool, the final end use for stick and roll
16 staples is the same and that is to secure or fasten the
17 flaps of cardboard boxes and cartons. Indeed, it is not
18 unusual for an end user to use a bottomer tool to close the
19 bottom of the box with stick staples, fill the box, and then
20 use a pneumatic tool to secure the top flaps of the box with
21 roll staples.

22 Roll and stick staples can thus both be found
23 being used in the -- by the same end users for the same
24 basic use and on the same box. Standard sizing and
25 established stapling tool parameters make carton closing

1 staples from China highly interchangeable with our own
2 staples.

3 We make staples from -- we make staplers for
4 stapling tools made by ISM, as well as other companies'
5 stapling tools. Producers in China do the same. They will
6 often advertise their product as "similar to ISM" or
7 otherwise to ensure customers are aware that their staples
8 can be substituted for our product.

9 In fact, when we take in some of our stapling
10 tools for repair or maintenance, it is common for us to find
11 the tool loaded with Chinese staples. This makes it very
12 difficult for us to try to distinguish our product from
13 Chinese staples to our customers.

14 The vast majority of our sales are to
15 distributors with more than 90 percent of these distributors
16 also purchasing carton closing staples from China. All of
17 our sales are on the stop -- on the spot market, which makes
18 us highly sensitive to price undercutting when we are
19 competing for sales to these distributors.

20 We hear about lower prices for staples from
21 China on an almost constant basis. As Mr. Farah testified,
22 it is impossible for us to try to meet these prices, which
23 are not only below our cost of production, but sometimes
24 even below the cost of the wire used to make the staples.

25 Because we cannot meet Chinese prices, we have

1 lost significant sales volume since the acquisition of ISM
2 and continuing from 2014 to 2016. This has kept our
3 production far below our potential capacity. This means we
4 have expensive equipment sitting idle and other equipment
5 only turned on periodically. This has created serious
6 inefficiencies in our production process.

7 Turning on our annealing furnace or turning our
8 annealing furnaces on and off, for example, takes at least
9 12 to 18 hours of production time. Ideally, it should run
10 for as long as possible once it has reached the right
11 temperature for production, but we simply do not have the
12 volume to make the most efficient use of this important
13 equipment. This is just one example of the extra costs we
14 bear, because of the sales volumes we have lost to Chinese
15 imports.

16 The inability to achieve sustainable sales and
17 production volumes also reduces our ability from time to
18 time to serve low volume orders of certain staples that we
19 do not already have in inventory. When such staples are not
20 already held in inventory at a certain time, it is difficult
21 to justify the cost of adjusting our machinery to produce
22 that particular staple for such a low volume order. If we
23 could achieve higher and more consistent orders for these
24 staples, there would be no barrier to our ability to produce
25 and supply them.

1 We have also had to lay off workers and reduce
2 hours and shifts for those workers who are left. As a
3 result, many of our workers are underutilized. Much of our
4 equipment is from the 1970s, but we have not been able to
5 make the needed upgrades and capital investments because of
6 these losses we have been forced to incur.

7 And while we look at every opportunity to
8 improve our products and expand our product range,
9 meaningful research and development expenditures are
10 impossible in our current financial state.

11 I joined ISM because I believed in Mr. Farah's
12 vision for the company. Over the past five years, I've come
13 to know more about the staple business than I ever thought I
14 would to appreciate the history of ISM and the workers who
15 have many years with the company and to admire the ingenuity
16 of the staple manufacturing process.

17 Unfortunately, all of that is now at risk
18 because of imports from China. The large and rising volume
19 of dumped low priced imports has made it impossible to
20 compete. The only way to keep this company and this
21 domestic industry in operation is to impose an anti-dumping
22 order that restores conditions of fair competition to the
23 U.S. market. Thank you.

24 MS. DRAKE: Thank you. Elizabeth Drake, Stewart
25 and Stewart, for the petitioner. I'd like to go through a

1 short Powerpoint presentation, but because of some technical
2 difficulties, you'll actually just go through a short
3 booklet presentation. So I'm glad we brought those.

4 I'd like to address seven issues. First, the
5 scope. The scope language has changed slightly due to
6 revisions requested by Commerce. And I'd like to review
7 those. And then I'd like to go through potential domestic
8 like product issues, discuss the conditions of competition,
9 review information we have publicly on the volume of subject
10 imports, and the adverse price effects of subject imports,
11 discuss material injury, and then conclude with threat of
12 material injury.

13 Turning to scope, as I mentioned, the Commerce
14 Department requested several revisions to the scope. We
15 don't believe any of these changed the actual scope of the
16 investigations substantively. They're more procedural or
17 administrative concerns that led to the revisions.

18 First, we removed I believe it was the second
19 sentence of the scope, which made references to use, because
20 customs doesn't like use references and only physical
21 characteristics.

22 Second, we added a reference to the relevant
23 ASTM standard for carton closing staples, but indicated that
24 there may be staples within the scope that do not meet that
25 standard.

1 Third, we removed the sentence that said that
2 there would be a 10 percent tolerance or a variance from the
3 dimensions would be covered by the scope, and instead,
4 incorporated those variances into the dimensions themselves
5 more so on the low end than the high end, because that was
6 where our concern of circumvention was, was on the low end
7 of the dimensions. So you will see revised dimensions, but
8 in fact, those are very close to the original dimensions
9 with the 10 percent variance applied.

10 And finally, we removed some duplicative
11 language and moved it from one paragraph to another.

12 Carton closing staples vary by the size of the
13 wire, the width of the crown, and the length of the leg. As
14 this diagram shows, the nominal leg length, the L for carton
15 closing staples ranges from about .4 inch to 1.357 inches.
16 The nominal crown width for carton closing staples, the C in
17 the diagram, ranges from 1.125 inches to 1.375 inches. The
18 nominal wire thickness, that's if you're looking at a staple
19 like this, this part of the staple, the thickness of that,
20 ranges from .029 inch to point -- excuse me, yes, and to
21 .064 inch. And the nominal wire width, that's the wider
22 part of the staple, ranges from 0.064 inch to 0.1 inch. So
23 those are the revised dimensions in the scope.

24 Turning to the domestic like product,
25 petitioner's position is that there's one domestic like

1 product co-extensive with the scope, carton closing staples.
2 In the Commission's prior investigation on carton closing
3 staples from Sweden, the scope of the investigation was
4 limited to staples in stick form and no party requested that
5 the domestic like product be expanded to include staples in
6 roll form. And based on the information before the
7 Commission at that time, the Commission limited the domestic
8 like product for staples to staples in stick form.

9 We believe the record of this investigation
10 establishes that the domestic like product should include
11 both sticks and rolls as one single domestic like product.

12 Going through some of the factors that the
13 Commission looks at in terms of physical characteristics and
14 uses, as Mr. Tyndall testified, there are staples of the
15 exact same size and the exact same wire dimensions available
16 in either sticks or rolls and with the exact same coding.
17 And these staples have the exact same end uses, which is to
18 secure, close the flaps of cardboard boxes and cartons. And
19 as he also testified, in fact, there are cases where a
20 single box would have, for example, stick staples on the
21 bottom and roll staples on the top.

22 The only reason for the two different forms of
23 staples is because there are two different types of stapling
24 tools: those that take sticks and those that take rolls.
25 That's why they cannot -- while they cannot be used

1 interchangeably in those different machines, they are used
2 interchangeably to fasten staples of the same size to the
3 same types of boxes and to close those boxes or cartons. So
4 we believe in broader sense, they are interchangeable and
5 are available in the same sizes for the same uses.

6 Staples in both roll form and stick form are in
7 the same channels of distribution. The majority of these
8 staples are sold to distributors. Staples in both stick
9 form and roll form are manufactured in the same facility in
10 case of ISM and on the same equipment and with the same
11 employees through the wire drawing phase. The only phase of
12 production where different machines are used is in the
13 staple forming phase, where you have one type of machine
14 that forms rolls and applies tape to the roll and you have
15 another type of machine that forms sticks from the wire and
16 applies glue to the top of the sticks. But for much of the
17 manufacturing process, it is the same equipment and the same
18 employees. And for all of the manufacturing process, it's
19 the same facility.

20 Staples in both stick and roll form are viewed
21 as similar by producers and consumers. When one goes
22 shopping for carton closing staples on the web, as I've been
23 doing lately, you'll see that they are available in both
24 rolls and sticks from the same distributors from the same
25 retailers. And you will have some end users that will use

1 both just depending on which stapling they're using for
2 their application.

3 And while roll staples tend to be a bit higher
4 priced than stick staples, there's a broad continuum of
5 prices for staples in all forms. And we do not believe
6 there's any clear dividing line price wise that separate
7 sticks and rolls. It's for all these reasons we think the
8 Commission should find a single domestic like product of all
9 carton closing staples, including staples in both stick and
10 roll form in one product.

11 And this next page just demonstrates visually
12 what we were talking about on the staples that you've been
13 looking at in front of you in terms of, you know, you can
14 have an A stick and a GR1 roll that will have the exact same
15 dimensions. A C stick and RR1 roll that would have the
16 exact same dimensions and be indistinguishable once the
17 staple is fastened into the box or carton.

18 Turning now to staples other than carton closing
19 staples, we do not believe the domestic like product should
20 be expanded beyond the scope to include any staples that are
21 not carton closing staples. First, these other staples are
22 covered by a separate ASTM standard for fastening, whereas
23 carton closing staples are covered by an ASTM standard for
24 closing, along with other closing techniques.

25 When one looks at that other ASTM standard for

1 other types of staples, and this was submitted as an exhibit
2 to one of our deficiencies responses to the Department of
3 Commerce, which was of course also submitted to the
4 Commission, one will see that the vast majority of these
5 other staples are made of round wire. Carton closing
6 staples are made of flat wire and they must be made of flat
7 wire, because they need to stay flush with the box after
8 being stapled for storage and handling in transport. You
9 wouldn't want a round wire that might snag on something or
10 pull out and not be flush.

11 There are only two categories of staples other
12 than carton closing staples that are also made of flat wire
13 in this other ASTM standard for fastening. The first
14 category is a category of staples for wood. This is what
15 you would use perhaps to fasten some upholstery to wooden
16 furniture or other uses like that. And these are also made
17 of flat wire, but that wire is much thicker in the sense
18 that the -- if you look at the leg of it, it would be more
19 square, rather than flat, because it has to be very strong
20 and stable in order to stay straight as it gets punched into
21 the wood. Whereas a carton closing staple needs to be
22 flatter, thinner, so the flaps can go up under the carton
23 once it's stapled in. So there are no -- none of these wood
24 staples that would overlap in all four dimensions combined
25 with all four of the dimension ranges we've set out for

1 carton closing staples. And that's dictated by their
2 different end use. They need to have different physical
3 characteristics.

