

# Uncovered Innerspring Units From China, South Africa, and Vietnam

Investigation Nos. 731-TA-1140-1142 (Preliminary)

Publication 3983

February 2008

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

## COMMISSIONERS

**Daniel R. Pearson, Chairman**  
**Shara L. Aranoff, Vice Chairman**  
**Deanna Tanner Okun**  
**Charlotte R. Lane**  
**Irving A. Williamson**  
**Dean A. Pinkert**

Robert A. Rogowsky  
*Director of Operations*

### *Staff assigned*

Jim McClure, *Senior Investigator*  
Queena Fan, *Industry Analyst*  
Kelly Clark, *Economist*  
David Boyland, *Auditor*  
Lita David-Harris, *Statistician*  
Patrick Gallagher, *Attorney*

**Address all communications to**  
**Secretary to the Commission**  
**United States International Trade Commission**  
**Washington, DC 20436**

# **U.S. International Trade Commission**

Washington, DC 20436  
*www.usitc.gov*

## **Uncovered Innerspring Units From China, South Africa, and Vietnam**

Investigation Nos. 731-TA-1140-1142 (Preliminary)



**Publication 3983**

**February 2008**



# CONTENTS

	<i>Page</i>
Determinations .....	1
Views of the Commission .....	3
Part I: Introduction .....	I-1
Background .....	I-1
Summary data .....	I-2
Previous Commission investigations .....	I-2
The subject product .....	I-2
Tariff treatment .....	I-2
Physical characteristics and uses .....	I-3
Manufacturing facilities and production employees .....	I-8
Interchangeability and customer and producer perceptions .....	I-10
Channels of distribution .....	I-10
Price .....	I-10
Domestic like product and the domestic industry .....	I-10
Part II: Conditions of competition in the U.S. market .....	II-1
U.S. market segments and channels of distribution .....	II-1
Geographic markets .....	II-1
Supply and demand considerations .....	II-2
U.S. supply .....	II-2
Foreign supply .....	II-3
U.S. demand .....	II-5
Global demand .....	II-8
Substitutability issues .....	II-8
Factors affecting purchasing decisions .....	II-8
Comparisons of domestic products, subject imports, and nonsubject imports .....	II-9
Part III: U.S. producers' production, shipments, and employment .....	III-1
U.S. producers .....	III-1
Changes in U.S. producers' operations .....	III-1
U.S. producers' capacity, production, capacity utilization, shipment, inventory, and employment data .....	III-3
U.S. producers' imports .....	III-6
Part IV: U.S. imports, apparent consumption, and market shares .....	IV-1
U.S. importers .....	IV-1
U.S. imports .....	IV-1
Negligibility .....	IV-5
Apparent U.S. consumption and U.S. market shares .....	IV-5
Ratio of imports to U.S. production .....	IV-8
Cumulation considerations .....	IV-8
Geographical markets .....	IV-8
Simultaneous presence in the market .....	IV-10

## CONTENTS—Continued

	<i>Page</i>
Part V: Pricing and related information .....	V-1
Factors affecting prices .....	V-1
Raw materials .....	V-1
Transportation costs to the U.S. market .....	V-2
U.S. inland transportation costs .....	V-3
Exchange rates .....	V-3
Pricing practices .....	V-5
Pricing methods .....	V-5
Sales terms and discounts .....	V-6
Price data .....	V-7
Price trends .....	V-10
Price comparisons .....	V-11
Lost sales and lost revenues .....	V-12
Part VI: Financial experience of the U.S. producers .....	VI-1
Background .....	VI-1
Operations on innersprings .....	VI-1
Capital expenditures, research and development expenses, assets, and return on investment .....	VI-5
Capital and investment .....	VI-5
Actual negative effects .....	VI-6
Anticipated negative effects .....	VI-6
Part VII: Threat considerations and <i>Bratsk</i> information .....	VII-1
The industry in China .....	VII-1
The industry in South Africa .....	VII-3
The industry in Vietnam .....	VII-3
U.S. importers' inventories .....	VII-3
Imports subsequent to September 30, 2007 .....	VII-4
Antidumping duty orders in third-country markets .....	VII-4
Information on nonsubject sources .....	VII-4
“Bratsk” considerations .....	VII-4

### Appendixes

A. <i>Federal Register</i> notices .....	A-1
B. Conference witnesses .....	B-1
C. Summary data .....	C-1
D. U.S. producer and importer shipments of uncovered innerspring units, by size and type .....	D-1
E. Import data compiled from official Commerce statistics .....	E-1

Note.—Information that would reveal confidential information of individual concerns may not be published and, therefore, has been identified by the use of asterisks.

# UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation Nos. 731-TA-1140-1142 (Preliminary)

UNCOVERED INNERSPRING UNITS FROM CHINA, SOUTH AFRICA, AND VIETNAM

## DETERMINATIONS

On the basis of the record<sup>1</sup> developed in the subject investigations, the United States International Trade Commission (Commission) determines, pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)) (the Act), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China, South Africa, and Vietnam of uncovered innerspring units provided for in statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value (LTFV).

## COMMENCEMENT OF FINAL PHASE INVESTIGATIONS

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigations. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission's rules, upon notice from the Department of Commerce (Commerce) of affirmative preliminary determinations in the investigations under section 733(b) of the Act, or, if the preliminary determinations are negative, upon notice of affirmative final determinations in the investigations under section 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigations need not enter a separate appearance for the final phase of the investigations. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigations.

## BACKGROUND

On December 31, 2007, a petition was filed with the Commission and Commerce by Leggett & Platt Inc., Carthage, MO, alleging that an industry in the United States is materially injured and threatened with further material injury by reason of LTFV imports of uncovered innerspring units from China, South Africa, and Vietnam. Accordingly, effective December 31, 2007, the Commission instituted antidumping duty investigation Nos. 731-TA-1140-1142 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of January 7, 2008 (73 FR 1229). The conference was held in Washington, DC, on January 22, 2008, and all persons who requested the opportunity were permitted to appear in person or by counsel.

---

<sup>1</sup> The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).



## VIEWS OF THE COMMISSION

Based on the record in the preliminary phase of these investigations, we find a reasonable indication that an industry in the United States is materially injured by reason of imports of uncovered innerspring units from the People's Republic of China ("China"), the Republic of South Africa ("South Africa"), and the Socialist Republic of Vietnam ("Vietnam") that are allegedly sold in the United States at less than fair value.

### I. THE LEGAL STANDARD FOR PRELIMINARY DETERMINATIONS

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determination, whether there is a reasonable indication that a domestic industry is materially injured, threatened with material injury, or whether the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.<sup>1</sup> In applying this standard, the Commission weighs the evidence before it and determines whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation."<sup>2</sup>

### II. BACKGROUND

Leggett and Platt, Incorporated ("Leggett"), the petitioner, filed an antidumping petition on December 31, 2007, regarding allegedly unfairly traded imports of uncovered innerspring units from China, South Africa, and Vietnam.<sup>3</sup> Leggett has innerspring production facilities in six U.S. locations<sup>4</sup> and maintains a nationwide distribution system of 17 service branches.<sup>5</sup> Representatives from Leggett appeared at the staff conference accompanied by counsel, and Leggett filed a postconference brief. Hickory Springs Manufacturing Company ("Hickory Springs") is a U.S. producer of uncovered innerspring units with production facilities in five U.S. locations.<sup>6</sup> Hickory Springs supports the petition, appeared at the staff conference accompanied by counsel, and submitted a postconference brief.

Representatives and counsel for an *ad hoc* coalition of importers of the subject merchandise produced in China and South Africa also appeared at the staff conference and submitted a post-conference brief.<sup>7</sup> In addition, counsel for a number of Chinese producers and exporters<sup>8</sup> of the subject merchandise

---

<sup>1</sup> 19 U.S.C. §§ 1671b(a), 1673b(a); see, e.g., Co-Steel Raritan, Inc. v. United States, 357 F.3d 1294 (Fed. Cir. 2004); American Lamb Co. v. United States, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); Aristech Chemical Corp. v. United States, 20 CIT 353, 354 (1996). No party argued that the establishment of an industry is materially retarded by reason of the allegedly unfairly traded imports.

<sup>2</sup> American Lamb, 785 F.2d at 1001; see also Texas Crushed Stone Co. v. United States, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

<sup>3</sup> Confidential Staff Report, Mem. INV-FF-011 (Feb. 7, 2008) at I-1 ("CR"); Public Staff Report ("PR"), Uncovered Innerspring Units from China, South Africa, and Vietnam, Inv. Nos. 731-TA-1140-1142 (Preliminary).

<sup>4</sup> CR/PR at Table III-1. Carthage, MO; Ennis, TX; High Point, NC; Monroe, GA; Tupelo, MS; and Winchester KY.

<sup>5</sup> Petition at 5.

<sup>6</sup> CR/PR at Table III-1 (Holland, IL; Verona, MS; Sheboygan, WI; and High Point and Micaville, NC).

<sup>7</sup> Ad Hoc Innersprings Importers' Coalition ("Importers' Coalition") members Paramount Industrial Companies, China Logistic Partner Network Co., Ltd., Pacific Spring Manufacturing, Lady Americana, and Texas Pocket Springs Corporation ("Texas Pocket Springs") appeared at the staff conference, and they and other coalition members (Omaha Bedding Company, American Bedding Company, Sound Sleep Products, Harvard Manufacturing

appeared at the staff conference and submitted a postconference brief. No producer, exporter, or importer of the subject merchandise from Vietnam appeared at the conference. The government of Vietnam, however, submitted a postconference brief.<sup>9</sup>

### III. DOMESTIC LIKE PRODUCT

#### A. In General

In determining whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the “domestic like product” and the “industry.”<sup>10</sup> Section 771(4)(A) of the Tariff Act of 1930, as amended (“the Act”), defines the relevant domestic industry as the “producers as a {w}hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>11</sup> In turn, the Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation.”<sup>12</sup>

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of “like” or “most similar in characteristics and uses” on a case-by-case basis.<sup>13</sup> No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.<sup>14</sup> The

---

Enterprises, Therapedic Sleep Products, Emerald Home Furnishings, White Dove Mattress Ltd., Diamond Mattress Co. Inc., Englander/Medi-pedic, H&A Trading, Tower Grow Enterprises Inc., W.J. Trading, Pennsylvania Bedding, Blue Bell Mattress Company, and Taylor Bedding) filed a postconference brief.

<sup>8</sup> Baoding Yong’an Furniture Material Co., Ltd.; Nanjing Donghai Furniture Co., Ltd.; Xilinmen Group Co., Ltd.; Hotswell Development Co., Ltd.; Foshan Jingxin Steel Wire & Spring Co., Ltd.; Wuxi Xihuisheng Trading Co., Ltd.; Nanjing Taihi Furniture Co., Ltd.; Nanjing Jinbang Qilin Mattress Co., Ltd.; Jiangsu Huihong Co., Ltd.; High Hope International Group; Jiangsu Native Produce Import and Export Corporation, Ltd.; and the China Chamber of Commerce for Import and Export of Light Industrial Products and Arts-Crafts (collectively “Chinese Respondents”).

