ECONOMIC CONSULTING SERVICES, LLC

BEFORE THE

UNITED STATES INTERNATIONAL TRADE COMMISSION

IN THE MATTER

OF

Wooden Cabinets and Vanities from China

Inv. Nos. 701-TA-620 and 731-TA-1445 (Preliminary)

EXHIBITS TO THE TESTIMONY OF

JIM DOUGAN, VICE PRESIDENT

ECONOMIC CONSULTING SERVICES, LLC

March 27, 2019

Washington, D.C.

Petitioners Understate Size of U.S. Market + Overstate Subject Import Penetration

Petitioners only calculate subject import market share by reference to this volume of U.S. shipments…

…but elsewhere in Petition report ***this*** volume of U.S. shipments

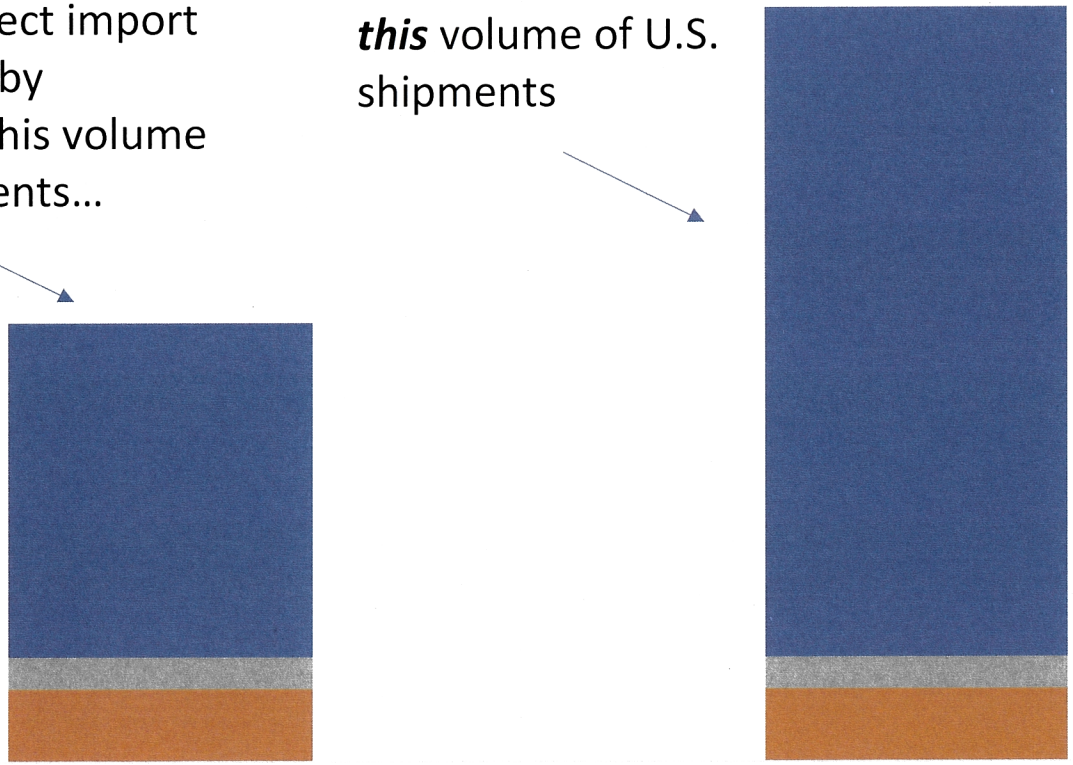


Table 3 Table 1

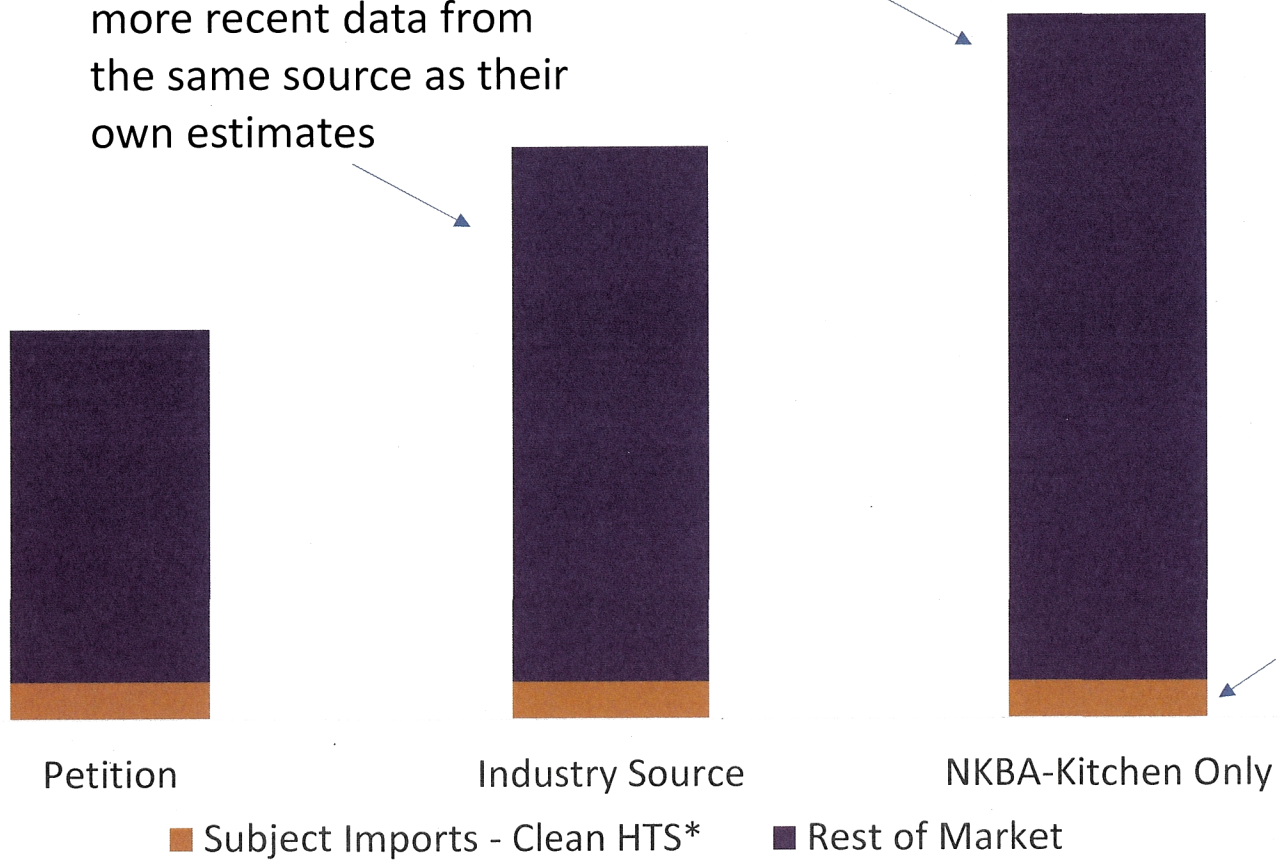
Subject Imports - Clean HTS* Nonsubject imports - Clean HTS* US Producers

*Clean HTS code is 9403.40.9060 which covers kitchen cabinets

Petitioners Understate Size of U.S. Market + Overstate Subject Import Penetration (ct'd)

Even by Petitioners' own methodology, they should have used these more recent data from the same source as their own estimates

Contemporaneous NKBA Report sizes the market as larger still



Under any scenario, subject import penetration is very small

*Clean HTS code is 9403.40.9060 which covers kitchen cabinets

The Commission Should Measure Consumption in Terms of Value

Conceptual Reasons

- Cabinet and vanity units come in wide varieties of shapes and sizes
- Commission has used value in similar situations, like *Wooden Bedroom Furniture* and *Tapered Roller Bearings*
- Scope contains components