4 The other type of flat staples included in the
5 ASTM standard for fastening are smaller staples, like desk
6 staples. And these are much smaller and narrower than
7 carton closing staples, of course, because of their
8 different application. A desk staple could not fasten a
9 carton and it would be wasteful to use a carton closing
10 staple to hold your papers together and they'd probably
11 slip through.

12 So just to summarize, we believe there should be
13 one domestic like product, stick and roll carton closing
14 staples and no other types of staples, other than those
15 included in the scope.

16 Turning to the conditions of competition,
17 standard staple sizes and well known stapling tool
18 specifications make staples of the same size fully
19 interchangeable, regardless of source. And different staple
20 manufacturers advertise their products as suitable for use
21 in their competitor stapling tools. ISM does this
22 regarding, for example, Bostitch tools. And Chinese
23 producers will do this regarding ISM tools. This is an
24 example of an advertisement on the web for a C-58 staple in
25 stick form. And you can see at the bottom, it lists all the

1 different manufacturers' stapling tools that it will fit,
2 including at the end ISM C series all international stapling
3 machine C series staplers. So perfectly interchangeable
4 within different machines regardless of the manufacturer or
5 country of origin.

6 This makes price an extremely important factor
7 in purchasing decisions, given this high degree of
8 interchangeability and the fact that most sales are to
9 distributors who also carry Chinese staples and that these
10 sales are on the spot market make the domestic market even
11 more price sensitive and make the competition even more
12 intense based on price. So these are important conditions
13 of competition in the domestic current closing staple
14 market.

15 Turning to the volume of subject imports,
16 obviously, now we do have some importers responses, which
17 data is APO. So this is just based on the public
18 information, which was in our petition, but we believe that
19 once the importer data is compiled, while it may not be
20 fully representative or capture the full volume, we believe
21 the general trends will be consistent with what we see from
22 the publicly available sources of data.

23 Carton closing staples enter under two, 10 digit
24 HTS categories, but these are basket categories that also
25 include other products. The first 8305 category covers

1 staples and strips, but that includes carton closing staples
2 as well as other types of staples, such as your desk
3 staples.

4 The second category is 7317, which covers a
5 broad array of different fastening devices, nails, tacks,
6 pins, and staples, other than those in sticks. And there's
7 a -- our basket category is those of one piece construction,
8 not made of round wire and not cut, which of course, could
9 include a broad array of products. So that would be -- that
10 import data, we believe, would be over conclusive based on
11 those two categories, but is one public source of
12 information.

13 We also estimated subject import volume based on
14 automated manifest system data. We researched known
15 producers of carton closing staples in China and searched for
16 them showing up in the AMS data and then filtered to take
17 out any shipments where the product or container description
18 was anything other than staples. But it wouldn't always say
19 carton closing staples, but as long as it said staples, we
20 would keep it in. So this data is under inclusive in one
21 sense, since there may be many producers that we were not
22 able to identify based on public information. And even
23 those producers might enter under undisclosed rather than
24 disclosing their shipments. It may be slightly over
25 inclusive in other respects because it may include other

1 kinds of staples that those producers of carton closing
2 staples also make. But again, the best publicly available
3 information available to us.

4 But both sources show a rising volume of imports
5 from China, both absolutely and relatively to domestic
6 shipments, which have declined significantly over the
7 period.

8 This chart shows the volume of subject imports
9 based on the two HTS categories under which they enter. In
10 2014, excuse me, there were 46.8 thousand metric tons of
11 staples from China entering under these categories. By
12 2016, that was 54.7 thousand metric tons, an increase of
13 nearly 17 percent over the period.

14 The next slide shows the volume of subject
15 imports based on the AMS data for known Chinese producers
16 and shows an even more dramatic increase from 4.4 million
17 cargo kilos in 2014 to 7.4 million cargo kilos in 2016, an
18 increase of nearly 69 percent. Again, potentially
19 underinclusive, but the best available data for us. And
20 we'd be happy to address the data in the importer's
21 questionnaire response and our post conference for you.

22 This rising volume of subject imports from China
23 has had adverse price effects on the domestic industry.
24 Based on data that's available to us, we believe there's
25 been significant underselling by subject imports. And we

1 got a price quote, a confidential price quote for Chinese
2 carton closing staples FOB China and it adjusted that for
3 CIF charges on the two covered HTS categories and compared
4 those to ISM's own prices for the same products. And in
5 each comparison, there were significant margins of
6 underselling, ranging from nearly 44 percent to over 84
7 percent across these five products.

8 We also believe that prices for carton closing
9 staples from China have been declining over the period.
10 Import AUEs for the two HTS categories combined fell more
11 than 13 percent from 2014 to 2016. And these prices in the
12 U.S. are so low and below ISM's own cost of production as
13 our witnesses testified, that the company has been forced to
14 endure significant losses. And even despite some declines
15 in raw material cost over the period, it has not been able
16 to translate those into profitable operations.

17 Turning to material injury, as imports from
18 China have risen, ISM has lost sales volume in the U.S.
19 market and has lost market share in the U.S. market. As Mr.
20 Farah testified, ISM cannot meet Chinese prices that are
21 below its cost of production. And so instead, it has been
22 forced to lose significant sales volume as Chinese imports
23 have increased.

24 As a result, ISM has been forced to lay off some
25 of its workers and to reduce hours and wages paid for

1 workers that remain. ISM is operating far below its full
2 capacity. And this results in fixed costs that are very
3 high compared to their sales revenue, so that once variable
4 costs are added, there is simply no way for the company to
5 make a return.

6 As a result, ISM has suffered sustained and
7 significant losses throughout the period of investigation.
8 The company has been unable to make needed capital
9 expenditures, to invest in research and development, to
10 launch any major marketing initiatives, or to access bank
11 loans.

12 The company cannot become financially viable
13 unless it can greatly increase its production volumes in
14 order to allow it to cover those fixed costs, as well as
15 variable costs and generate a reasonable return.

16 The owners of ISM have invested significant
17 amounts of their own resources to try to support U.S. jobs
18 in this industry. And based on publicly information, ISM is
19 the only known domestic producer currently left in the
20 United States.

21 In the unlikely event that the Commission finds
22 that ISM is not presently experiencing material injury by
23 reason of subject imports from China, the threat of material
24 injury by these imports is imminent and very dire. The
25 domestic industry is highly vulnerable, based on its current

1 financial performance and it has the risk of closure if it
2 cannot increase its sales volume significantly.

3 Chinese producers have demonstrated their
4 ability to gain volume and market share through aggressive
5 price undercutting and the lowering of prices over the
6 period of investigation. And there is no reason to believe
7 that those trends would reverse themselves if an order is
8 not imposed.

9 Publicly available information also indicates
10 that China's producers are highly export oriented. A number
11 of them advertise on their websites how much of their
12 production is dedicated to export and that's reviewed in our
13 petition with ratios of 60, 70, 80 percent or higher being
14 advertised as production for export.

15 And those exports have been targeted at the
16 United States as a large highly attractive market. Chinese
17 exports to the U.S. based on Chinese export data for the two
18 staple categories rose by more than 20 percent from 2014 to
19 2016. Those were their exports to the U.S. Meanwhile,
20 their exports to the rest of the world in these two
21 categories actually fell by a little bit. It was flat.
22 Fell by 1.7 percent. So the U.S. has been really a major
23 focus for Chinese producers in these categories, confirming
24 the attractiveness of the U.S. market, which will simply
25 draw in more staples if an order is not imposed.

1 Finally, the high substitutability and
2 interchangeability of carton closing staples and the
3 importance of price in the market, the ability of both
4 Chinese and U.S. producers to sell through distributors and
5 direct competition with each other make further material
6 injury highly likely if an order is not imposed.

7 For all of these reasons, we respectfully
8 request that the Commission impose an affirmative
9 preliminary determination. And we'd be happy to take your
10 questions. Thank you.

11 MR. ANDERSON: Thank you, Ms. Drake and thank
12 you to our witnesses for your testimony. We'd now like to
13 turn the time over to staff to ask questions. And we'll
14 start with Mr. Jones.

15 MR. JONES: Good afternoon. The first time
16 using this, so. I did have a question regarding the going
17 back to your Powerpoint presentation. Going back to your
18 Powerpoint presentation, you mentioned the primary export
19 markets. This is just going back to China's export markets.
20 Some of the data that you mentioned publicly available data,
21 as far as the rest of the world, what trends did you see as
22 far as the U.S. and what did you see as far as the rest of
23 the world when you mention export markets, specifically
24 outside of the U.S., other markets?

25 MS. DRAKE: Elizabeth Drake, Stewart and

1 Stewart. I apologize. Yes, that export data is in our
2 petition, excuse me, Exhibit I-20. And it shows as I
3 reviewed that exports to the U.S. from 2014 to 2016
4 increased by more than 20 percent, while exports to the rest
5 of the world were flat or actually declined a little bit.
6 And some of the -- and then there's a breakout of different
7 export markets. And so, some of the other major ones are
8 ones you would expect the EU, Japan, Canada, etcetera, but
9 the U.S. is the largest single market and the one that grew
10 much more quickly than other markets or China.

11 MR. JONES: Thank you. So shifting gears a
12 little bit, going back to ISM's capacity, could you describe
13 to us a little bit about the capacity utilization? And a
14 little bit more specifically, you mentioned ISM whenever
15 they were bought in the merging that happened back in 2009
16 and '10. Could you describe the other products that were
17 initially produced as well and/or if they -- if they're no
18 longer produced and what exactly is keeping the capacity
19 utilization so low at this point?

20 MR. FARAH: Maroune Farah. So when in 2009, or
21 sorry 2010, originally, the two companies -- the two
22 facilities were together. So the carton closing, I think if
23 you go back to the '80s and '90s and 2000s, they used to do
24 wood to wood staples. They used to do carton closing
25 staples and nails back then. And so, basically because of

1 the -- a lot of Chinese imports, that just steadily declined
2 especially it had accelerated in the 2000s.