<sup>9</sup> The Commission received questionnaire responses with usable information from seven U.S. firms that accounted for virtually all U.S. production of uncovered innerspring units during 2006. CR at I-2, PR at I-2. The Commission received foreign producer questionnaire responses with usable data from eight Chinese producers (plus four owned by Leggett); two South African producers (\*\*\*) ; and one Vietnamese producer. CR at VII-1, VII-4, and VII-6 respectively; PR at VII-1, VII-3, and VII-3. As a share of official statistics (HTS 9404.29.9110), questionnaire responses were received from 18 importers of record that in 2006 accounted for (by quantity) more than 100 percent of U.S. imports from China, nearly \*\*\* percent from South Africa, more than \*\*\* percent from Vietnam, and \*\*\* percent from nonsubject sources. CR/PR at IV-1.

<sup>10</sup> 19 U.S.C. § 1677(4)(A).

<sup>11</sup> 19 U.S.C. § 1677(4)(A).

<sup>12</sup> 19 U.S.C. § 1677(10).

<sup>13</sup> See, e.g., NEC Corp. v. Department of Commerce, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Torrington Co. v. United States, 747 F. Supp. 744, 749 n. 3 (Ct. Int’l Trade 1990), aff’d, 938 F.2d 1278 (Fed. Cir. 1991) (“every like product determination ‘must be made on the particular record at issue’ and the ‘unique facts of each case’”). The Commission generally considers a number of factors including: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. See Nippon, 19 CIT at 455, n. 4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996).

<sup>14</sup> See, e.g., S. Rep. No. 96-249 at 90-91 (1979).

Commission looks for clear dividing lines among possible like products and disregards minor variations.<sup>15</sup> Although the Commission must accept the determination of Commerce as to the scope of the allegedly unfairly traded imported merchandise,<sup>16</sup> the Commission determines what domestic product is like the imported articles Commerce has identified.<sup>17</sup> The Commission must base its domestic like product determination on the record in these investigations. The Commission is not bound by prior determinations, even those pertaining to the same imported products, but may draw upon previous determinations in addressing pertinent like product issues.<sup>18</sup>

## **B. Product Description**

In its notices of initiation, Commerce defined the imported merchandise within the scope of these investigations as:

uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (*e.g.*, twin long, full, full long, queen California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

---

<sup>15</sup> Nippon, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49; *see also* S. Rep. No. 96-249 at 90-91 (1979) (Congress has indicated that the like product standard should not be interpreted in “such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not ‘like’ each other, nor should the definition of ‘like product’ be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.”).

<sup>16</sup> *See, e.g.*, USEC, Inc. v. United States, Slip Op. 01-1421 at 9 (Fed. Cir. April 25, 2002) (“The ITC may not modify the class or kind of imported merchandise examined by Commerce.”); Algoma Steel Corp. v. United States, 688 F. Supp. 639, 644 (Ct. Int’l Trade 1988), *aff’d*, 865 F.3d 240 (Fed. Cir.), *cert. denied*, 492 U.S. 919 (1989).

<sup>17</sup> Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); Torrington, 747 F. Supp. at 748-52 (affirming Commission determination of six like products in investigations where Commerce found five classes or kinds).

<sup>18</sup> Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp. 2d 1298, 1304-05 (Ct. Int’l Trade 2000); Nippon, 19 CIT at 455; Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n. 5 (Ct. Int’l Trade 1988) (particularly addressing like product determination); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int’l Trade 1988).

Uncovered innersprings are imported under statistical reporting number 9404.29.9010 and have also been imported under statistical reporting numbers 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTSUS).<sup>19</sup>

### **C. Analysis and Conclusion**

Petitioner Leggett requests that the Commission define a single domestic like product consisting of all uncovered innerspring units, whether produced from pocketed or non-pocketed coils.<sup>20</sup> Hickory Springs agrees with Leggett's definition of the domestic like product.<sup>21</sup> No respondent party in these investigations has raised objections to Leggett's definition of the domestic like product. Having considered the record evidence with respect to this issue, we define the domestic like product, for the purposes of the preliminary phase of these investigations, as uncovered innerspring units, whether pocketed or non-pocketed, coextensive with the scope of these investigations.

*Physical Characteristics and Uses.* All uncovered innerspring units are manufactured from individual coils that are joined together into predetermined standard sizes that correspond to the size of the finished innerspring mattress.<sup>22</sup> There are a variety of types of innerspring coils – non-pocketed coils such as Bonnell, offset, LFK, and continuous, as well as the pocketed coils.<sup>23</sup> Bonnells are the most commonly used type and are generally the lowest-priced innerspring units.<sup>24</sup> Innerspring units manufactured from non-pocketed coils are “individual coils of steel wire that are held together in rows by lacing a specific number of coils together.”<sup>25</sup> Innerspring units manufactured from pocketed coils are individual coils of steel wire that are covered by non-woven synthetic material and then held together by gluing together a specific number of coils.<sup>26</sup> Pocketed coils are individual coils that generally have a cylindrical shape and are knotted and inserted into a fabric “pocket.”<sup>27</sup> All innerspring units (both pocketed and non-pocketed) have the same use – as the main component in the manufacture of innerspring mattresses.<sup>28</sup>

*Interchangeability.* Innerspring units manufactured from pocketed coils are interchangeable with innerspring units manufactured from non-pocketed coils. Mattress manufacturers can use either type of innerspring unit to produce an innerspring mattress.<sup>29</sup> In addition, mattress manufacturers readily interchange pocketed and non-pocketed innerspring units.<sup>30</sup>

---

<sup>19</sup> 73 Fed. Reg. 4817, 4817-18 (Jan. 28, 2008) (initiation of antidumping investigations).

<sup>20</sup> Petition at 10; Leggett postconference brief at 7; Conference Tr. at 10 (Baisburd). In 2004, the Commission conducted a safeguards investigation of uncovered innerspring units from China, pursuant to section 421 of the Trade Act of 1974 (19 U.S.C. § 2451). Uncovered Innerspring Units from China, Inv. No. TA-421-5, USITC Pub. 3676 (March 2004) (“Inv. No. TA-421-5”). In that investigation, the Commission did not address whether pocketed innerspring units were part of the same domestic like product as non-pocketed innerspring units because pocketed innerspring units were excluded from the investigation. See Inv. No. TA-421-5 at 7-9.

<sup>21</sup> Hickory Springs postconference brief at 3-6.

<sup>22</sup> CR at I-5 to I-9, PR at I-3 to I-8; Petition at 10-11; Leggett postconference brief at 3-9.

<sup>23</sup> CR at I-6, PR at I-5; Leggett postconference brief, Exhibit 1 at 4.

<sup>24</sup> CR at I-6, PR at I-5; Conference Tr. at 80 (Davis); Conference Tr. at 61 (Bush); and Leggett postconference brief, Exhibit 1 at 6.

<sup>25</sup> CR at I-5, PR at I-3.

<sup>26</sup> CR at I-8, PR at I-7; Petition at 11.

<sup>27</sup> CR at I-9, PR at I-7; Leggett postconference brief, Exhibit 1 at 4.

<sup>28</sup> CR at I-5, PR at I-3; Petition at 10-11; Leggett postconference brief at 3.

<sup>29</sup> CR at I-12, PR at I-10; Petition at 11; Leggett postconference brief at 3.

<sup>30</sup> Conference Tr. at 40 (Bush).

*Channels of distribution.* Most uncovered innerspring units, whether pocketed or non-pocketed, are sold directly to end users.<sup>31</sup>

*Common Manufacturing Facilities, Production Processes, and Production Employees.* Innerspring units manufactured from pocketed and non-pocketed coils can be and are produced at the same facility using similar production processes.<sup>32</sup> Although different equipment is used to produce pocketed and non-pocketed innerspring units, the production process is essentially the same.<sup>33</sup> First, wire is formed into individual coils using a “coiler.” The wire is sometimes purchased from suppliers and sometimes produced by the innerspring manufacturers themselves.<sup>34</sup> For pocketed coils, the individual coils are inserted into non-woven fabric “pockets.” The individual coils (whether pocketed or non-pocketed) then are assembled into the size that corresponds to the final mattresses. After assembly, non-pocketed coils are laced together using helical wires, while the pocketed coils are glued together.<sup>35</sup> The same employees can and do produce pocketed and non-pocketed innerspring units.<sup>36</sup> Simmons Bedding Company (“Simmons”) and Texas Pocket Springs are the only U.S. innerspring manufacturers that produce pocketed innerspring units.<sup>37</sup>

*Producer/Customer Perceptions.* Customers and producers generally consider all innerspring units to be like products in that either type of innerspring unit (pocketed or non-pocketed) can be used to produce the final product – an innerspring mattress.<sup>38</sup> The choice between pocketed and non-pocketed coils is based on customer preferences.<sup>39</sup> Some customers prefer either pocketed or non-pocketed coils, and some do not distinguish between the two types of innerspring coils.<sup>40</sup>

*Price.* Innerspring units sell for a wide range of prices with units manufactured from pocketed coils generally selling at higher prices than units produced from non-pocketed coils.<sup>41</sup>

In our view, the evidence indicates that there is no clear dividing line between innerspring units based on the use of pocketed or non-pocketed coils.<sup>42</sup> Uncovered innerspring units are manufactured from individual steel coils that are joined into predetermined dimensions using the same or similar production equipment and personnel. Customers view the pocketed and non-pocketed innerspring units as interchangeable, and mattress manufacturers may use either type of innerspring unit to produce an innerspring mattress. Most uncovered innerspring units are sold directly to end users. Finally, innerspring units sell for a wide range of prices.<sup>43</sup>

---

<sup>31</sup> CR at II-2, PR at II-1.

<sup>32</sup> CR at I-9, PR at I-8; Leggett postconference brief at 4; Conference Tr. at 11 (Bush).

<sup>33</sup> CR at I-11, PR at I-9; Petition at 12; Leggett postconference brief at 5.

<sup>34</sup> CR at I-9, PR at I-8; Inv. No. TA-421-5 at I-5 and I-6.

<sup>35</sup> CR at I-9 to I-12, PR at I-8 to I-10; Petition at 12; Leggett postconference brief at 5.

<sup>36</sup> Conference Tr. at 40 (Bush) and 62-63 (Davis).

<sup>37</sup> Petition at 12; Conference Tr. at 121-122 (Wolfson).

<sup>38</sup> CR at I-12, PR at I-10; Petition at 11-12.

<sup>39</sup> CR at I-12, PR at I-10; Petition at 12; Leggett postconference brief at 4.