Practical Reasons

- Import statistics tracked only in value terms
- Industry sources measure shipments + consumption in value
- External benchmarks are key in a fragmented industry with likely incomplete QR coverage

Conditions of Competition: Market Segmentation

The Market and the Industry are not Monolithic

- Cabinets are produced and sold in different ways
- The sale of an imported cabinet or vanity does not displace a sale of a domestically-produced cabinet or vanity

Subject Imports Have a Different Business Model + Value Proposition

- Value proposition is based on speed + logistical efficiency + quality rather than product variation + customization
- Value proposition is NOT based on having the lowest prices

Conditions of Competition: Different Business Models

US Cabinets

- Produced to order
- Lead times of 2-4 weeks (stock) to 8-12+ weeks (custom)
- Many SKUs and product variations
- Custom cabinets allow for essentially unlimited modification
- Ability to supply projects of 100+ kitchens

Imported Cabinets

- Sold from inventories
- Lead times of 1-5 days
- Fewer SKUs and product variations
- Essentially no options for modification
- Generally cannot supply large scale projects

Conditions of Competition: Market Niche for Subject Imports

Subject Imports Have Unique Value to Specific Customers

- Can ship a narrow range of products very quickly from inventory
- Appealing to customers (a) with short windows of time and (b) are less interested in selection of design features
- Could get cheaper cabinets from certain U.S. producers, but would have to wait 2-4 weeks

Difference in Business Models Supported by QR Data

- Inventory to shipment ratios: U.S. producers effectively zero, importers higher (befitting business model) but declined over POI

Conditions of Competition: Market Niche for Subject Imports (ct'd)

Subject Imports Offered in RTA Flat-Packs

- Efficient to stack, store, and transport
- Makes inventories efficient and cost-effective
- Reduces chance of damage in transport
- Easier handling key at certain job sites (small spaces, being carried up stairways)

No Meaningful Competitive Overlap in RTA Segment

- QR data that U.S. Producers ship very little RTA
- Niche customers <u>must</u> get RTA from subject imports
- Based on speed + logistics + quality, not price

No Adverse Volume Effects: Low Subject Import Penetration

- When market is properly sized, subject import penetration is very small, and increase in share is even smaller
- When imports of RTA are excluded (no competitive overlap), subject market share and growth in share even smaller
- Shifts of this magnitude do not meet materiality threshold

No Adverse Volume Effects: Capacity Utilization

- Capacity utilization was steady, even with increased capacity
- Numerous domestic producers have overstated their capacity, assuming they could run 2 or 3 shifts instead of the 1 they actually run
- Assumption ignores QR instruction of "normal operating conditions"
- Fails to recognize labor constraints in marketplace
- Commission should give this statistic little weight

No Evidence of Adverse Price Effects

Pricing Data Unusable for Underselling Analysis

- No distinction between RTA and assembled sales; not an apples-to-apples comparison
- QR data show that large portion of importer pricing data was RTA, while virtually all USP pricing data are assembled cabinets
- Don't specify what "wood construction" means; could include everything from particle board to hardwood custom cabinets

No Price Depression or Price Suppression

- No Depression: Net Sales, Shipment, and Pricing Product AUVs increased. LSLR also show no depression
- No Suppression: COGS/Net sales flat 2016-2017; slight increase in 2018 due in part to non-recurring items
- Net sales AUVs grew by more than unit raw materials and unit labor costs

No Adverse Impact by Reason of Subject Imports

- U.S. industry's profitability steady from 2016 to 2017, despite increased import volume, market share
- Slight decline in 2018 margins mostly attributable to non-recurring items
- Employment indicia (PRWs and wages) grew over POI
- CapEx to Depreciation greater than 100% over the POI
- Industry assets grew over POI
- No causal link between import volume and industry performance