3 When I bought the company in 2010, we didn't --
4 we just bought the carton closing staple operations. So
5 when we bought it, that's all that they were doing. They
6 were just doing carton closing staples. And our equipment
7 that we have in the plant now, it's 100 percent dedicated
8 for carton closing staples on the manufacturing side. So
9 years -- many years prior, they did other things like wood
10 to wood staples and things like that, but their focus prior
11 to when I purchased it had just been on carton closing
12 staples.

13 MR. JONES: Thank you, Mr. Farah. In your
14 testimony, you mentioned hangers previously you produced.
15 Is that something that you're aware of or --

16 MR. FARAH: Hangers?

17 MR. JONES: Was it hangers that you stated?

18 MR. FARAH: No., I don't think so.

19 MR. JONES: Okay.

20 MR. FARAH: Did I say hangers?

21 MS. DRAKE: I don't think so. Excuse me, do you
22 mean in his presented testimony or in his answer? Excuse
23 me, Ms. Drake.

24 MR. JONES: No, in the presented testimony. I
25 apologize.

1 MS. DRAKE: Okay. Yeah, I don't --

2 MR. JONES: There -- so there were no other
3 products related, wire products, similar? So it was just
4 carton closing staples and the wood staples?

5 MR. FARAH: When I bought ISM?

6 MR. JONES: Yes.

7 MR. FARAH: When I bought ISM, ISM Staples, they
8 were just in the carton closing market. So and I just
9 bought the carton closing operations. I believe the wood to
10 wood had died off previously or I was focused on the carton
11 closing staple. So when I bought the company, that's all
12 that they really had. And the equipment was only carton
13 closing staple equipment machines that I bought from them.

14 MR. JONES: Thank you. And as far as the
15 capacity utilization, could you describe some of the -- go
16 into a little bit of details as far as how the capacity
17 utilization could remain low when you initially purchased
18 it, ISM? And during the period of investigation, has it
19 increased, decreased? What are the trends that you --

20 MR. FARAH: It's decreased significantly. So
21 from when we started, we put all the machines back into
22 operation. We moved them back into our building. It's just
23 been a steady trend going down. We have huge capacity
24 available now. And when I bought the company, and I looked
25 at their, you know, they give me your presentation and you

1 can see their prior sales, it was very encouraging. And I
2 thought okay, you know, you think bad management. You
3 understand there's competition. So it really made sense
4 from a business standpoint to put those two together, become
5 vertically integrated.

6 But then the reality hit hard once I bought it.
7 And then it just seemed like it just started to accelerate.
8 You know, we got up to speed. We invested in the workers.
9 We had to make some investments in the equipment at the very
10 beginning, the training, the expertise.

11 A lot of expertise has left the United States.
12 It's all gone offshore for a lot of this sort stuff. So you
13 know, we got everything all tuned up. And it just the
14 utilization of the worker, the equipments, the assets, it
15 just continues to go down, down, down. So that's the
16 struggle we face.

17 MR. JONES: So the trend has decreased since you
18 purchased and it's decreased during the period of
19 investigation?

20 MR. FARAH: Yes.

21 MR. JONES: Okay.

22 MS. DRAKE: I believe the only factor that may
23 have mitigated somewhat this massive loss of production over
24 the long-term is there has been some pick up in export
25 shipments, which has allowed the company to try to make up

1 somewhat for the loss in domestic shipments. But as we were
2 disgusting yesterday, excuse me, discussing yesterday, those
3 export shipments are never going to be enough to get you up
4 to the production level you need to be at to be sustainable
5 in terms of capacity utilization. Is that correct?

6 MR. FARAH: Yeah. Actually, sorry, I'm
7 referring to the domestic market. The -- during that time,
8 we tried with Mexico. So we tried to start some exports
9 there. Again, it's all spot pricing. So we made a lot of
10 efforts with some parties down there to do that. And we've
11 seen a little bit of success, but still a very low amount of
12 sales. And again, they're not contracts. They could
13 disappear tomorrow. And they also face competition from
14 China as well. So it -- nothing is sure, but yeah, in the
15 domestic market, way, way down. And the trends have been
16 down. And we've had a little bit of an offset for exports.

17 MR. JONES: Thank you. And when did the shift
18 take place from domestic for providing for the domestic
19 industry to export shipments, the increase? What year or
20 when did that take place?

21 MR. FARAH: I think we started a little bit in
22 2000- I could be off one year or so, but around 2013. We
23 started. And just with little small shipments. And in the
24 last year or so, there's been one customer that we found
25 down there. And that increase made it a lot more

1 significant before it was fairly minimal. And it's still
2 very small, but compared to the base that we started out in,
3 it improved it quite a bit. But that's -- it's all
4 concentrated mainly on one customer down there.

5 MS. DRAKE: This is Ms. Drake. I would think
6 that it wouldn't necessarily be characterized as shifting
7 the focus from the domestic market to exports, but simply
8 trying to get sales wherever --

9 MR. FARAH: Yeah.

10 MS. DRAKE: -- one could. Because you're still
11 obviously want your sales on the domestic.

12 MR. FARAH: That's right. Like we can't --
13 because China's everywhere else in the world, we can't
14 compete for exports. We even, you know, at trade shows, we
15 sometimes there'd be an European customer or anywhere else
16 in the world. But everywhere else, you're competing against
17 Chinese staples. So it's impossible for us to really build
18 any kind of export market.

19 We're just fortunate in that we found a couple
20 things in Mexico. I hope we can grow it, but it's not a big
21 part of our focus going forward. And it certainly can't
22 sustain us as our big focus is on the domestic market. And
23 if we don't have the domestic market, it doesn't matter
24 really what we do in export because it's going to be such a
25 small part of what we need really to make the company

1 viable.

2 MR. JONES: Thank you, thank you. And so this
3 one customer, you mentioned, in Mexico, specifically what
4 would occur if they were no longer -- you guys no longer did
5 business with them?

6 MR. FARAH: If we no longer did business with
7 them, that would make our losses even larger. And like I
8 said, this is really our last chance, because we just can't
9 -- it's month after month, week after week, day after day
10 getting calls -- you know, we need money to cover this,
11 money to cover that. So it helps offset our losses. We
12 still have significant losses. It just makes them smaller.

13 But yeah, that would really magnify things quite
14 a bit because eventually, there becomes a tipping point.
15 And that's what we were -- we're trying everything we can to
16 keep it going, but it's really -- it's a domestic company
17 and we need the domestic customers. And there's the demand
18 here for it. It just we can't access that demand because of
19 unfair supply.

20 MR. JONES: Thank you. And the -- so there's no
21 domestic -- in the domestic industry, there's no one
22 customer as significant as the one that you have in Mexico?

23 MR. FARAH: No, it's generally -- we have some
24 larger customers, but there's -- it's a sprinkling of them.
25 And we have a diverse group of customers. So you'll have

1 some that are higher, but there's a whole bunch of others
2 that make up the majority of the sales as well. So it's
3 difficult to really pinpoint one or two large ones. There
4 are some that are larger, but there's a whole spectrum of
5 it..

6 MR. JONES: Thank you. And the -- so for the
7 domestic industry, this is -- there's just basically --
8 they're scattered, the customers are scattered about. In
9 the industry in Mexico, you have the one primary customer?

10 MR. FARAH: It -- yeah, in the U.S., they're
11 pretty much scattered apart. In Mexico, there is one
12 primary customer that has different areas that their staples
13 go to. And there are other customers in Mexico, but I would
14 say it's negligible really. What we sell of those types,
15 it's really the one customer that makes up most of the sales
16 down there.

17 MR. JONES: Thank you. And this is all of your
18 sales, you previously stated they're all spot sales.
19 They're not contract?

20 MR. FARAH: That's correct.

21 MR. JONES: Okay. Thank you.

22 MR. ANDERSON: All right, thank you Mr. Jones.
23 And now we'll turn it over to our attorney, Mr. Allen.

24 MR. ALLEN: Hi, Ben Allen, OGC. Do you have a
25 sense of what the domestic demand trends were for carton and

1 closing staples over the period of investigation? And is
2 this -- is the market mature for staples?

3 MR. FARAH: Do I think it's a mature market? I
4 think it's a mature market. In terms of demand, I don't
5 have a good grasp of it, but I think it's being fairly
6 stable. I know when I bought the company, I saw, you know,
7 prior sales. So I know it was a big -- it was a very big
8 market. And it coincides really with the Chinese exports,
9 the decline in the sales. But I don't have -- I can't give
10 you what the market, current market size or demand is under
11 the period of investigation. Just only make inferences and
12 things like that, but it's being stable. I think it's a
13 zero sum game pretty much. And basically, our sales loss
14 has been the Chinese exporter's gain.

15 MR. ALLEN: Great, thanks. For the machines
16 that you use to finish the staples, can the same gauge of
17 wire be used in all the machines or are there specific
18 machines for specific gauges of wire?

19 MR. FARAH: Ross can answer that.

20 MR. TYNDALL: Hi, Ross Tyndall for North America
21 Steel & Wire/ISM. The differences in the machining are
22 really just for the finished product. So we can take
23 multiple gauges. So you can run an A staple, a C staple,
24 and make a stick or make a rule. So it doesn't really
25 matter. It's really just in the machine setup. And then we

1 run that staple. And when we want to switch over, it's
2 just a little bit more machine set up, so nothing more
3 complicated than that.

4 MR. ALLEN: Great. And then just for reference,
5 how many staples were in the roll of staples that you passed
6 around?

7 MR. FARAH: 1,000. Right?

8 MR. ALLEN: 1,000.

9 MR. TYNDALL: Yeah, that was 1,000.

10 MR. ALLEN: Okay, great. Thank you. I have no
11 further questions.

12 MR. ANDERSON: Okay. Thank you. Ms. Cohen,
13 your turn?

14 MS. COHEN: Hi, good afternoon. Thank you for
15 your testimony this afternoon. Let's see. Following up on
16 the question about demand, how has substitute products like
17 glue or tape affected the market?

18 MR. FARAH: That's a good question because
19 there's obviously an impact between staples, glue, and tape.
20 But I think in recent years, because glue and tape have been
21 around for a long, long time, I think like for the period
22 that I've had it, I think there hasn't been any real change
23 in demand. I think that would have happened earlier.