<sup>40</sup> CR at V-6, PR at V-6; Petition at 12.

<sup>41</sup> CR at I-12, PR at I-10; Petition at 12.

<sup>42</sup> See, e.g., Softwood Lumber from Canada, Invs. Nos. 701-TA-404 and 731-TA-928 (Final), USITC Pub. 3509 at 6-15 (May 2002); Professional Electric Cutting and Sanding/Grinding Tools from Japan, Inv. No. 731-TA- 571 (Final), USITC Pub. 2658 at 8-10, 49-51 (Jul. 1993) (Commission found two like products based on operating element (cutting tool and sanding/grinding tool), but refused to further subdivide the products into 28 families of tools); Polyethylene Terephthalate Film, Sheet, and Strip from Japan and the Republic of Korea (“PET Film”), USITC Pub. 2383 at 8, 10 (May 1991) (Commission found “a continuum product without clear dividing lines between the multiple like products . . . although there are many distinct end uses for different types of PET film . . . essential characteristics are common to all PET Film”).

<sup>43</sup> CR at V-6, PR at V-6; Petition at 12.

In light of these facts and in the absence of any contrary arguments, we define one domestic like product coextensive with the scope and consisting of all uncovered innerspring units, whether manufactured using pocketed or non-pocketed coils.

#### IV. DOMESTIC INDUSTRY

##### A. In General

The domestic industry is defined as the “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>44</sup> In defining the domestic industry, the Commission’s general practice has been to include in the industry all domestic production of the domestic like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.<sup>45</sup>

Leggett requested that the Commission define the domestic industry as all U.S. producers of innerspring units: Leggett, Hickory Springs, Sealy, Inc. (“Sealy”), Simmons, Spring Company, Inc. (“SpringCo”), and Symbol Mattress, Inc. (“Symbol”).<sup>46</sup> The respondents have not made any arguments concerning the definition of the domestic industry.

The Commission sent questionnaires to the six firms cited in the petition, three additional firms that provided producer data during the safeguards investigation, and one firm, \*\*\*, of which the Commission was made aware subsequent to the initiation of these investigations.<sup>47</sup> Responses were received from eight firms,<sup>48</sup> seven of whom provided usable trade data on their production of uncovered innerspring units.<sup>49</sup>

Based on our finding of a single domestic like product coextensive with the scope of these investigations, we find that the domestic industry includes all domestic producers of innerspring units.<sup>50</sup>

##### B. Related Parties

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to 19 U.S.C. § 1677(4)(B), which allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers. Exclusion of such a producer is within the Commission’s discretion based upon the facts presented in each investigation. As discussed below, one domestic producer was affiliated with foreign producers of the subject merchandise, and three domestic producers imported subject merchandise during the period of investigation.

Leggett owns innerspring production facilities in China and South Africa, but \*\*\*.<sup>51</sup> Thus, Leggett is not a “related party” because the \*\*\*. Thus, \*\*\*, as specified in the statute. Three other U.S.

---

<sup>44</sup> 19 U.S.C. § 1677(4)(A).

<sup>45</sup> United States Steel Group v. United States, 873 F. Supp. 673, 681-84 (Ct. Int’l Trade 1994), aff’d, 96 F.3d 1352 (Fed. Cir. 1996).

<sup>46</sup> Petition at 5-6, 12-13.

<sup>47</sup> Conference Tr. at 163 (Wolfson).

<sup>48</sup> Questionnaire responses also were sent to \*\*\*. CR at III-1 and n. 1, PR at III-1 and n. 1.

<sup>49</sup> Of the eight responding U.S. producers, four U.S. producers, (\*\*\*) internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses. In 2006, \*\*\*. CR at III-1, n. 4, PR at III-1, n. 4.

<sup>50</sup> Leggett, Dixie, Hickory Springs, SpringCo, \*\*\*.

<sup>51</sup> Leggett & Platt has foreign production operations in \*\*\*. CR at III-1, n. 2, PR at III-1, n. 2.

producers (\*\*\*) , however, are related parties because they imported subject merchandise during the investigation.<sup>52</sup>

\*\*\*<sup>53</sup> \*\*\* U.S. production in 2006 represented a \*\*\* percent share of the overall domestic production of the like product.<sup>54</sup> \*\*\*<sup>55</sup> It \*\*\*.<sup>56</sup> Therefore, we find that \*\*\* should not be excluded from the domestic industry as a related party.

\*\*\*<sup>57</sup>\*\*\*<sup>58</sup>\*\*\*<sup>59</sup>\*\*\*<sup>60</sup>\*\*\*. Therefore, we find that \*\*\* should not be excluded from the domestic industry as a related party.

\*\*\*<sup>61</sup>\*\*\*<sup>62</sup>\*\*\*<sup>63</sup>\*\*\*.<sup>64</sup> Therefore, we find that \*\*\* should not be excluded from the domestic industry as a related party.

Notably, no party argued for the exclusion from the domestic industry of any related party. Based on the information discussed above, we do not find that appropriate circumstances exist to exclude any member of the domestic industry in the preliminary phase of these investigations.

---

<sup>52</sup> See CR/PR at Table III-3.

<sup>53</sup> CR/PR at Table III-3. \*\*\*

<sup>54</sup> CR/PR at Table III-1.

<sup>55</sup> CR/PR at Table III-1.

<sup>56</sup> CR/PR at Table III-3 (the ratio of imports to \*\*\* production was \*\*\* percent in interim 2007).

<sup>57</sup> CR/PR at Table III-1.

<sup>58</sup> CR/PR at Table III-1 (\*\*\* accounted for \*\*\* percent of U.S. production in 2006).

<sup>59</sup> CR/PR at Table III-3 (the ratio of subject imports to \*\*\* production was \*\*\* percent in 2006).

<sup>60</sup> CR/PR at Table III-1.

<sup>61</sup> CR/PR at Table III-1 (\*\*\* accounted for \*\*\* percent of U.S. production in 2006).

<sup>62</sup> CR/PR at Table III-3 (the ratio of subject imports to \*\*\* production was \*\*\* percent in interim 2007).

<sup>63</sup> Conference Tr. at 123-124 (Wolfson).

<sup>64</sup> CR/PR at Table III-1.

## V. CUMULATION<sup>65</sup>

### A. In General

For purposes of evaluating the volume and price effects for a determination of material injury by reason of the subject imports, section 771(7)(G)(i) of the Act requires the Commission to cumulate subject imports from all countries as to which petitions were filed and/or investigations self-initiated by Commerce on the same day, if such imports compete with each other and the domestic like product in the U.S. market.<sup>66</sup> In assessing whether subject imports compete with each other and with the domestic like product, the Commission has generally considered four factors:

- (1) the degree of fungibility between the subject imports from different countries and between imports and the domestic like product, including by reference to specific customer requirements and other quality-related questions;
- (2) the presence of sales or offers to sell subject imports from different countries and the domestic like product in the same geographic markets;
- (3) the existence of common or similar channels of distribution for subject imports from different countries and the domestic like product; and
- (4) whether the subject imports and domestic like product are simultaneously present in the market.<sup>67</sup>

While no single factor is necessarily determinative, and the list of factors is not exclusive, these factors are intended to provide the Commission with a framework for determining whether the subject

---

<sup>65</sup> Pursuant to Section 771(24) of the Act, imports from a subject country of merchandise corresponding to a domestic like product that account for less than 3 percent of all such merchandise imported into the United States during the most recent 12 months for which data are available preceding the filing of the petition shall be deemed negligible. 19 U.S.C. §§ 1671b(a), 1673b(a), 1677(24)(A)(i)(I). Before reaching the issue of whether subject imports from China, South Africa, and Vietnam are negligible, we must first decide which data to use to measure subject and nonsubject imports into the U.S. market. For purposes of deciding negligibility, the Commission is authorized to make “reasonable estimates on the basis of available statistics” of pertinent import levels. 19 U.S.C. § 1677(24)(c); see also Uruguay Round Agreements Act, Statement of Administrative Action, H.R. Doc. No. 103-316, Vol. 1 at 186 (1994) (“SAA”).

To quantify the volume of imports from each subject and nonsubject country for the purposes of our negligibility determination and to measure apparent U.S. consumption, we relied upon official Commerce statistics (HTS 9404.29.9010) on imports for consumption. See CR/PR at Table IV-3. Based on this data, subject imports from China, South Africa, and Vietnam were well above 3 percent of total imports for the most recent 12-month period preceding the filing of the petition (December 2006 to November 2007). Subject imports from China accounted for 73.1 percent, subject imports from South Africa accounted for 17.2 percent, and subject imports from Vietnam accounted for 8.8 percent of total imports of the subject merchandise in that period. CR/PR at Table IV-3. Consequently, we find that subject imports from China South Africa, and Vietnam are not negligible.

<sup>66</sup> 19 U.S.C. § 1677(7)(G)(i).

<sup>67</sup> See Certain Cast-Iron Pipe Fittings from Brazil, the Republic of Korea, and Taiwan, Invs. Nos. 731-TA-278-280 (Final), USITC Pub. 1845 (May 1986), aff’d, Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898 (Ct. Int’l Trade), aff’d, 859 F.2d 915 (Fed. Cir. 1988).

imports compete with each other and with the domestic like product.<sup>68</sup> Only a “reasonable overlap” of competition is required.<sup>69</sup>

## **B. Parties’ Arguments**<sup>70</sup>

*Petitioner.* Leggett requests that the Commission cumulate subject imports from China, South Africa, and Vietnam. Leggett states that innerspring units are largely a commodity product and are interchangeable whether the units are made in the subject countries or the United States.<sup>71</sup> Leggett claims that the subject imports are sold in the same geographic markets as each other and the domestic like product as demonstrated by official import statistics by port of entry.<sup>72</sup> Although imports from South Africa and Vietnam generally do not enter into ports in the same regions, Leggett asserts that imports from both countries are offered for sale nationwide.<sup>73</sup> Leggett states that domestic innerspring units and subject imports are sold to mattress manufacturers, either directly or through distributors.<sup>74</sup> Finally, Leggett claims that Chinese and domestically produced innerspring units have been present in the market since the beginning of the period examined and that, although South African and Vietnamese subject imports did not appear until after 2004, they are a growing presence in the U.S. market.<sup>75</sup>

*Vietnamese government.* The government of Vietnam requests that the Commission not cumulate imports of uncovered innerspring units from Vietnam with imports of the subject merchandise from China and South Africa. The government states that imports of Vietnamese-produced innerspring units do not compete with innerspring units produced in the United States, China, or South Africa because the imports of Vietnamese subject merchandise are of lower quality than innerspring units produced in those countries. The government also argues that the lower quality of the Vietnamese subject merchandise is reflected in the significantly lower prices commanded by the imports and the decline in import volumes of Vietnamese subject merchandise over the period examined.<sup>76</sup>

## **C. Analysis**

In these investigations, the threshold criterion for cumulation is satisfied because the antidumping duty petition with respect to all three subject countries was filed on the same day, December 31, 2007. None of the cumulation exceptions apply.<sup>77</sup> Thus, subject imports from China, South Africa, and

---

<sup>68</sup> See, e.g., Wieland Werke, AG v. United States, 718 F. Supp. 50 (Ct. Int’l Trade 1989).

<sup>69</sup> The SAA states that “the new section will not affect current Commission practice under which the statutory requirement is satisfied if there is a reasonable overlap of competition.” SAA at 848 (citing Fundicao Tupy, S.A. v. United States, 678 F. Supp. 898, 902 (Ct. Int’l Trade 1988)), aff’d 859 F.2d 915 (Fed. Cir. 1988); Goss Graphic Systems, Inc. v. United States, 33 F. Supp. 2d 1082, 1087 (Ct. Int’l Trade 1998) (“cumulation does not require two products to be highly fungible”); Wieland, 718 F. Supp. at 52 (“Completely overlapping markets are not required.”).

<sup>70</sup> Hickory Springs, the Importers’ Coalition, and the Chinese Respondents did not make any arguments concerning cumulation.

<sup>71</sup> Petition at 15; Leggett postconference brief at 6 n. 18.

<sup>72</sup> Petition at 15 and Exhibit I-12; Leggett postconference brief at 7. Chinese imports enter through ports in all regions of the United States and are sold or offered for sale nationwide. Imports from South Africa enter primarily at East Coast and Gulf Coast ports, and imports from Vietnam enter primarily through West Coast ports. CR/PR at Table IV-8.

<sup>73</sup> Petition at 16; Leggett postconference brief at 7 n. 22.

<sup>74</sup> Leggett postconference brief at 8.

<sup>75</sup> Petition at 16; Leggett postconference brief at 8.

<sup>76</sup> Government of Vietnam postconference brief at 2-3.

<sup>77</sup> See 19 U.S.C. § 1677(7)(G)(ii).

Vietnam are eligible for cumulation. We consequently examine whether there is a reasonable overlap of competition among subject imports from China, South Africa, and Vietnam, as well as between subject imports and the domestic like product, with regard to the four factors customarily considered.

### **1. Fungibility**

The record indicates that all innerspring units are generally interchangeable regardless of source. Thus, U.S. producer and importer questionnaire responses indicate that there was general interchangeability between and among U.S.-produced innerspring units and the subject imports, including those from Vietnam, and that customers consider innerspring units to be fungible products.<sup>78</sup> We find that the record in the preliminary phase of these investigations indicates sufficient fungibility to cumulate the subject imports from China, South Africa, and Vietnam, although we intend to examine the issue of fungibility, as necessary, in any final phase investigations.

### **2. Geographic Overlap**

Generally, importers of the subject merchandise reported serving the Southeast, Southwest and the West Coast, with five importers stating that they serve the national market.<sup>79</sup> Thus, we find that subject imports from China, South Africa, and Vietnam and the domestic like product are sold in the same geographic markets.

### **3. Channels of Distribution**

The innerspring industry in the United States is comprised of (1) bedding suppliers that produce innerspring units to supply mattress manufacturers and (2) mattress manufacturers that produce innerspring units for internal consumption in the production of finished mattresses. During the period examined, virtually all shipments of uncovered innerspring units by U.S. producers and importers went to end users for the production of mattresses, with only a limited quantity sold to distributors.<sup>80</sup> Thus, we find that there is an overlap in the channels of distribution for subject imports from China, South Africa, and Vietnam and the domestic like product.

### **4. Simultaneous Presence**

Like domestic shipments of uncovered innerspring units, uncovered innerspring units produced in the subject countries were present in the U.S. market for nearly the entire period examined. Uncovered innerspring units produced in the United States were present in the market throughout the period for which data were collected. Based on official U.S. import statistics (HTS 9404.90.2010), there were U.S. imports of uncovered innerspring units from China in each month during January 2005-September 2007; from South Africa in each month during August 2005-September 2007; and from Vietnam in each month during October 2005-September 2007.<sup>81</sup>

---

<sup>78</sup> CR at II-14 to II-15, PR at II-9 to II-10; and Table II-2. See also, Leggett postconference brief at 4.

<sup>79</sup> CR at II-2, PR at II-1; and CR/PR at Table II-1.

<sup>80</sup> CR at I-12 and at II-2, PR at I-10 and at II-1. Over 96 percent of all shipments of both U.S.-produced innerspring units and innerspring units imported from China, South Africa, and Vietnam were shipped to end users in each year during the period examined. CR at II-2, n. 7, PR at II-1, n. 7.

<sup>81</sup> CR/PR at Tables IV-8 (Customs districts) and IV-9 (monthly U.S. imports of uncovered innerspring units during January 2005-September 2007).

## 5. Conclusion

For all of these reasons, we conclude that there is a reasonable overlap of competition among subject imports from China, South Africa, and Vietnam, and between subject imports and the domestic like product. We therefore cumulatively assess the volume and effects of subject imports for purposes of determining whether there is a reasonable indication of material injury to the domestic industry by reason of subject imports.

## VI. **REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF SUBJECT IMPORTS OF UNCOVERED INNERSPRING UNITS FROM CHINA , SOUTH AFRICA, AND VIETNAM**

In the preliminary phase of antidumping duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured by reason of the imports under investigation.<sup>82</sup> In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.<sup>83</sup> The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”<sup>84</sup> In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.<sup>85</sup> No single factor is dispositive, and all relevant factors are considered “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”<sup>86</sup>

For the reasons stated below, we determine that there is a reasonable indication that the domestic industry producing uncovered innerspring units is materially injured by reason of subject imports from China, South Africa, and Vietnam.

### A. Captive Production

The domestic industry captively consumes part of its production of the domestic like product in the manufacture of the downstream article.<sup>87</sup> Accordingly, we have considered whether the statutory captive production provision requires us to focus our analysis primarily on the merchant market when assessing market share and the factors affecting the financial performance of the domestic industry.<sup>88</sup>

---

<sup>82</sup> 19 U.S.C. §§ 1671b(a), 1673b(a).

<sup>83</sup> 19 U.S.C. § 1677(7)(B)(i). The Commission “may consider such other economic factors as are relevant to the determination” but shall “identify each {such} factor ... {and} explain in full its relevance to the determination.” 19 U.S.C. § 1677(7)(B); *see also, e.g., Angus Chem. Co. v. United States*, 140 F.3d 1478 (Fed. Cir. 1998).

<sup>84</sup> 19 U.S.C. § 1677(7)(A).

<sup>85</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>86</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>87</sup> CR/PR at Table III-2.

<sup>88</sup> As amended by the Uruguay Round Agreements Act, the statute contains a provision on captive production at section 19 U.S.C. § 1677(7)(C)(iv), which provides:

(iv) CAPTIVE PRODUCTION -- If domestic producers internally transfer significant production of the domestic like product for the production of a downstream article and sell significant production of the domestic like product in the merchant market, and the Commission finds that –

(I) the domestic like product produced that is internally transferred for processing into

The Importers' Coalition argues that the captive production provision is not applicable in this case. It argues that, even assuming that innerspring units could be said to constitute the "predominant material input in the production of the downstream article" (i.e., innerspring mattresses), there is no dispute that the innerspring units sold by the domestic industry into the merchant market are used for the identical downstream product as the innerspring units produced for captive production – innerspring mattresses.<sup>89</sup> Leggett has not argued that the captive production provision applies here, but has stated that the significant amount of captive production is a relevant condition of competition. The Importers' Coalition agrees with Leggett that the significant amount of captive production is a condition of competition in this case.<sup>90</sup> No other party has presented arguments as to whether the Commission should apply the captive production provision.

The Commission received usable producer questionnaires from seven U.S. producers. Four U.S. producers internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses.<sup>91</sup> In 2004, internal consumption accounted for \*\*\* percent of the domestic industry's total shipments, and the merchant market accounted for \*\*\* percent. In 2005, internal consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent. In 2006, internal consumption accounted for \*\*\* percent of total shipments, and shipments to the merchant market accounted for \*\*\* percent.<sup>92</sup> Thus, the threshold requirement has been met in that significant production of the domestic like product is internally transferred to produce a downstream product, and significant production is sold in the merchant market.

The record in these preliminary phase investigations, however, does not contain enough information to ascertain whether the second criterion has been met, i.e., whether the domestic like product is the predominant material input in the production of the downstream article. In terms of cost, it is not clear whether the innerspring unit is the predominant material input in the downstream product, the mattress.<sup>93</sup> \*\*\*<sup>94</sup> \*\*\*<sup>95</sup>

---

that downstream article does not enter the merchant market for the domestic like product,

(II) the domestic like product is the predominant material input in the production of that downstream article, and

(III) the production of the domestic like product sold in the merchant market is not generally used in the production of that downstream article,

then the Commission, in determining market share and the factors affecting financial performance set forth in clause (iii), shall focus primarily on the merchant market for the domestic like product.

The SAA states that "[i]f the captive production provision applies, the Commission will focus primarily on the merchant market in analyzing the market share and financial performance of the domestic industry . . . [but that the] provision does not require the Commission to focus exclusively on the merchant market in its analysis of market share and financial performance." The Commission has frequently considered significant captive production to be a relevant condition of competition even when one or more of the criteria of the statutory captive production provision have not been satisfied.

<sup>89</sup> Importers' Coalition postconference brief at 19-20.

<sup>90</sup> Importers' Coalition postconference brief at 20.

<sup>91</sup> In 2006, \*\*\*. CR at III-1, n. 4, PR at III-1, n. 4.

<sup>92</sup> CR/PR at Table III-2.

<sup>93</sup> Neither the statute nor the legislative history specifies whether the second criterion should be analyzed in terms of the relative cost, weight or volume of the material inputs used in producing the downstream products. The Commission, however, has traditionally conducted the analysis in terms of costs. See, e.g., Pure Magnesium from China, Israel and Russia, Inv. Nos. 701-TA-403 and 731-TA-895-897 (Final), USITC Pub. 3467 (Nov. 2001), at 16;

What is clear, however, is that the third criterion – that the domestic like product that is sold in the merchant market is not used in the production of the downstream article – has not been met because the uncovered innerspring units sold in the merchant market and consumed internally are used only for the production of the same product – innerspring mattresses. In light of this fact, and absent any arguments that the captive production provision applies, we find that the statutory captive production provision is not applicable in these investigations. We consider the fact that a significant portion of domestic production is captively consumed, however, to be a relevant condition of competition to be considered in reaching our determination.

## **B. Conditions of Competition and the Business Cycle**

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of the subject imports.