24 And there's a lot more packaging in the world
25 today. So for example, if a new customer decides to use --

1 we were talking about the example of Amazon, for example.
2 So you get a box. Often, it's tape for example, right? But
3 they're not replacing staples. They were never using
4 staples to begin with, but the product inside the box --
5 like we used the example yesterday of Sears that uses
6 staples, that's still in there. So I think the packaging
7 market has grown, the demand for that. But the actual
8 demand for staples I don't think has declined. Maybe for
9 certain things like that tape, like with the Amazons or
10 whoever. That might expand. So the actual market is
11 expand.

12 But in terms of shrinking the demand for
13 staples, I don't think there's really been much of a
14 shrinkage for that on the demand side.

15 MS. COHEN: And just a question on the product
16 shown on page 6 with the A and C. So the A and the GR, that
17 corresponds to the crown width. Is that basically --

18 MR. TYNDALL: Hi, Ross Tyndall.

19 MS. COHEN: Hi, there.

20 MR. TYNDALL: Yes. Yeah, the wire -- the size
21 of the differentiation between A and C or the GR1 and the
22 RR1 is just the wire size that you begin to make the staple
23 and then the crown sizes.

24 MS. COHEN: Okay. And then the C and the RR1
25 are basically equivalent, just in a different form?

1 MR. TYNDALL: Yeah.

2 MS. COHEN: Okay. So the A would be more,
3 slightly more expensive than the C?

4 MR. TYNDALL: A little bit more material, right.

5 MS. COHEN: The width, okay. Just wanted to
6 make sure that was clear since that's in our pricing
7 products.

8 Let's see. I wanted to ask about the role of
9 branding in the market, including the role of Bostitch in
10 this market. Is there -- are there different prices for
11 different brands? Is there a price -- does Bostitch or an
12 ISM have a price premium over other brands? Can you discuss
13 the role of branding?

14 MR. FARAH: I think the market -- where the
15 market is now is the market views an ISM staple, while it
16 does have good brand recognition, and probably if you say,
17 okay, a Chinese staple and an ISM staple, they'll say, okay,
18 they both do the same thing. They both function the same
19 way. It's pretty much come down to price now. So really,
20 the branding, it doesn't allow you really to have a price
21 premium. In our case, our customers, they basically,
22 they're comparing us to the Chinese staple. So they don't
23 view it as any big difference.

24 MS. COHEN: Is the commander product in your --

25 MR. FARAH: Bostitch, my understanding of

1 Bostitch in the market that they have a different network.
2 So their distribution is different. And they can control it
3 tighter. So people will substitute the Bostitch for the
4 Chinese staple or another manufacturer's staple. But
5 because of the way Bostitch distributes and they keep very
6 tight control on distributors who can represent their
7 product and things like that, they might be higher in the
8 market sometimes. But it's because of the way they
9 distribute and their history and everything like that.

10 MS. COHEN: Okay. Do you view them as a direct
11 competitor of yours?

12 MR. FARAH: Yes, because we sell Bostitch
13 staples as well. So ours are -- you put a Bostitch hole in
14 our roll, and it functions, looks and everything is exactly
15 the same.

16 MS. COHEN: Looking back at that old case, it
17 changed a little bit since then, but in that report, they
18 stated that the Bostitch staples were a slightly different
19 specification to fit their own tools. Is that still the
20 case to your knowledge? Or if you -- are there certain
21 tools -- brands that have their own special sizing?

22 MR. FARAH: Yes.

23 MS. COHEN: That is the still the case?

24 MR. FARAH: Yes.

25 MS. DRAKE: And this is Ms. Drake. That is the

1 case that a Bostitch tool would have slightly different
2 specifications from an ISM tool. It -- maybe the hopes that
3 then you'll have to buy a Bostitch staple, but now ISM can
4 make a Bostitch staple. People in China can make a Bostitch
5 -- anyone can make a staple that fits those Bostitch
6 specifications. So while there are slightly different
7 specifications, that doesn't prevent other producers from
8 making those staples that meet those specifications.

9 MS. COHEN: And you do produce those staples?

10 MR. FARAH: Yes.

11 MS. COHEN: With their -- the tools?

12 MR. FARAH: Yes.

13 MS. COHEN: What has been --I think in the
14 petition it was stated that Bostitch has closed their U.S.
15 production. Can you --

16 MS. DRAKE: So as far as we -- we're aware from
17 public information, and of course we just saw yesterday
18 afternoon the questionnaire responses have come in that
19 haven't been yet released, so this is based on our public
20 knowledge and research is that their plant in Rhode Island,
21 which was the one -- Greenwich, Rhode Island, I believe,
22 which was the one mentioned in the report in the 1980s,
23 which produced carton closing staples was closed down by the
24 end of 2012. News articles say that there are about 75
25 employees that were moved to a different facility in

1 Indiana, Greenfield, Indiana. And everything we've been
2 able to find on that Greenfield, Indiana plant, you know,
3 current information in terms of what products are produced
4 there don't specify any carton closing staples. They talk
5 about wood staples, industrial staples, and the tools like
6 the Dewalt tools or the Black and Decker or the Stanley
7 tools that are made in that facility. So that's our
8 understanding of the current state of Bostitch's production.

9 MS. COHEN: And have you seen in the market any
10 effect of the closing of their U.S. production?

11 MR. FARAH: No, I don't think -- I think we're
12 just seen if anything, the void gets filled by China. Like
13 all we've seen is Chinese exports increase as I'm pretty
14 sure we're the last ones left. And you can just see, it's
15 just the tide. And it's month after month in terms of
16 dealing with customers. And all we hear now -- and the
17 prices just keep getting lower and lower and lower. So I
18 think there -- they basically fill the void.

19 MS. COHEN: Okay. Thank you. Can you discuss
20 briefly how prices are set? Are there list prices? How
21 does the pricing work in this market?

22 MR. FARAH: You want to take that, Ross?

23 MR. TYNDALL: Yeah, sure. Ross Tyndall. We
24 have a retail price that we'll put out on the web. So that
25 it's quite high, so that we don't, you know, we don't want

1 to injure or disrupt of any our sales to the distributors.
2 And then internally to our distributors, we have kind of A
3 pricing, B pricing, C pricing. And that's just based on
4 volume to our distributors. So if you're buying a lot, then
5 you get C pricing. And if you buy once a year, you buy a
6 couple staples a year, you'll get A pricing.

7 So I think when Maroune opened up the shop, we -
8 - I guess Maroune was considering raising prices, but that
9 was quickly met with a lot of angry customers and stuff. So
10 the prices in our -- on our side of the business had been
11 held steady since then. They haven't moved.

12 MS. COHEN: I believe it was stated in the
13 testimony that your company has lost sales. Have you -- and
14 by keep -- that you've attempted to keep the price steady
15 and have lost sales. Have you also experienced price
16 reductions or reduced prices to hold on to those sales?

17 MR. TYNDALL: We haven't changed the list
18 prices, but there might have been a little bit of movement
19 between say A pricing and the C pricing. But the amount
20 that's been undercut, it wouldn't matter what pricing we
21 would give. So really, and that's the dilemma we're in. I
22 could cut -- I cut fill up our plan and cut the price and
23 meet the Chinese pricing and we'd still lose money. And in
24 absolute terms, it would be more money.

25 So it's not issue of like a small little

1 percentage that we can reduce the price. The gap is so big,
2 that what I felt we had to do was we can't compete at those
3 levels. So just keep shrinking until we can do something to
4 protect ourselves to conserve the cash.

5 So yeah, so by lowering prices, we'd have to
6 lower them significantly to win business from a customer
7 who's considering buying from China. So for us, it's not
8 really-- it's a very slippery slope to do that. And it will
9 result in more losses.

10 MS. COHEN: And also as stated in your testimony
11 that there were certain maybe low-volume specifications that
12 you weren't able to supply. Can you address, more
13 generally, has your company had any issues with supplying
14 customers or had to turn down customers because you weren't
15 able to supply product and also whether you were able to
16 meet customer demands in a timely manner?

17 MR. TYNDALL: You know we have a short history
18 really in the market, so we try to base our production you
19 know based on pass sales and stuff like that. So for us to
20 compete with some of these distributors importing from
21 China, they can carry all the SKUs and for us, as a
22 manufacturer, it's very difficult to change the line over
23 from one stable to the next, so we try to anticipate the big
24 movers. We try to make to what we think demand is going to
25 be. And when somebody calls up and says, well, I need one

1 case, you know, 1 out of 50 cases on a skid some staple we
2 haven't sold in two and a half years they'll go, okay,
3 sorry. You know we can maybe do a production run in a
4 month's time kind of thing. And they'll go, oh, don't worry
5 about it. Don't worry about. So we lose that.

6 So we sort of oscillate between that and trying
7 to figure out, okay, we've had a couple of calls. Let's
8 make a skid. So we make a skid. We spend a week on it or
9 what have you and the next thing you know it sits for a year
10 and a half, two years, so we've spent the money on the raw
11 materials. We've made it and you know it's a little bit
12 difficult. We're always playing sort of kind of behind the
13 game because it's such a low-volume thing, right. So we
14 oscillate between either have stock outs or having
15 something that's there sitting on the shelf for two years.
16 I don't know if that addresses your question, though.

17 MS. COHEN: It does. Thank you.

18 And can you briefly address non-subject imports
19 in this market? Are the Swedish products still on the
20 market? What are the other competitors that you see?

21 MS. DRAKE: Part of the difficulty that we have
22 is, of course, the import data. And based on the public
23 import data for those two HTS categories, if I'm recalling
24 correctly, I believe China is about 70 percent of the
25 imports, so there are other suppliers and believe that there

1 are still Swedish staples available, the Kihlberg staples,
2 but we didn't do an AMS run on every carton across the
3 staple industry in the world, so that's the best information
4 we have. And of course, in terms of anything that might
5 come in with the questionnaire responses, we can address
6 that post-conference.

7 MS. COHEN: And just very briefly, you mentioned
8 the copper versus galvanized coating, so for the pricing
9 products that we collected data for could there potentially
10 be a mix of copper and galvanized or would they be
11 understood to be -- I think you said the majority was
12 copper?

13 MS. DRAKE: The majority is copper. And I
14 believe the pricing products were regardless of coding.

15 MS. COHEN: Right. Is there a price difference?

16 MR. TYNDALL: No, we don't price them. In fact,
17 we advertise if you want a certain staple if you buy enough
18 of it we'll make it out of the zinc instead, so most of the
19 demand in the U.S. is always historically been for
20 copper-coated, carton closing staples.