### **1. Product Considerations**

Innerspring units are composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the core component in the manufacture of mattresses. These innerspring units correspond to the sizes of adult mattresses (twin, full, queen, king, etc.) and those used in smaller constructions, such as crib and youth mattresses. The vast majority of mattresses produced and consumed in the United States are innerspring mattresses.<sup>96</sup>

Innerspring units can be pocketed, having individual coils covered by a non-woven synthetic material and glued together, or non-pocketed, having individual coils laced together without a covering.<sup>97</sup> In addition, there are a variety of proprietary innerspring designs that allow finished mattress manufacturers to differentiate their products in terms of quality and price.<sup>98</sup> Leggett reported that mattress makers can and do switch from generic Bonnell innerspring units to proprietary innerspring units and from pocketed to non-pocketed innerspring units depending on consumer preferences and cost considerations.<sup>99</sup>

The innerspring industry in the United States is comprised of two groups of manufacturers: bedding suppliers that produce innerspring units to supply mattress manufacturers and maker/users that produce innerspring units for internal consumption in the production of finished mattresses.<sup>100</sup>

---

Beryllium Metal and High-Beryllium Alloys from Kazakstan, Inv. No. 731-TA-476 (Final), USITC Pub. 3019 (Feb. 1997), at 8-9.

<sup>94</sup> \*\*\*.

<sup>95</sup> \*\*\*.

<sup>96</sup> See CP/PR at II-1, n. 1.

<sup>97</sup> Leggett reported that both types of innerspring units have the same end use and are interchangeable as the main component in the manufacture of innerspring mattresses. Petition at 10-11. Leggett also reported that pocketed innerspring units represent approximately 10-12 percent of the total innerspring market in the United States. Conference Tr. at 64 (Salyer).

<sup>98</sup> Conference Tr. at 68-69 and 75 (Davis). The generic, lowest priced Bonnell coils, however, are still the predominant innerspring in the United States, generally accounting for 75 percent of innerspring units in the market. Conference Tr. at 80 (Davis). Sales of non-proprietary innerspring units increased from \*\*\* percent of Leggett's innerspring units sales in 2004 to \*\*\* percent in 2007. Leggett postconference brief at 11 and Exhibit 11.

<sup>99</sup> Leggett postconference brief at 15.

<sup>100</sup> Leggett reported that, of the 21-million-unit U.S. innerspring market, approximately one-third is covered by the maker/users. Conference Tr. at 22 (Salyer).

Maker/users buy innerspring units from U.S. producers at certain times to supplement their own production.<sup>101</sup>

The majority of innerspring units sold in the United States, whether domestically produced or imported from subject countries, are sold to end users (mattress manufacturers), with only a limited quantity sold to distributors.<sup>102</sup>

## 2. Demand Considerations

Demand for innerspring units reportedly is tied to the housing market<sup>103</sup> and the general state of the economy.<sup>104</sup> There appears to be a direct correlation between the sales of innerspring mattresses and demand for the domestic like product, because each innerspring mattress contains a single innerspring unit.<sup>105</sup> Leggett stated at the Commission's conference that "demand {for innersprings and bedding products} is closely tied to the housing market, and, as you know, the housing market is not good."<sup>106</sup> Producers and importers generally reported that demand for innerspring units has decreased since 2004, although industry data suggests that demand may have increased from 2005 to interim 2007.<sup>107</sup> We intend to examine this issue further in any final phase investigations.

Consumption of certain types of innerspring units, mostly proprietary innerspring units, has decreased because mattress manufacturers are reportedly under pressure to reduce costs and have responded by "de-contenting" the mattresses, that is, substituting non-proprietary innersprings for proprietary innersprings.<sup>108</sup> The majority of demand in the U.S. market is for non-proprietary innerspring units, such as Bonnells.<sup>109</sup> On the other hand, some U.S. producers and importers report that there has been a recent trend toward higher-profile innerspring units, higher spring-count innerspring units, more expensive innerspring units, and non-innerspring mattresses, such as airbeds and memory foam.<sup>110</sup>

Tempur-Pedic International, a U.S. producer of foam and airbed high-end mattresses, supplied 10 percent by value and 2.2 percent by quantity of the U.S. mattress market. Tempur-Pedic reports that 75 percent of its sales are attributable to mattress replacements, not to new home sales or housing starts, and

---

<sup>101</sup> Conference Tr. at 67-68 (Davis); Leggett postconference brief, Exhibit 1at 2.

<sup>102</sup> CR at I-12 and at II-2, PR at I-10 and at II-1.

<sup>103</sup> The National Association of Home Builders forecasts that housing starts will continue to drop in 2008 before rebounding somewhat in 2009. CR at II-7, PR at II-5; and CR at II-8, Fig. II-1, PR at II-6, Fig. II-1.

<sup>104</sup> CR at II-7 to II-9, PR at II-5 to II-6; Conference Tr. at 17 (Davis).

<sup>105</sup> CR at II-9, PR at II-7.

<sup>106</sup> Conference Tr. at 17 (Baisburd). See also Chinese Respondents postconference brief at 13 and Conference Tr. at 108 (Diamonstein).

<sup>107</sup> CR at II-9, PR at II-7. According to International Sleep Products Association ("ISPA") data, however, U.S. shipments of innerspring mattresses increased almost 3.4 percent from 2004 to 2006, indicating that demand appears to be increasing in 2007. ISPA 2006 Mattress Industry, Industry Report of Sales and Trends at 19 and Figure 18. The ISPA data also appears to show modest growth in demand for domestic innerspring mattresses, despite an increase in sales of non-innerspring mattresses and imports of finished mattresses. Id. Leggett stated that the ISPA is the authoritative source for data on the mattress industry. Conference Tr. at 71 (Davis).

<sup>108</sup> Non-proprietary innerspring units comprise the vast majority of Leggett's sales, accounting for \*\*\* percent of its sales in 2004. The percentage of Leggett's sales accounted for by non-proprietary innerspring units increased over the period examined, rising to \*\*\* percent in 2005 and 2006 and reaching \*\*\* percent in 2007. Leggett postconference brief at 10-12 and Exhibit 11.

<sup>109</sup> Conference Tr. at 69 and 88 (Davis); Leggett postconference brief at 9.

<sup>110</sup> CR at II-3, PR at II-2. Chinese Respondents postconference brief at 11; Importers' Coalition postconference brief at 16-17.

therefore are likely replacing innerspring mattresses.<sup>111</sup> In addition, sales of non-innerspring mattresses grew 24 percent by volume in 2005 and 29 percent in value terms. Average unit values for non-innerspring mattresses were nearly three times those of innerspring mattresses, suggesting that the impact of this competition is at the high end of the mattress market.<sup>112</sup> The Importers' Coalition also reported that domestic mattress producers face growing competition from imported mattresses. The ISPA estimated that imports of mattresses and foundations increased \*\*\* between 2005 and 2006.<sup>113</sup>

### **3. Supply Considerations**

There are three sources of supply in the U.S. market: domestically produced innerspring units; imports of subject merchandise from China, South Africa, and Vietnam; and imports from nonsubject countries.

#### **a. Domestic Production**

Petitioner Leggett is the largest U.S. manufacturer of innerspring units and has manufacturing facilities throughout the South and Midwest with a nationwide distribution system.<sup>114</sup> Leggett is also a global company with affiliates around the world and factories in China and South Africa.<sup>115</sup> As discussed above, there are other U.S. manufacturers, including some that manufacture innerspring units only for internal consumption. Two U.S. innerspring manufacturers, Atlas Spring Manufacturing (“Atlas”) and Joseph Saval Spring & Wire Co., Inc. (“Saval”), went out of business in recent years.<sup>116</sup> No U.S. producer reported being unable to supply purchasers with innerspring units since 2004, and Leggett has noted that at no time did it place customers on allocation or experience any supply disruptions.<sup>117</sup>

---

<sup>111</sup> Chinese Respondents postconference brief at 11 and n. 30.

<sup>112</sup> Importers' Coalition postconference brief at 17.

<sup>113</sup> Importers' Coalition postconference brief, Exhibit 14.

<sup>114</sup> Since 2004, Leggett has closed \*\*\* of its \*\*\* U.S. manufacturing facilities and \*\*\* of its \*\*\* U.S. distribution facilities. \*\*\*.

<sup>115</sup> CR at III-1, n. 2, PR at III-1, n. 2; Chinese Respondents postconference brief at 6.

<sup>116</sup> Saval shut down in October 2003 (prior to entry into the U.S. market of subject imports from two of the three subject countries), and Atlas ceased operation in December 2006. CR at I-2, n. 7, PR at I-2, n. 7.

<sup>117</sup> Leggett postconference brief at 13.

**b. Share of Apparent U.S. Consumption**<sup>118</sup>

Total apparent U.S. consumption<sup>119</sup> of uncovered innerspring units declined irregularly by 4.9 percent on a quantity basis and 6.6 percent on a value basis during 2004-06. U.S. producers' market share, based on quantity, decreased from 93.7 percent in 2004 to 87.8 percent in 2006. The market share of the subject countries, based on quantity, increased from \*\*\*percent in 2004 to \*\*\* percent in 2006. The market share of the nonsubject countries, based on quantity, decreased from \*\*\* percent in 2004 to \*\*\* percent in 2006.<sup>120</sup>

Open-market apparent U.S. consumption<sup>121</sup> of uncovered innerspring units decreased by \*\*\* percent on a quantity basis and \*\*\* percent on a value basis during 2004-06. U.S. producers' open-market share, based on quantity, decreased from \*\*\* percent in 2004 to \*\*\* percent in 2006. The open-market share of the subject countries, based on quantity, increased from \*\*\* percent in 2004 to \*\*\* percent in 2006. The open-market share of the nonsubject countries, based on quantity, decreased from \*\*\* percent in 2004 to \*\*\* percent in 2006.<sup>122</sup>

**4. Substitutability**

There is a high degree of substitutability between domestic innerspring units and subject imports.<sup>123</sup> Petitioner Leggett and the Importers' Coalition agree that domestic innerspring units and subject imports are of comparable quality, and the questionnaire responses confirm that the domestic like product and subject imports are \*\*\*. Thus, price is an important factor in purchasing decisions.<sup>124</sup>

**5. Business Cycle**

All parties agree that there is one use for uncovered innerspring units – the manufacture of mattresses. Several parties assert that demand is derived from the production of mattresses, which generally is tied to the housing market.<sup>125</sup>

**C. Cumulated Volume of Subject Imports**

Section 771(7)(C)(I) of the Act provides that the “Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.”<sup>126</sup> For purposes of the preliminary phase of these investigations, we find that cumulated subject import volume and the increase in that volume

---

<sup>118</sup> CR/PR at Table C-1 (data compiled from responses to Commission questionnaires).

<sup>119</sup> CR/PR at Table C-1 (“total” data includes internally consumed (captive) shipments by domestic producers).

<sup>120</sup> CR/PR at Table C-1.

<sup>121</sup> CR/PR at Table C-2 (“open-market” data excludes internally consumed (captive) shipments by domestic producers).

<sup>122</sup> CR/PR at Table C-2.

<sup>123</sup> CR at II-12, PR at II-8. See also, Leggett postconference brief at 14 and Conference Tr. at 135 (Wolfson).

<sup>124</sup> CR at II-14, PR at II-9 to II-10, and CR/PR at Table II-2.

<sup>125</sup> CR at II-8 to II-9, PR at II-5. In addition to cycles associated with broader economic conditions, a number of producers and importers reported that generally there is greater demand for innerspring units in the second and third quarters of the year than in the first or fourth quarters. Id. See also, Chinese Respondents postconference brief at 12-14; Conference Tr. at 17 (Davis).

<sup>126</sup> 19 U.S.C. § 1677(7)(C)(i).

were significant during the period examined both in absolute terms and relative to consumption and production in the United States.

In absolute terms, the cumulated volume of subject imports doubled, increasing from \*\*\* units in 2004 to \*\*\* units in 2005 and \*\*\* units in 2006.<sup>127</sup> Subject import volume was \*\*\* units in interim 2007, compared with \*\*\* units in interim 2006.<sup>128</sup>

The share of apparent U.S. consumption held by cumulated subject imports, by quantity, increased by \*\*\* percentage points from 2004 to 2006, rising from \*\*\* percent in 2005 to \*\*\* percent in 2005, before increasing further to \*\*\* percent in 2006.<sup>129</sup> During this same period, the overall market share held by the domestic industry fell. As total apparent U.S. consumption decreased irregularly by \*\*\* percent from 2004 to 2006, the share of apparent U.S. consumption represented by the domestic industry's U.S. shipments, by quantity, decreased from 93.7 percent in 2004 to 89.8 percent in 2005 and 87.8 percent in 2006, an overall decrease of 5.9 percentage points.<sup>130</sup> The domestic industry's market share, however, increased slightly from 88.5 percent in interim 2006 to 89.1 percent in interim 2007.<sup>131</sup>

As a ratio to U.S. production, by quantity, cumulated subject imports increased from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006, for a period increase of \*\*\* percentage points.<sup>132</sup> Throughout the period examined, nonsubject imports were not an important presence in the market, accounting for a declining share of the U.S. market in terms of quantity and value (less than 1 percent in each individual period).<sup>133</sup>

We find for purposes of the preliminary phase of these investigations that the volume of cumulated subject imports and the increase in that volume during a period of declining apparent U.S. consumption were significant, both in absolute terms and relative to consumption and production in the United States.

---

<sup>127</sup> CR/PR at Table C-1.

<sup>128</sup> CR/PR at Table C-1.

<sup>129</sup> CR/PR at Table C-1. The market share held by cumulated subject imports was \*\*\* percent in interim 2007 compared with \*\*\* percent in interim 2006. Id. The share of apparent U.S. open-market consumption held by cumulated subject imports, by quantity, increased by \*\*\* percentage points from 2004 to 2006, rising from \*\*\* percent in 2005 to \*\*\* percent in 2005, before increasing further to \*\*\* percent in 2006. CR/PR at Table C-2. The open-market share held by cumulated subject imports was \*\*\* percent in interim 2007 compared with \*\*\* percent in interim 2006. Id.

<sup>130</sup> CR/PR at Table C-1. Total apparent U.S. open-market consumption decreased by \*\*\* percent from 2004 to 2006. The share of apparent U.S. open-market consumption represented by the domestic industry's U.S. shipments, by quantity, decreased from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006, an overall decrease of \*\*\* percentage points. CR/PR at Table C-2. The domestic industry's open-market share, however, increased slightly to \*\*\* percent in interim 2007 from \*\*\* percent in interim 2006. Id.

<sup>131</sup> CR/PR at Table C-1. Subject imports were equivalent to \*\*\* percent of U.S. production in interim 2007 compared with \*\*\* percent in interim 2006. Id.

<sup>132</sup> CR/PR at Table IV-7.

<sup>133</sup> CR/PR at Table IV-6. Nonsubject imports' share of the U.S. open market was also less than \*\*\* percent in each individual period. CR/PR at Table IV-5. Nonsubject imports' share of the U.S. market, by quantity, declined from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006, and was \*\*\* percent in interim periods for 2006 and 2007. CR/PR at Table IV-6 (nonsubject imports' U.S. market share, by value, was less than \*\*\* percent in each individual period). Nonsubject imports' share of the U.S. open market, by quantity, declined from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006. It was \*\*\* percent in interim 2006 and 2007. CR/PR at Table IV-5.

#### **D. Price Effects of the Cumulated Subject Imports**

Section 771(C)(ii) of the Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether – (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.<sup>134</sup>

A large portion of uncovered innerspring sales in the U.S. market is made through short-term contracts or on a spot basis, although the largest U.S. producer, \*\*\*, reported a significant percentage of sales by long-term contract.<sup>135</sup> According to the record in these preliminary investigations, price is an important factor in purchasing decisions, but not the only factor.<sup>136</sup> We intend to explore the importance of non-price factors in any final phase investigations.

In these investigations, four U.S. producers and 16 responding U.S. importers of uncovered innerspring units provided quarterly pricing data for six innerspring products.<sup>137</sup> The pricing data collected in the preliminary phase of these investigations showed nearly universal underselling by subject imports. Subject imports undersold the domestic like product in 154 of 161 possible product comparisons with margins ranging from \*\*\* percent to \*\*\* percent.<sup>138</sup> We find this underselling to be significant. There were additionally 26 confirmed lost sales, totaling more than \$\*\*\*, and four instances of confirmed lost revenues, totaling more than \$\*\*\*, which we find noteworthy.<sup>139</sup>

We also have considered movements in innerspring prices over the period examined. Prices of U.S.-produced innerspring units generally increased during 2004, decreased in 2005 and some or all of 2006, then remained steady or increased modestly in 2007.<sup>140</sup> The price data are mixed with regard to the question of price depression. On the one hand, domestic prices generally fell by a substantial margin

---

<sup>134</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>135</sup> CR at V-7 to V-8, PR at V-6 to V-7 (\*\*\*) and \*\*\*.

<sup>136</sup> CR at II-12 to II-13, PR at II-9 to II-10. For example, domestic innerspring producers can offer package deals with discounts and payment terms as part of the price negotiations. Conference Tr. at 110-111 (Diamonstein). In addition, mattress manufacturers reportedly have attempted to diversify their supply to minimize sole-supplier disruptions risk. Conference Tr. at 159-160 (Tramel).

<sup>137</sup> CR at V-9 to V-10, PR at V-7 to V-8. Not all firms reported pricing data for all products for all quarters. CR at V-10, PR at V-8. By quantity, pricing data reported by the responding firms accounted for \*\*\* percent of the domestic industry's U.S. shipments of uncovered innerspring units, \*\*\* percent of U.S. shipments of imports from China, and \*\*\* percent of U.S. shipments of imports from South Africa in 2006. CR at V-10, PR at V-8. By quantity, pricing data reported by a responding firm accounted for \*\*\* percent of U.S. shipments of imports from Vietnam in 2006 only. Id.

<sup>138</sup> CR at V-23 to V-25, PR at V-11; and Tables V-1 through V-6.

<sup>139</sup> CR at V-25, PR at V-12; CR/PR at Table V-7 and V-8. Most U.S. purchasers responding to the Commission's questions regarding lost sales and lost revenue allegations reported that price was the reason for the shift to subject imports and that U.S. innerspring producers reduced their prices to compete with the prices of the subject imports. CR at V-35, PR at V-12 and CR/PR at Table V-9.

<sup>140</sup> CR, PR at Tables V-1-V-6. Domestic pricing data for product 6 did not cover 2004 and 2005. Prices of imports from China generally decreased irregularly over the period examined. The prices of subject imports from South Africa for \*\*\* during the period examined. The prices of subject imports from Vietnam decreased slightly over the period examined, but these data were only \*\*\*. CR/PR at Tables V-1 through V-6; CR at V-23, PR V-11; and CR at V-10, n. 25, PR at V-8, n. 25.

during 2005 and 2006. On the other hand, prices for most U.S. products ended the period at prices at or slightly above the starting prices.

On balance, we find some evidence that price depression has occurred, given the degree of underselling during the period examined and the domestic industry's price declines in 2005 and 2006, coinciding with significant increases in the volume and market share of subject imports. We will examine the factors concerning the issue of price depression, as well as any quarterly pricing trends, in any final phase investigations.

Despite some increases in price during 2004, the domestic industry's cost of goods sold ("COGS") as a share of net sales increased over the period examined from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006, and was \*\*\* percent in interim 2007 compared with \*\*\* percent in interim 2006, indicating that any price increase did not keep pace with rising costs.<sup>141</sup> Unit COGS also increased from \$\*\*\* per unit in 2004 to \$\*\*\* per unit in 2005 and \$\*\*\* per unit in 2006, and was \$\*\*\* per unit in interim 2007 compared with \$\*\*\* per unit in interim 2006.

Based on this information, we also find some evidence of price suppression by subject imports, particularly in light of the increases in the volume of and pervasive underselling by the subject imports over the period examined. We intend to explore the issue of price suppression further in any final phase investigations. In particular, we intend to examine more closely the relationship between trends in the ratio of COGS to net sales, the volume of subject imports, and any quarterly-basis price trends, in the context of market conditions.

In sum, for purposes of the preliminary phase of these investigations, we find that subject imports have had a significant adverse effect on prices in the U.S. market.

#### **E. Impact of the Cumulated Subject Imports**<sup>142</sup>

Section 771(7)(C)(iii) of the Act provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry."<sup>143</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."

We have examined performance indicia for the domestic industry producing uncovered innerspring units.<sup>144</sup> These data indicate declining overall trends.<sup>145</sup> The domestic industry's production

---

<sup>141</sup> CR/PR at Table C-1.

<sup>142</sup> In its notice of initiation, Commerce estimated the dumping margin for subject imports from China to range from 55.95 to 234.51 percent; the dumping margin for subject imports from South Africa to be 121.39 percent; and the dumping margin for subject imports from Vietnam to be 116.31 percent ad valorem based on a comparison of constructed export price and constructed value and 237 percent based on a comparison of export price and constructed value. Uncovered Innerspring Units from the People's Republic of China, South Africa, and the Socialist Republic of Vietnam: Initiation of Antidumping Duty Investigations, 72 Fed. Reg. 4817, 4822 (January 28, 2008).

<sup>143</sup> 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.")