21 MS. COHEN: Thank you very much.

22 MR. BRININSTOOL: I have a few questions about
23 the ASTM standards and then a few about the manufacturing
24 process. So my first question is for clarification.

25 Looking at the ASTM standards, I note that the

1 first column that they have is nominal size and it's 0.5
2 inches or 1.25 inches. Just to confirm that nominal size is
3 leg length; is that correct? It's on page 3 of the ASTM
4 standards. It appears that the ASTM maybe just the way they
5 labeled it. I know it's not something that you're
6 responsible for at all, but does this appear to look as
7 though it makes sense that that would be the leg length?
8 And if you don't know, we can, I guess contact the ASTM.

9 MS. DRAKE: Well, I apologize. We'll have to
10 take a look and see if we can figure what they mean by
11 nominal size.

12 MR. BRININSTOOL: And one thing also along with
13 that you might also need to check because it's a little bit
14 related, I notice in the ASTM they say that these are
15 closure methods of this practice you'll meet or exceed the
16 following minimums, but then, for example, for nominal size
17 they have the two different sizes. So I was wondering if
18 those are two different products, one is a minimum for each
19 of the products or if it was a range?

20 MS. DRAKE: Going back to the nominal size, I
21 believe the nominal size refers to the crown width, so a
22 nominal size of 1.25 inches would be a "C" staple, with a
23 one and quarter inch crown, so that is the nominal because
24 they're mostly sold to the "A" or the "C," depending on
25 their crown width. So the larger description down there

1 would have to have -- the nominal size of 1.25 would have to
2 have a minimal actual crown width of 1.125 in order to be
3 considered nominally a 1.25 crown width staple. Does that
4 make sense?

5 MR. BRININSTOOL: I was thinking maybe nominal
6 size would be --

7 MS. DRAKE: Nominal is how it's marketed or how
8 it's described, but to be described as that it must have a
9 minimum actual crown width of 1.125.

10 MR. BRININSTOOL: So potentially, in their
11 standards here leg size is -- potentially, leg length is not
12 listed because they have nominal size?

13 MS. DRAKE: That's right.

14 MR. BRININSTOOL: Okay.

15 MS. DRAKE: The width and the thickness refer to
16 the width and the thickness of the wire and there's no
17 specification for the leg length.

18 MR. BRININSTOOL: Okay, thank you very much.

19 And then looking at the crown width on the ASTM
20 standards, I'll have to look at the revised scope, but in
21 the previous scope it was about -- 1.125 inches was the
22 smallest crown size/crown width and I noticed on the ASTM
23 standards they have a crown width of a significantly smaller
24 amount. Would this difference be possible just because of
25 in practice carton closing staples are sold with a 1.125

1 inch crown or what would be the explanation for the much
2 smaller crown width.

3 MS. DRAKE: So carton closing staples, as we
4 describe them, would be limited to those with the 1.25. I
5 believe that smaller one that you're looking at with the .5
6 inch nominal size is a different staple that is used as a
7 different tool applicator and not a stick or roll staple that
8 would do current closing staples. These plier staples are
9 much lighter and smaller and narrower, so they don't have
10 the crown width to actually secure across two flaps to keep
11 them closed when they're filled with items. They're more
12 used for lighter applications like stapling something to
13 like a poster tube, a mailing tube, something like that, but
14 it wouldn't really securely close a carton or a box in the
15 way that we think of carton closing staples that meet that
16 1.25 inch, that category there.

17 So while there's another staple listed here,
18 that is not -- that's a different staple that may be used on
19 cardboard, but it's not of the strength and the width to
20 actually hold the carton securely closed the same way the
21 carton closing staples would.

22 MR. BRININSTOOL: Okay, that's very helpful. So
23 I assume that so with that -- just to summarize, I assume
24 that the second row of the ASTM standard is mainly the --
25 that is the standard we're basically looking at. Okay,

1 thank you very much for that.

2 Moving on for a second to the manufacturing
3 process, so it sounds to me that the main inputs to the
4 production would be obviously steel wire rod -- you draw and
5 then it sounds like the other two main inputs would be
6 copper and to a lesser extent zinc; is that correct?

7 MR. TYNDALL: That's correct.

8 MR. BRININSTOOL: Okay. In what form do you
9 obtain the copper and the zinc?

10 MR. TYNDALL: Both actually come in the form of
11 bars, so 24-inch bars, I believe, on the copper side and the
12 zinc side is a little bit longer.

13 MR. BRININSTOOL: Thank you. And so kind of
14 along with that, if you wouldn't mind going into a little
15 more detail on the manufacturing process, I know that you
16 said the main steps are the wire drawing and kneeling,
17 pickling, sounds like the plating and then the forming
18 either into sticks or rolls. If you could just give a
19 little more detail along the path.

20 MR. TYNDALL: Well, stop me if I go a little too
21 granular, okay.

22 So we received the raw material rod. We use
23 machines to draw that rod to 080 -- well, in this case 085
24 of an inch, so a much smaller diameter and then I guess we
25 draw that onto spools. We line the spools up in front of

1 our furnace and then we basically run 24 wires through the
2 kneeling furnace. The kneeling process is in order to
3 soften the wire when we pull wire through a dye and reduce
4 its diameter it gets stiffer and stiffer and stiffer.

5 So if you want to work with that wire as it gets
6 smaller and smaller you have to at some point in time you
7 have to soften it up and that's what the kneeling process
8 does, so we run through a kneeling furnace, 1100 degrees
9 Celsius. Once it comes out of that kneeling furnace and
10 before you coat it, you have to clean that wire, so that's
11 the clean process. It's a combination of acid, water, and
12 electricity and heat in order to basically really clean that
13 surface so wire getting any of the impurities that you have
14 so that when you either put zinc or copper on that adhesion
15 to the wire is solid.

16 If you have any impurities on the wires before
17 you put the copper or the zinc on, it'll flake off. It'll
18 fall off, basically, when you further draw it down. So
19 we're electroplaters, which all that means is we use certain
20 chemical baths, whether it's zinc or the copper process, and
21 we use electricity in order to basically get the -- dissolve
22 those zinc bars or the copper bars in a solution and the
23 electricity is used to attract that metal onto the surface
24 of the wire as a product and goes through the baths. And
25 then once that's done we take that wire and then we'll draw

1 it down in our wet draw process so it keeps nice and shiny
2 and clean to the different sizes of wires that we need to
3 make the different staples, whether it's an "A" staple or a
4 "C" staple.

5 Then we move it into our staple area and then
6 that's where it's designates. So they're on spools right
7 now. Again, it's nice and shiny copper stuff and then we'll
8 run it into the different forming machines. I can take you
9 through that as well, if you want.

10 MR. BRININSTOOL: Yes, briefly.

11 MR. TYNDALL: So on the stick side, if you look
12 at a stick there's 50 staples there, so what we have there
13 would be 50 spools of identical wire all coming into a
14 flatter. We flatten the wire all at the same time, okay,
15 and then we gather that wire so you could see a band or a
16 bunch of 50 flat wires. They'll come, we'll gather them to
17 about the width of that staple and then we'll apply glue to
18 it. And then there's about 20 or 30 feet there were it's
19 going into an oven so that we can cure that glue before we
20 form the staple. And so what we have there is a band and
21 then so it'll go through a bit of a process before it gets
22 to the press as it cures and then where the press comes down
23 just punch it. It cuts. One blank forms the other blank
24 and then shoots it out the end and then we have like a
25 little automated turn stile type of packer where it gathers

1 the staples, flips them up, and then puts them into the
2 different packers and then those packers are -- you know we
3 do a little visual QC check and then we'll put them into
4 the cartons and then manually close those as we build up our
5 skid.

6 On the roll side, it's a little bit different.
7 Each machine takes two wires and then their flatten and we
8 adhere and form and then we basically melt tape onto that
9 roll, as you'll see, and then take it up and then the
10 machine shoot the rolls off. The you'd pick those up, use a
11 little masking tape or a little scotch tape, I guess, we use
12 and then you manually pack it into the cartons and build a
13 skid that way. So each machine is consuming two spools at a
14 time, whereas the stick line is consuming 50 spools at a
15 time.

16 MR. BRININSTOOL: Okay. Alright, thank you very
17 much.

18 MR. TYNDALL: Oh, you're very welcome.

19 MR. BRININSTOOL: And in terms of that, is this
20 level of mechanization pretty standard across the industry
21 in other countries as well?

22 MR. TYNDALL: Well, I can't comment on what
23 other countries are doing, but you know at the end of the
24 day however many machines you need to get there. You know
25 you have to draw the wire down, so you definitely have to

1 draw the wire. You definitely have to kneel the wire in
2 order to soften it up, basically, so that can happen in a
3 facility. Just for us, because we're integrated, it happens
4 on site. You definitely have to coat the wire. There's
5 basically two different ways of doing that. Electroplating
6 is the way we do it. And then you definitely have to get it
7 down to those fine sizes.

8 How you get it into -- how you make that band
9 and form the staple I'm sure there're little different ways
10 to skin the cat, so to speak, but at the end of the day
11 you've got to punch and form it in very similar ways. I'm
12 sure there's more automated machines nowadays. These
13 machine -- I mean presses are old. I think they've been
14 around forever and our forming machines are from the
15 seventies for the roll staples and stuff. I'm sure there's
16 new, fancier stuff, maybe faster, but at the end of the day
17 you're doing the same thing. You're flattening the wire.
18 You're either adhering glue to it or tape to it and spitting
19 it out.

20 MR. BRININSTOOL: Thank you very much.

21 And coming back to something that was touched on
22 a little bit earlier, I know that earlier you mentioned the
23 roll and stick prices, that they're effectively at this
24 point close enough that -- and if I'm misinterpreting,
25 please let me know. You said that they were effectively

1 close enough they don't make as much difference any more.
2 And I ask because in the previous -- in the 1983 case they
3 mentioned that the stick products were more competitive
4 price-wise.

5 MS. DRAKE: No, I think that's still the case.
6 That roll prices tend to be higher than stick prices.
7 Sticks are seen as more of an entry level product, but my
8 only point was that there isn't a clear dividing line
9 between sticks and rolls based on price because the entire
10 staple market is characterized by a continuum of prices. So
11 while rolls may tend to be priced higher than sticks, we
12 don't think that difference alone would be enough to, under
13 a domestic-like product analysis, find two separate
14 products.

15 MR. BRININSTOOL: Okay, thank you very much.
16 Alright, thank you very much. I believe that's all the
17 questions I have for now. Thank you.