<sup>144</sup> During these investigations, the Commission has not received usable financial data from any U.S. innerspring producer that is primarily a captive producer/consumer of innerspring units. We recognize that the following analysis, therefore, is effectively limited to the financial data provided by open-market producers. We intend to seek

of uncovered innerspring units declined progressively over the period examined and was 10.2 percent lower in 2006 than in 2004 and 4.2 percent lower in interim 2007 compared with interim 2006.<sup>146 147</sup> The domestic industry's total U.S. shipments of uncovered innerspring units declined by 10.9 percent from 2004 through 2006 and were 4.1 percent lower in interim 2007 than in interim 2006.<sup>148</sup> U.S. end-of-period inventories decreased by 1.7 percent from 2004 through 2006, and were 9.7 percent lower in interim 2007 than in interim 2006.<sup>149</sup> The domestic industry's production capacity fluctuated over the period, but decreased overall by 9.5 percent from 2004 through 2006.<sup>150</sup> The domestic industry's capacity utilization also fluctuated during the period, but declined slightly overall by 0.6 percentage points from 2004 through 2006 and was 5.7 percentage points lower in interim 2007 compared with interim 2006.<sup>151</sup> The average number of production and related workers declined over the period; hourly wages and worker productivity increased slightly.<sup>152</sup>

The domestic industry's financial indicators also declined overall during the period examined. Operating income \*\*\* in 2004 to \$\*\*\* in 2005 and \$\*\*\* in 2006. The domestic industry's ratio of

---

usable financial data for these captive U.S. innerspring producers in any final phase investigations.

<sup>145</sup> Generally, the domestic industry performance declines noted below tend to coincide with increases in the cumulative volume of the subject imports for the same periods. These trends, however, are not evident in the data for interim 2007, where the domestic industry data show a decline in performance and a decrease in the cumulated volume of subject imports. See CR at Table C-1. We will examine the relevance of these interim period trends in any final phase investigations.

<sup>146</sup> Production declined from 20.1 million units in 2004 to 19.5 million units in 2005 and 18.0 million units in 2006. CR/PR at Table C-1. Production was 13.5 million units in interim 2007 compared with 14.0 million units in interim 2006. Id.

<sup>147</sup> The domestic industry's U.S. open-market shipments of uncovered innerspring units declined by \*\*\* percent from 2004 through 2006 and were \*\*\* percent lower in interim 2007 than in interim 2006. CR/PR at Table C-2.

<sup>148</sup> U.S. shipments of uncovered innerspring units declined from 19.4 million units to 18.7 million units in 2005 and 17.3 million units in 2006. CR/PR at Table C-1. U.S. shipments were 12.9 million units in interim 2007 compared with 13.5 million units in interim 2006. Id. Exports, which were a \*\*\* share of the domestic industry's total shipments, also declined by \*\*\* percent over this same period, although they were \*\*\* higher in interim 2007 than in interim 2006. U.S. export shipments of uncovered innerspring units declined from \*\*\* units in 2004 to \*\*\* units in 2005 and \*\*\* units in 2006. CR/PR at Table C-1. U.S. export shipments were \*\*\* units in interim 2007 compared with \*\*\* units in interim 2006. Id.

<sup>149</sup> U.S. end-of-period inventories essentially were level at 2.1 million from 2004 to 2006. CR/PR at Table C-1. U.S. end-of-period inventories were 1.9 million units in interim 2007 compared with 2.1 million units in interim 2006. Id.

<sup>150</sup> The domestic industry's production capacity was 24.5 million units in 2004, increased to 24.8 million units in 2005, and then declined to 22.2 million units in 2006. CR/PR at Table C-1. The U.S. industry's production capacity increased from 16.7 million units in interim 2006 to 17.1 million units in interim 2007. Id.

<sup>151</sup> CR/PR at Table C-1. U.S. producers' capacity utilization was 81.9 percent in 2004, decreasing to 78.8 percent in 2005, and then increasing to 81.2 percent in 2006. Id.

<sup>152</sup> The average number of production and related workers declined from 2,248 in 2004 to 2,151 in 2005 and 2,021 in 2006. The average number of production and related workers decreased from 2,017 in interim 2006 to 1,822 in interim 2007. CR/PR at Table C-1. Productivity increased from 4.3 units per hour in 2004 to 4.4 units per hour in 2005 and 2006. It increased from 4.6 units per hour in interim 2006 to 4.9 units per hour in interim 2007. Id. Hourly wages increased from \$13.57 in 2004 to \$13.60 in 2006 and \$13.74 in 2006 and was \$14.10 in interim 2006 compared to \$14.60 in interim 2007. Id.

operating \*\*\* percentage points from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006.<sup>153</sup> Capital expenditures declined from \$\*\*\* in 2004 to \$\*\*\* in 2005 and \$\*\*\* in 2006.<sup>154</sup>

Net sales declined by \*\*\* percentage points from 2004 to 2006 when measured by quantity, or by \*\*\* percentage points over the same period when measured by value.<sup>155</sup> Net sales continued to decline by both measures in interim 2007 compared with interim 2006.<sup>156</sup> As discussed previously, COGS as a share of net sales increased over the period from \*\*\* percent in 2004 to \*\*\* percent in 2005 and \*\*\* percent in 2006 and was \*\*\* percent in interim 2007 compared with \*\*\* percent in interim 2006.<sup>157</sup> Unit COGS also increased from \$\*\*\* in 2004 to \$\*\*\* in 2005 and \$\*\*\* in 2006 and was \$\*\*\* in interim 2007 compared with \$\*\*\* in interim 2006.

The foregoing data indicate that the domestic uncovered innerspring industry has experienced rising costs of production. Although the domestic industry's prices increased in 2004, prices generally decreased thereafter in 2005 and 2006. The industry experienced progressively poorer financial results as its COGS to sales ratio increased, with \*\*\* declining significantly, as well as declines in U.S. shipments, production levels, capacity utilization, and exports. We intend to seek more information about the industry's overall performance, including domestic producers that produced predominantly for internal consumption, as well as the price effects of the cumulated subject imports. In any final phase investigations, we also intend to examine more closely the extent to which declines in the domestic industry's performance were related to factors other than subject imports, such as changes in demand.

Given our finding of a significant volume and a significant increase in volume of cumulated subject imports notwithstanding declines in apparent U.S. consumption during the period examined, our finding of significant underselling by subject imports, our finding of price depression and suppression, and our finding concerning declines in the domestic industry's performance during the period examined, we find for purposes of these preliminary phase investigations that subject imports are having a significant adverse impact on the domestic innerspring industry.<sup>158 159</sup>

---

<sup>153</sup> CR/PR at Table C-1. The operating \*\*\* percent in interim 2007 compared with \*\*\* percent in interim 2006. Id. The Chinese Respondents argue that the domestic industry cannot be injured because "the domestic industry's operating profit levels remained at \*\*\* between 2004 and 2007." Chinese Respondents postconference brief at 18. Although we have taken the domestic industry's profitability levels into consideration during our injury analysis, we decline to follow any suggestion that we examine only absolute operating income levels, and instead have examined all aspects and trends with respect to the domestic industry's profitability.

<sup>154</sup> CR/PR at Table C-1. Capital expenditures were \$\*\*\* in interim 2007 compared with \$\*\*\* million in interim 2006. Id.

<sup>155</sup> CR/PR at Table C-1.

<sup>156</sup> CR/PR at Table C-1. Net sales measured by quantity declined from \*\*\* units in 2004 to \*\*\* units in 2005 and \*\*\* units in 2006 and were \*\*\* units in interim 2007 compared with \*\*\* units in interim 2006. Id. Net sales measured by value declined from \$\*\*\* in 2004 to \$\*\*\* in 2005 and \$\*\*\* in 2006 and were \$\*\*\* in interim 2007 compared with \$\*\*\* in interim 2006. Id.

<sup>157</sup> CR/PR at Table C-1.

<sup>158</sup> As noted above, uncovered innerspring units are a commodity product, interchangeable regardless of where they are produced. Thus, we find that the first predicate for conducting a replacement/benefits analysis under Bratsk is met. See Bratsk Aluminium Smelter v. United States, 444 F.3d 1369, 1375 (Fed. Cir. 2006) ("Bratsk"). Information collected in the preliminary phase of these investigations, however, indicates that the second predicate for conducting a Bratsk replacement/benefit test, that nonsubject imports are a significant factor in the U.S. market, is not met. As discussed above, nonsubject imports' share of total U.S. consumption was \*\*\* percent in 2004, declining to \*\*\* percent in 2005 and declining again to \*\*\* percent in 2006, interim 2006, and interim 2007. CR/PR at Table IV-6. Nonsubject imports represented \*\*\* percent of total U.S. imports based on official statistics for the period December 2006 through November 2007. CR/PR at Table IV-3. Accordingly, we need not apply the analysis dictated by Bratsk, because the record does not indicate that imports from nonsubject countries are a significant factor in the U.S. market. In any final phase investigations, any party holding a contrary view should so

## CONCLUSION

For the reasons stated above, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly unfairly traded subject imports from China, South Africa, and Vietnam that are sold in the U.S. market.

---

indicate and provide the basis for its view when providing written comments on the draft questionnaires. If warranted, we will reconsider the applicability of Bratsk in any final phase investigations.

<sup>159</sup> For a complete statement of Chairman Pearson and Commissioner Okun's interpretation of Bratsk in a preliminary investigation, see Separate and Additional Views of Chairman Daniel R. Pearson and Commissioner Deanna Tanner Okun Concerning Bratsk Aluminium v. United States in Sodium Hexametaphosphate from China, Inv. No. 731-TA-1110 (Prelim.), USITC Pub. 3912 at 19-25 (Apr. 2007).

## PART I: INTRODUCTION

### BACKGROUND

These investigations result from a petition filed by Leggett & Platt, Inc. (Leggett & Platt), Carthage, MO, on December 31, 2007, alleging that an industry in the United States is materially injured and threatened with material injury by reason of less-than-fair-value (LTFV) imports of uncovered innerspring units<sup>1</sup> from China, South Africa, and Vietnam. Information relating to the background of the investigations is provided below.<sup>2</sup>

<i>Date</i>	<i>Action</i>
December 31, 2007	Petition filed with Commerce and the Commission; <sup>3</sup> institution of Commission investigations (73 FR 1229, January 7, 2008)
January 22, 2008	Commission's conference <sup>4</sup>
January 28, 2008	Commerce's notice of initiation (73 FR 4817)
February 13, 2008	Commission's vote
February 14, 2008	Commission determinations transmitted to Commerce
February 22, 2008	Commission views transmitted to Commerce

---

<sup>1</sup> In its notice of initiation, Commerce defined the subject product as follows: *"The merchandise covered by each of these investigations is uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (e.g., twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length."*

*Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring. Pocketed and non-pocketed innerspring units are included in this definition. Nonpocketed innersprings are typically joined together with helical wire and border rods. Nonpocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed innersprings are individual coils covered by a "pocket" or "sock" of a nonwoven synthetic material or woven material and then glued together in a linear fashion."*

Uncovered innersprings are imported under statistical reporting number 9404.29.9010 and have also been imported under statistical reporting numbers 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTS). The HTS provisions are provided for convenience and customs purposes only; the written description of the scope of these investigations is dispositive.