18 MR. ANDERSON: Okay, thank you.

19 Before I turn the microphone over to Supervisory
20 Investigator, I just want to follow up on two previous
21 questions that were asked.

22 We were talking about the non-subjects. I
23 understand that that would be a difficult thing to do,
24 data-wise, but what are seeing. Mr. Tyndall and Mr. Farah,
25 what are you seeing in the marketplace? Are you seeing or

1 can you identify staples from another source outside of the
2 U.S. that are coming in, besides China? Are you hearing
3 your purchasers talking about a source outside of the U.S.
4 and have you seen any trends over the three-year period
5 about non-subject imports of this product?

6 MR. FARAH: Again, don't have hard data, just
7 inferring from what we've seen, but across the spectrum it
8 seems even customers who, whether it's domestic here or
9 domestic in other countries who still sell in the United
10 States, most have shifted their production to China and so
11 it's almost everything in our industry that we're seeing
12 more and more is Chinese and I've just seen that accelerate,
13 especially, when you look at different steel prices in
14 different countries and things like that as well as -- I
15 guess it's hard to compete and I've just seen an
16 acceleration with wood products. Everything seems to be
17 more and more coming from China.

18 MR. ANDERSON: So that's very helpful. I'm just
19 going to follow up on that. Is the move to China -- I mean
20 this doesn't strike me as a labor-intensive production
21 process, so is the move to China because of raw materials or
22 the input there are lower cost or what do you think that
23 move is, given the transportation costs and the cost of
24 reestablishing production and in a foreign location?

25 MR. FARAH: I think one of the big things it

1 starts with is the raw material costs. I think that's one
2 of the big inputs. And again, when you're dealing with a
3 non-market economy, things don't seem to make sense. Like
4 we testified earlier the raw material costs to someone who
5 wants to make staples and buy the wire you can't even buy
6 that for what it's arriving here, landed, their finished
7 goods.

8 I think there's also things like regulations,
9 like whether it's sometimes environmental or those types of
10 things and rightfully so, whether it's here or other
11 countries, you have to follow certain standards, make
12 certain investments. You have to get rid of your waste, for
13 example, in a certain way and there's cost to all those sort
14 of things. And in China, from discussions, what I
15 understand if there are regulations, they've been very lax,
16 light enforcement, and those are advantages that another
17 manufacturer would have over a manufacturer such as
18 ourselves.

19 But I think to your point, you're right, there's
20 labor. Labor is one component, but it starts with raw
21 material. That's one of the biggest inputs into it and it
22 kind of cascades from there and there's other -- again, my
23 understanding they get other subsidies, access to certain
24 government monies, all sorts of things like that and I think
25 it just makes it much more convenient for companies to

1 manufacturer there and ship. Even the shipping costs are
2 very low from China compared to shipping probably from other
3 countries, like for that far a distance where they can
4 deliver it at generally low price per container there's
5 subsidy there as well and things like that.

6 So I think when you're in a market economy and
7 you have to factor all these costs in and regulations and
8 things like that and you go to a country that has just
9 basically dropped their prices and at such low costs because
10 of that, then you're force one starts to go there and then
11 everyone just trickles and I've seen the impact from when I
12 bought the company in 2010. It was obviously started before
13 that, but it's continued to -- you just see more and more
14 expertise leaving, plants closing down, and it's just
15 because your competitor is shipping from a place where it's
16 not a marketplace and they can offer low prices and
17 undermine you know someone who's trying to work in a market
18 economy.

19 You either go -- follow them or you do what
20 we've been doing, you fight and you just keep losing money
21 and then eventually you just have to close up.

22 MR. BRININSTOOL: Okay, thank you for that
23 response.

24 The other follow-up question that I wanted to
25 ask was about when you were talking about the production.

1 Is there anything that you can either say now or in your
2 post-conference brief about the industry in China as far as
3 the type of machinery? And you talked about the inputs and
4 the lower costs inputs, anything about the machinery that
5 might be different or has there been any technology changes
6 that perhaps the U.S. hasn't been able to take advantage of
7 because of the market conditions, but perhaps maybe are
8 being taken advantage of in China as far as production
9 technology or any changes in that regard?

10 MR. FARAH: My understanding is it's been very
11 similar. There really hasn't been any new technological
12 breakthroughs. Even if you look at wire, the way wire is
13 formed basically the same way it was a hundred years ago and
14 machines , from what I've seen, you can even go to certain
15 websites and sometimes you get a shot of their plant and it
16 looks very similar sometimes to ours.

17 You see they've got 50 spools and then it goes
18 into a -- it's very similar actually. It looks very similar
19 to, say, our stick staple line, for example. So I think
20 they're using with -- and again, maybe every manufacturer
21 can have a different wrinkle to it, but generally, the
22 fundamental manufacturing process -- again, I don't know 100
23 percent for sure, but I can infer from what I've seen that
24 it's very similar to what we've been doing. And I think
25 the market, in general, when you look at wood-to-wood

1 staples and other things I think it's -- there basically
2 hasn't been, other than automation sometimes like in the
3 packaging or something like that, there hasn't really been
4 many big breakthroughs or changes to the way the staples are
5 manufactured.

6 And I think China does it very similar to the
7 way we do it. Again, I don't have hard evidence, just from
8 what I've inferred and what I've seen.

9 MR. ANDERSON: Thank you very much. Thank you
10 for indulging me with those follow-up questions, and I may
11 have a few more, but I'll turn it over to our Supervising
12 Investigator, Mr. Corkran now. Thank you.

13 MR. CORKRAN: Thank you and thank you very much
14 to the panel. Your presentation was really helpful and we
15 always appreciate you taking the time to come and to help us
16 with our record development in these cases.

17 I'd like to start with looking at the production
18 process in just a little more granularity. When you're
19 receiving your raw materials do you tend to buy -- wire rod,
20 I assume, is one of the major raw materials. Do you buy
21 mill direct or do you buy through distribution to get your
22 wire rod?

23 MR. TYNDALL: We've done both in the past. We
24 are in search of good quality raw material at all times and
25 whether that comes from a distributor or from a mill it

1 doesn't matter to us, obviously, if you have a good quality
2 mill that's where we want to buy it from. The problem with
3 the mills is that they want a guarantee buy, whether it's
4 44,000 pounds a month or 10 times that. They want
5 commitments -- not contracts, but commitments.

6 And with our volumes being kind of this and
7 production on/off, on/ff, we got pinched a couple years ago
8 because we made these commitments and then we got stuck with
9 a bunch of raw material on site and it takes a long time to
10 run through our raw material and our turn on cash is very
11 long, right, when that happens. So we have had to turn to
12 distributors, which don't mind selling us a truckload here
13 or there you know very much spot like, right, so we're kind
14 of at the mercy there of whatever the going price is and
15 whoever has it, if that makes sense.

16 MR. CORKRAN: It does. That's very helpful.
17 The wire rod that you're purchasing is it U.S. produced? Is
18 it produced outside the United States? Where's it typically
19 being sourced?

20 MR. TYNDALL: We were 100 percent using U.S.
21 steel when I first started back in 2012 and Quebec. I mean
22 North America, I guess, just U.S. and Canada, all very
23 highly priced. We didn't really have any access to any of
24 the foreign materials.

25 You know in the last year and a half we've had

1 some plants come and visit us. One particular from Turkey,
2 so we bought some material from them and we've used a
3 distributor recently, Tada (ph) Steel, but it's not their
4 steel. They're just acting as an agent over here in the
5 U.S., so they have some Turkish rod that they're trying to
6 sell us this time around on the recent shipment. So for us,
7 as long as it's good quality, the price drives the decision
8 on that.

9 MR. CORKRAN: And for the wire rod that you
10 purchase there're various different types of wire rod. What
11 type are you using?

12 MR. TYNDALL: For staples we use a low carbon,
13 so it's 106 carbon wire rod, 737nd in diameter is the type
14 that we use.

15 MR. CORKRAN: Thank you very much. I promise
16 that ends my questions on wire rod and we'll move on to
17 other questions here.

18 So now that you've received the wire rod and
19 you've accumulated your raw materials can we go a little bit
20 more in detail on how you look at capacity. You've
21 testified that there's a lot of capacity available. What do
22 you consider your capacity drivers? Is it your drawing
23 capacity? Is it your staple forming capacity? When you
24 look at capacity what is setting it in your mind?

25 MR. TYNDALL: Staple manufacturing, staple

1 forming is the capacity.

2 MR. CORKRAN: Okay. And you have ample drawing
3 capacity to support your forming capacity?

4 MR. TYNDALL: We do.

5 MR. CORKRAN: Okay.

6 MR. TYNDALL: Yes, we do.

7 MR. CORKRAN: And how do you staff -- for both
8 wire drawing and for staple forming how do you staff that?
9 Do you staff it in three shifts a day in "X" number of days
10 a week?

11 MR. TYNDALL: For wire drawing what we do is --
12 well, we had to cross-train everybody in order to -- well,
13 just for the health of the production and for the
14 efficiencies and what have you. So when we receive a raw
15 material, we'll have a day shift, a 7:00 to 3:00, and then a
16 3:00 to 11:00 day shift who'll -- two guys or two people I
17 should say that'll start the machines and draw materials.
18 We're working two shifts until that's done, so we usually do
19 it in two truckloads, so we do about 88,000 pounds. We'll
20 draw it all down, then we load that -- load the kneeling
21 line.

22 Now the only kneeling line is all in line kneel
23 pickle coat, so we'll load up the spools. We'll start the
24 furnaces up and like 18 hours later we're able to start the
25 wire moving through that process. So that team that was

1 working -- you know that two man, two groups of two will now
2 work 12-hour shifts because we have to keep the furnace
3 going. So that two-man crew will run 12 hours, 7:00 to
4 7:00, and then the next crew will come in and relieve them,
5 7:00 to 7:00, until we run all 88,000 pounds through that
6 whole process.

7 And then, typically, what they do is they will
8 go back to the beginning and we'll draw the next part of the
9 raw material and then they'll follow it through. We have
10 one guy who runs an 8-hour shift in the wet draw part
11 because we have a fair amount of capacity there, so he's
12 running multiple machines, basically, putting it onto spools
13 so it gets ready for staples. So that's how it gets to
14 staples. So that one guy will just work -- I mean he could
15 work four tens or five eighths. Usually, we're working five
16 eighths in that particular example.

17 MR. CORKRAN: So your capacity is basically, at
18 least at the present time, it's used intermittently it
19 sounds like, especially with respect to your kneeling
20 operations.

21 MR. TYNDALL: Oh, big time, exactly. Yeah.

22 MR. CORKRAN: And then once you get to the
23 staple forming aspect of it, roughly, how many staple
24 forming machines or lines do you actually have?

25 MR. TYNDALL: We have two stick lines where you

1 would consider the line that would form that 50-staple clip
2 there that we passed around, two of those lines. It takes
3 two people to run. Right now we run one of the lines. It
4 takes two people to run that line. And then on the roll
5 side we have 10 machines. We have one person running that
6 area.

7 MR. CORKRAN: Running all 10 machines?

8 MR. TYNDALL: We usually run six machines for
9 one person, ten gets a little out of control.

10 MR. CORKRAN: That makes sense.

11 MR. TYNDALL: So that's what's dangerous. It's
12 hard to keep a bead on quality and all that kind of stuff.
13 It starts coming off pretty quick.

14 MR. CORKRAN: So when you're talking the one
15 person running them, so these machines are only available,
16 what, one shift a day?

17 MR. TYNDALL: That's correct. We're running our
18 stick 40 hours a week, so we run four tens in the staples
19 there on both areas. So the rolls one operator is running
20 four shifts at 10 hours and on the stick we're running four
21 shifts of 10 hours a week, which obviously, we can shift to
22 three-eighths, two-eighths, so forth.

23 MR. CORKRAN: So how does this compare to your
24 theoretical capacity? I mean when you compare actual
25 practice to theoretical capacity how do those two compare?

1 MR. TYNDALL: We have a huge forming capacity,
2 so we're running -- okay, just on the stick side, we're
3 running 40 hours on half of our capacity, so a third or not
4 even a third of our hours, right, a sixth of our hours,
5 right, on forming staples, so 18 percent on the rolls.

6 MR. CORKRAN: And how long has it been since
7 you've been at a production level that starts to approach
8 your theoretical capacity level?

9 MR. TYNDALL: We have not been at a production
10 level to be at capacity. We have not been there yet.

11 MR. CORKRAN: Have you been in a situation where
12 you've been able to run more than the four-ten shifts that
13 you're currently running?

14 MR. TYNDALL: Yeah, we did do that in rolls. We
15 added some overtime when were on boarding the big customer
16 in Mexico, so added a second shift -- well, actually, we had
17 the main guy run 10 and 12-hour shifts for an extra day or
18 two just while we adjusted to the extra capacity there for
19 the Mexican guys, but that was kind of a unique situation.

20 MR. FARAH: And why we have to run production
21 often is inefficient just because of the small sales.
22 Ideally, if we could run longer runs that would make it even
23 more efficient and it would even widen -- it would make our
24 capacity look even -- have much more capacity because often
25 the way we have to produce because we have to do it

1 sometimes in small batches and things like that it's not
2 ideal with setup time and things like that, so if we had
3 normal sales, we could run much longer batches, for example,
4 be way more efficient and getting more capacity out of the
5 existing machines.

6 MR. TYNDALL: Yes, that's correct. Like if we
7 were switching from "A" to "Z" staples in a week, we'd lose,
8 at minimum, one shift in that changeover, right, so one of
9 our four days is out the window because we're changing from
10 a "C" staple to an "A." So to Maroune's point, we run
11 longer. Obviously, we have less of those types of
12 changeovers.

13 MR. CORKRAN: Now shifting a little bit from the
14 actual equipment that's in place to looking at employment.
15 You'd testified to the impact of layoffs, having to go
16 through layoffs. How does that affect your ability to
17 produce? I understand the notion that, in theory, you could
18 produce more if you had greater options to sell; but given
19 your staff levels at this point can you realistically
20 produce more or is employment a constraint?

21 MR. FARAH: Eventually, with our existing
22 employees, we could definitely produce more staples, but
23 there'll be steps. So as sales increased, we could bring on
24 another shift, for example. The good thing we've done is
25 the core we've maintained because there is a lot of

1 technical expertise, so to me that's one of the things we
2 have to protect the most and that we can't lose people who
3 really know how to operate the machines. So we've done a
4 lot of work with that and so to bring on extra shifts the
5 ramp up would be very quick to do that. So as we reach
6 certain thresholds with more sales, then I have no doubt we
7 could bring on new shifts, get them properly trained under
8 supervision of our existing staff and just go from there.

9 MR. CORKRAN: So it sounds like, and if I'm
10 summarizing correct, ramping up would be a two-step process.
11 One would be larger volumes allowing you longer production
12 runs and more efficiency in sort of an as-is state and then
13 additions, such as adding additional shifts to further
14 increase.

15 Now did you say that that's possible with your
16 current staffing level or you'd have to bring in new
17 employees to train them?

18 MR. FARAH: No, our current staffing level can
19 do more sales. Like eventually, you need people still to
20 make the staples, so the existing -- and Ross and I were
21 talking about that yesterday. The existing employees we
22 have today we could be making much more staples with just
23 the existing staff. So if the sales increased, then we
24 could do things like run longer shifts and with the
25 cross-training we're not taking full advantage of those

1 opportunities as well, just because of the nature of
2 everything from the furnace -- you know shutting it on and
3 off is so inefficient to do stuff like that. So really if
4 we just get a base of regular sales that'll stabilize that
5 piece. It'll make our existing cost structure much better
6 and then as the sales grow then it's just natural to add on
7 more employment, more shifts, and things like that.

8 MR. CORKRAN: Thank you very much. I appreciate
9 being able to go through it step-by-step like this. This is
10 really helpful.

11 You had referenced again the Mexican sales.
12 Just in general, the sales to Mexico are they of a -- are
13 they the same type of product that you're selling in the
14 United States? And by that, I mean are they sold to the
15 same, say, ASTM specifications, the same general
16 configurations, or are they more special order in nature?

17 MR. FARAH: They'd be similar.

18 MR. TYNDALL: They would be similar, yes.

19 MR. CORKRAN: In terms of offering both copper
20 and galvanized staples, what differences are there in those
21 products? Is that mainly an issue of esthetics or are we
22 talking about application differences between copper and
23 galvanized?

24 MR. FARAH: Actually, I just thought about -- if
25 I back up one second. The Mexican market they seem to

1 prefer the zinc staples more. We send copper as well, but
2 it seems to be the reverse to the U.S., so they prefer the
3 zinc staples. It's mainly -- and maybe Ross can speak to it
4 a little bit more. It's mainly esthetic and customer
5 preference. They all have different theories and views on
6 why they want one or the other. But I think because of
7 practice for so many years in the U.S. it's been copper it
8 seems to be the dominant. We do sell zinc as well, but
9 copper seems to be the dominant one and I think it's mainly
10 esthetics. I think that's mainly the big difference.

11 MR. TYNDALL: I think also just a little bit on
12 the moisture side of things, right, so the zinc coating
13 provides a little bit better anti-rust, whereas the copper
14 tarnishes quickly to the eye, so back to your esthetics
15 comment in those places there's -- I know that customer we
16 talk about is in the middle of the jungle in one place, so
17 having a zinc staple I think just holds up to that very
18 humid, very wet environment for many months, right. They
19 don't get a lot of shipments, so the access is not great, so
20 it has to sit there in those types of environments for a
21 long time. So I think they find there that historically
22 they prefer a zinc staple and up here we don't have those
23 same types of issues, so historically, I think they first
24 started with copper, so it's what you get used to, right?
25 You always know carton closing staples as being copper, so

1 that's sort of how it went.

2 MR. CORKRAN: Ms. Cohen asked several questions
3 about the impact of branding in this industry and particular
4 brands that are fairly well known. When you're dealing
5 with, say, Bostitch Staples -- staples not staplers -- in
6 the market are they being sold through dedicated
7 distribution channels or are there dedicated distributors
8 for Bostitch or are they being sold for wider distribution?

9 MR. FARAH: To be honest, I can't answer that a
10 hundred percent, but my understanding is that they do have
11 dedicated distributors. I'm sure anyone can buy a Bostitch
12 staple, but most of the distributors in the U.S. some of
13 them will sell Bostitch and they'll sell Chinese staple as
14 well, but they're interchangeable. Like if we put two rolls
15 down together -- and actually, I think the Bostitch staples
16 come from China as well -- you can't tell the difference and
17 they're marketed as such.

18 So when you go to a distributor they'll say if
19 it's not a Bostitch staple they'll say it's compatible. It
20 works the same way as Bostitch in the same stapling machine
21 -- tool, sorry, so really there's no difference. It's the
22 same size. They're totally interchangeable. I can't speak
23 100 percent to the way they're distributed, but it is maybe
24 slightly different compared to, say, selling -- yeah, I
25 can't speak directly to that, to be honest.

1 MR. CORKRAN: Well, I guess the question that I
2 had was, in thinking about that, even with Bostitch staples
3 being produced in the United States up until -- you know you
4 had tracked them up through at least 2012 in the East here.
5 It sounds like you were not able to procure sales in their
6 distribution channel regardless of where those staples were
7 being produced, whether they were produced in the United
8 States or anywhere else. Is that a fair characterization?

9 MR. FARAH: You mean if we wanted to by Bostitch
10 staples?

11 MR. CORKRAN: Through their distribution
12 channels. It sounds like that was closed off to you
13 regardless of the ultimate source of the staple that the
14 Bostitch distribution was using.

15 MR. FARAH: To be honest, I can't answer because
16 we -- basically what we do is have the IS Emerald staple,
17 there's the Bostitch roll staple, and I wasn't really
18 focused on what Bostitch was doing from that standpoint. So
19 we just sell whatever the customer preferred, but we could
20 make a Bostitch stable. I never investigated you know the
21 Bostitch distribution channels, only hearing things and
22 stuff like that, so I can't speak 100 percent to fact on
23 that.

24 MR. CORKRAN: I think that pretty much takes
25 care of my questions, but again, I wanted to extend my

1 sincere thanks to you for coming today. It's been very
2 helpful. I really appreciate it.

3 MR. ANDERSON: Thank you, Mr. CORKRAN. I'm
4 going to look at the team here to see if they have any
5 follow-up questions.

6 Okay, if you can indulge us for the couple of
7 questions that I have, and they should be short here. The
8 market demand for rolls versus stick during the 2014/'16
9 period we're charged to look at can you say anything about
10 that? Has there been any shift or has there been an
11 increasing/decreasing trend for either product? And then
12 the follow on question on that is are you seeing more roll
13 or stick products from China that you're competing with?

14 MR. FARAH: I can say both categories have
15 decreased and yet, we here -- and we've learned a lot about
16 China, especially, even now our distributors have been point
17 blank with us why would we buy a case of this from you at
18 whatever, \$45 a case? I can get it for \$18 a case. And
19 that's really accelerated. So our trend we've definitely
20 seen it's -- everything's coming from China. Our roll and
21 stick sales have both decreased and our inferences through
22 the market, we're in the market, and from our customers is
23 it's all -- I never hear about another country or anything
24 like that. Everyone compares us to the Chinese staple.

25 MR. ANDERSON: Okay, that's helpful. And I

1 guess based on your description of your machines and the
2 ratio of your machines it sounds like roll is the more
3 prevalent demanded product? I think I heard you say 10 roll
4 machines and 4 stick, but I know the outputs are different
5 because you're putting in more rod.

6 MR. TYNDALL: We can make a lot more stick very
7 much more quickly, so it just requires -- like if we're
8 running a shift we'll basically make 5,000 pounds or 6,000
9 pounds of staples on the stick line and we'll make 2500
10 pounds of staples on the roll line, so just to give you an
11 idea how many staples you're making, so you need a lot more
12 machines to make the rolls. They're a lot slower, right.

13 MR. ANDERSON: Okay, that's very helpful. And
14 kind of a follow on to your description, which was very
15 helpful, your narrative description. I felt like we were
16 watching a YouTube video of your factory, so thank you very
17 much.

18 As you get to that point -- this is a little bit
19 of a like product question, but if you get to that point
20 where you're going into that roll versus stick stage, like
21 roughly what percentage of your -- as Mr. Corkran was asking
22 about your capacity. If you're talking about forming
23 capacity, what percentage of your costs or your equipment or
24 whatever is the roll versus the stick? Is that a large part
25 of the cost of the final staple production and does the

1 equipment drastically differ and its costs and the energy
2 and so forth used for those different two processes? You
3 can respond in a post-conference brief.

4 MR. TYNDALL: Yes, that might be better. We
5 might need to respond in that, but the big -- you know
6 there's the capital cost of the equipment and the
7 maintenance and things like that. So your question is
8 asking the split between the stick and the roll?

9 MR. ANDERSON: Yes, when it splits is there a
10 big difference in -- do you see the cost per staple or the
11 cost per production because of the nature of the machinery
12 and what you have to do when you divert that input to a
13 stick product versus a roll product?

14 MR. TYNDALL: I think the way we're setup now is
15 because there's significant capital costs to a lot of this
16 and because we have so much open capacity wherever the
17 demand goes the big thing is your capital costs and some of
18 the variable costs, but you know what, post-brief or
19 whatever it's called that might be better just to give you a
20 more definitive answer.

21 But yeah, in terms of the cost, the variable
22 would reflect some of the variable costs that we have now
23 and until we need to make an investment decision the capital
24 costs would just be spread over more units or more sales. I
25 don't know if that really answers your question or not, but

1 we'll work on it.

2 MS. DRAKE: We'll see if we can find an answer
3 post-conference.

4 MR. ANDERSON: Okay, thank you.

5 And then my last question is probably more of a
6 post-conference response too. Just if you could
7 characterize the trend in your input costs, obviously wire
8 rod costs, but other input costs such as energy, labor, and
9 so forth, if you could characterize that over the POI.

10 Obviously, we've asked you for some very
11 specific propriety information on your Cost-to-Goods-Sold,
12 but it'll be helpful if you could just put some context and
13 background behind that and what you see in wire rod prices
14 and energy costs and things like that. That'd be very
15 helpful.

16 MS. DRAKE: We'll be happy to do so.

17 MR. ANDERSON: Okay, thanks.

18 So with that, on behalf of the staff, I want to
19 thank you -- you have a follow up? Okay, Mr. Jones.

20 MR. JONES: I just had a couple questions
21 regarding the domestic industry, circling back on a couple
22 of questions I had since the shift towards the export
23 markets, basically, Mexico specifically, what trends have
24 you seen as far as now that, as you stated previously, that
25 you're the only sole producer what trends have you seen as

1 far as not just imports, but just overall in the domestic
2 industry what have you seen take place over the last two or
3 three years?

4 MR. FARAH: In our industry it's because you
5 would think if we were the last ones for example left, our
6 production should go up and everything but it really always
7 seemed the trends have been more and more coming from
8 overseas China. That's been the biggest trend we've seen
9 and again with Mexico we've tried to export but that could
10 dry up tomorrow.

11 That's our issue. There is no guarantees going
12 to Mexico for the export market and again it's a negligible
13 small amount versus what we could do in the domestic market
14 with our capacity but that's pretty much what we've seen
15 it's become automatic now that it's China for curtain
16 closing staples and it seems like everyone is getting their
17 staples from China more and more and more.

18 We've seen it all along but it just keeps
19 accelerating and we are becoming more aware of it with our
20 customers just telling us now, a lot of them and ones we try
21 to go to they basically say why would we buy it from you?

22 MR. JONES: Thank you. And as far as domestic
23 demand what would your ability be as far as filling domestic
24 demand if the orders were to go through for China
25 specifically?

1 MR. FARAH: I think we are in a position to
2 satisfy, and again it's difficult because of the data we
3 don't know the whole domestic market so I can only go you
4 know from what I have heard of the past from the previous
5 company when they were doing much, much better and we can
6 satisfy in my mind most of the domestic demand in those
7 areas and if it got any more it would just be incremental
8 investments because we have everything there, but based on
9 and again I don't have access to what the total market size
10 is but based on what they were doing in the past it is much,
11 much larger than what we are doing today and it's the same
12 machines. So I am pretty confident that we could handle
13 probably most of the domestic market.

14 MR. JONES: Thank you. As far as the timing of
15 the filing of the Petition, was there any particular reason
16 why now versus a year or two ago you didn't file it?

17 MR. FARAH: Yes. I will be very straight about
18 that. So you know obviously the concerns were from the very
19 beginning and when I bought the company a lot of money went
20 into you know doing things with the equipment, training the
21 employees, getting everything really up to speed so that
22 took some time. Then you know when the sales weren't there
23 you are trying everything and to be really frank money
24 became a very big issue.

25 I'm very grateful to be here today in the

1 position to file this but it does cost a lot of money, money
2 we didn't have back then. So I had to make a decision. If
3 we just kept going the way we were going it doesn't matter
4 six months from now or whatever it is. I had to get access
5 to funds just to even bring this petition forward as a last
6 chance because I can invest millions in my plant down there.

7 I can invest millions in the employees. I can
8 make the best product in the world, be the most efficient
9 but what I cannot do is I cannot sell for fifty cents what
10 costs me a dollar to make and so to me this is our last
11 avenue. I would have filed it much earlier. We didn't have
12 the financial resources to do it so that is primarily the
13 reason we didn't bring this earlier so I had to go out and
14 talk to other people because this is you know, learning
15 about this process and that's what brought me here today.

16 MR. JONES: Thank you. As far as I mentioned
17 again on investments, looking ahead as far as R&D and
18 investments, not just R&D but also capacity and utilization
19 what type of investments would you be looking forward to in
20 the future? If there are any specifically, you mentioned
21 they have been placed on hold.

22 MR. FARAH: Yes.

23 MR. JONES: Are there any specific investments
24 that your company is looking to --

25 MR. FARAH: There are several but I will just use

1 one as an example so if for example wastewater or water in
2 our process, several years ago, 3-4 years ago anticipating
3 still hoping for more sales and things like that we made a
4 sizeable investment in water recycling equipment and it
5 reduced our wastewater by 95% which would good, that was
6 phase 1 and we still needed more money which I couldn't
7 secure to get it to last to the point where we could be 100
8 percent as we cannot finish that capital investment.

9 It did reduce our costs, which was great but we
10 still have to -- we don't get the full benefit of being able
11 to recycle 100 percent so we still have to do things
12 offline. We still are sending certain waste away that we
13 wouldn't have to if we can just finish that piece. That's
14 just one small example. There are several others that we'd
15 like to do.

16 It's really quite exciting, like it's you know I
17 get passionate about it because there is no reason why that
18 plant can't be full. There is absolutely no reason and
19 there are so many investments we can make. The people are
20 great. The knowledge that they have, the expertise is just
21 so underutilized. So we can add, you know my vision
22 eventually is to add other machines, other products maybe
23 eventually to get to that point but first I need to fill up
24 what I have. I can't justify any more making capital
25 investments for something that might not happen so yes,

1 that's where we are with that.

2 MR. JONES: Thank you. No further questions.

3 MR. ANDERSON: Thank you very much. On behalf of
4 staff I want to thank you for responding to our questions,
5 for being here today and it's been very helpful to learn
6 about your product. I think a lot of us have seen it over
7 the years but it's great to hear more specifically about it
8 and Ms. Drake I wanted to ask you if you needed a few
9 minutes for closing. This is kind of an unusual situation
10 so if you are ready to proceed or if you would like a
11 couple minutes please --

12 CLOSING REMARKS BY ELIZABETH DRAKE

13 MS. DRAKE: This is Ms. Drake. I don't think I
14 can give a better closing than Mr. Farah just did in terms
15 of their commitment to this industry and I really appreciate
16 all your attention today so we will just leave it at that.
17 Thank you.

18 MR. ANDERSON: Okay, great so we will dispense
19 with official closing arguments then? Okay, great. Well
20 let me just thank you all for being here and taking time out
21 of your business to help us develop the record for the
22 Commission. I just wanted to state for the record a couple
23 of key dates in the investigation here.

24 The deadline for submission of corrections to the
25 transcript and for submission of post-conference briefs is

1 Wednesday April 26 and if these briefs contain business
2 proprietary information a public version is due on Thursday
3 April 27 and the Commission has tentatively scheduled its
4 vote on this investigation for Friday May 12th and will
5 report our determination to the Secretary of the Department
6 of Commerce on May 15th and Commissioner's opinions will be
7 issued on Monday May 22nd so with that thank you all again
8 and this conference is adjourned.

9 (Whereupon at 2:36 p.m., the meeting was
10 adjourned.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Carton Closing Staples from China

INVESTIGATION NO.: 731-TA-1359

HEARING DATE: 04-20-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 4-20-17

SIGNED: Mark A. Jagan

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