<sup>2</sup> *Federal Register* notices cited in the tabulation are presented in app. A.

<sup>3</sup> The alleged LTFV margins based on a comparison of export price to normal value, as calculated by Commerce, range from 55.95 percent to 234.51 percent for China, are 121.39 percent for South Africa, and 116.31 percent for Vietnam. 73 FR 4822, January 28, 2008.

<sup>4</sup> A list of witnesses appearing at the conference is presented in app. B.

## SUMMARY DATA

A summary of data collected in these investigations is presented in appendix C, table C-1. Except as noted, U.S. industry data are based on questionnaire responses of seven firms that accounted for virtually all of U.S. production of uncovered innerspring units during 2006. U.S. imports are based on importer questionnaire responses.

## PREVIOUS COMMISSION INVESTIGATIONS

In 2004, the Commission conducted a China-specific safeguard investigation of uncovered innerspring units from China.<sup>5</sup> In that investigation, the Commission determined that uncovered innerspring units from China were not being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products.<sup>6</sup> The petitioning firms in that investigation were Atlas Spring Manufacturing (Atlas), Gardena, CA; Hickory Springs Manufacturing Co. (Hickory), Hickory, NC; Leggett & Platt, Carthage, MO; and Joseph Saval Spring & Wire Co., Inc. (Saval), Taylor, MI.<sup>7</sup>

## THE SUBJECT PRODUCT

The imported uncovered innerspring units covered by the scope of these investigations are described in detail in the “Background” section earlier in Part I.

### Tariff Treatment

Imports of uncovered innerspring units are properly classified in HTS subheading 9404.29.90 (and thus imported under HTS statistical reporting number 9404.29.9010), according to Customs and Border Protection (HQ 957493 of April 3, 1995). The column 1 general duty rate for the imported subject product from China and Vietnam is 6.0 percent. Subject imports from South Africa under this category are eligible for entry free of duty under the Generalized System of Preferences (GSP), with those not meeting the criteria in HTS general note 4 given the general duty rate.<sup>8</sup> From the outset of these investigations, petitioner has contended that uncovered innerspring units have also improperly been imported under statistical reporting numbers 7320.20.5010, 7320.90.5010, 7326.20.0070, or 9404.10.0000.<sup>9</sup> Importer questionnaire respondents reported imports of uncovered innerspring units

---

<sup>5</sup> *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, USITC Publication 3676, March 2004.

<sup>6</sup> *Ibid.*, p. 1.

<sup>7</sup> Atlas ceased its innerspring operations in December 2006 and Saval shut down its innerspring operations in October 2003. Petition, exhibits I-21 and I-23, respectively. Additionally, \*\*\*.

<sup>8</sup> HTS, General Notes, GSP, GN p. 15 and HTS p. 94-5.

<sup>9</sup> Conference transcript, pp. 27-30 (Watson). Materials properly classified under HTS 7320.20.5010, 7320.90.5010, 7326.20.0070, and 9404.10.0000 include products such as individual springs for the production of innerspring units and box springs. In a postconference brief, respondents while agreeing that there had been misclassification of imports, disagreed with the levels of such activity alleged by the Petitioner. Ad Hoc Innersprings Importers' Coalition's postconference brief, p. 28. Additionally, counsel for Chinese respondents, while noting that certain of the importer questionnaire respondents acknowledged some misclassified imports, disagreed as to the levels of misclassification suggested by the Petitioner. Chinese Respondents' postconference brief, pp. 4-5. More detailed information on this issue can be found in Part IV of this report, *U.S. Imports, Apparent Consumption, and Market Shares*.

under each of the aforementioned HTS statistical reporting numbers. Table I-1 presents current tariff rates for uncovered innerspring units for HTS 9404.29.9010, and includes tariff rates for statistical reporting numbers 7320.20.5010, 7320.90.5010, 7326.20.0070, and 9404.10.0000. The Customs ruling cited above sets forth the applicable principles of the HTS general rules of classification that dictate the legal outcome; however at the tariff rate line level, the line between an unfinished mattress and goods described in the other cited tariff provisions can be hard to draw in specific terms.

### **Physical Characteristics and Uses**

Uncovered innerspring units are used to manufacture innerspring mattresses. There are non-pocketed innerspring units and pocketed innerspring units. Non-pocketed innerspring units have three major components—the coil, the helical, and the border. The innerspring coils, “generally made from high-carbon steel rod that is drawn to wire of various gauges (i.e., diameter of wire) that typically range from 12.5 gauge (2.05mm) to 15.5 gauge (1.45mm)” are typically joined together with the helical and the border.<sup>10</sup> The helical is “generally made of high-carbon steel wire ranging in thickness of 16.5 gauge (1.29mm) to 18 gauge (1.02mm),” and is bent into a tight spiral and used to lace the individual or continuous coils together (figure I-1).<sup>11</sup> The border, also a wire, typically made of high-carbon steel “ranging in thickness of 6 gauge (4.11mm) to 9 gauge (2.91mm),” is either “attached to the perimeter of the unit using a metal clip or ring, or it can be sewn into the unit using a large diameter helical.”<sup>12</sup> All non-pocketed innerspring units have a helical wire, but not all non-pocketed innerspring units have the wire borders.<sup>13</sup> Innerspring units manufactured from pocketed coils (pocketed innerspring units) are units that include “individual coils of steel wire that are covered by non-woven synthetic material and then held together by gluing together a specific number of coils.”<sup>14</sup>

---

<sup>10</sup> *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, Publication 3676, March 2004, p. I-4; Petition, p. 9; Petitioner’s postconference brief, exhibit 1, p. 4; and Verlo Factory Mattress Stores, Glossary, Innerspring Unit, found at <http://www.verlo.com/learningcenter/glossary.jsp>, retrieved January 27, 2008.

<sup>11</sup> Sleep Outfitters, Glossary, found at <http://www.sleepoutfitters.com/learn/mattress-basics-gloss.aspx>, retrieved January 27, 2008 and Petitioner’s postconference brief, exhibit 1, pp. 4-5.

<sup>12</sup> Inv. No. TA-421-5, USITC Publication 3676, March 2004, p. I-4 and Petitioner’s postconference brief, exhibit 1, p. 5.

<sup>13</sup> Petitioner’s postconference brief, exhibit 1, pp. 4-5.

<sup>14</sup> Petition, p. 11.

**Table I-1  
Uncovered innerspring units: Tariff rates, 2008**

HTS provision	Article description	General <sup>1</sup>	Special <sup>2</sup>	Column 2 <sup>3</sup>
		Rates ( <i>percent ad valorem</i> )		
7320	Springs and leaves for springs, of iron or steel:			
7320.20.50	Other.....	3.9	A	45.0
	Helical springs, of wire having a cross-sectional dimension of less than 5.1 mm:			
7320.20.5010	Suitable for use in mattress supports and mattresses of heading 9404.....			
7320.90.50	Other.....	2.9	A	45.0
	Of wire:			
7320.90.5010	Suitable for use in mattress supports and mattresses of heading 9404.....			
7326	Other articles of iron or steel:			
7326.20.00	Articles of iron or steel wire			
7326.20.0070	Other.....	3.9	A	45.0
9404	Mattress supports; articles of bedding and similar furnishing (for example, mattresses, quilts, eiderdowns, cushions, pouffes and pillows) fitted with springs or stuffed or internally fitted with any material or of cellular rubber or plastics, whether or not covered:			
9404.10.0000	Mattress supports.....	Free		45.0
9404.29.90	Other.....	6.0	A	40.0
9404.29.9010	Uncovered Innerspring Units			

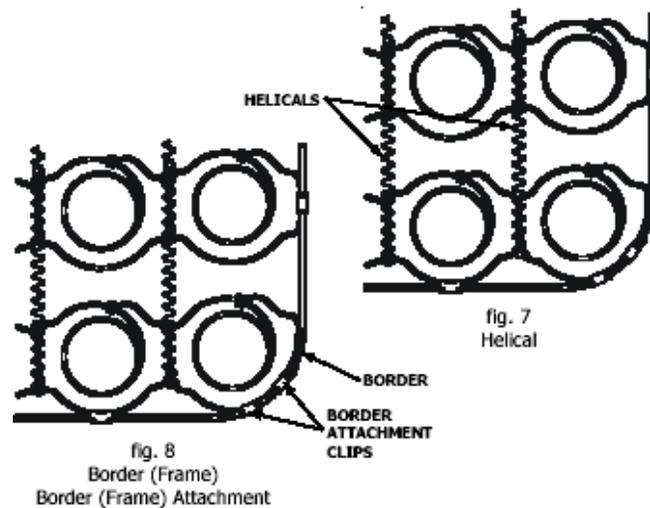
<sup>1</sup> Normal trade relations, formerly known as the most-favored-nation duty rate, applicable to imports from Japan.

<sup>2</sup> General note 3(c)(I) lists the special tariff treatment programs indicated by these symbols. Goods must meet eligibility rules set forth in other general notes, and importers must properly claim such treatment. Programs not available to respondent countries are not noted above.

<sup>3</sup> Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.

Source: HTS (2008).

**Figure I-1**  
**Innersprings: Formation of innerspring units using helicals and border**



Source: *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, Publication 3676, March 2004, p. I-5.

There are a variety of types of innerspring coils, non-pocketed types such as Bonnell, offset, LFK, continuous, and the pocketed coil.<sup>15</sup> Bonnell coils are the most commonly used type in the market,<sup>16</sup> and have an hour-glass shape which tapers inward from top to center and then outward from center to bottom (figure I-2).<sup>17</sup> Bonnell coils are generally the lowest priced innerspring units.<sup>18</sup> Offset coils have an hour-glass shape like bonnells, but have flat tops and bottoms.<sup>19</sup> LFK coils have a cylindrical or columnar shape.<sup>20</sup> Continuous coils have entire rows of continuous coils formed from a single piece of wire. This feature is different from the Bonnell, offset, and LFK coils where individual coils are formed then assembled into a row of coils.<sup>21</sup>

---

<sup>15</sup> Petitioner's postconference brief, exhibit 1, p. 4.

<sup>16</sup> Conference transcript, p. 80 (Davis).

<sup>17</sup> *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-3; Sleep Outfitters, "Bedding Glossary of Terms-Bonnell Coil" found at <http://www.sleepoutfitters.com/learn/mattress-basics-gloss.aspx>, retrieved January 27, 2008 and Petitioner's postconference brief, exhibit 1, p. 4.

<sup>18</sup> Conference transcript, p. 61 (Bush) and Petitioner's postconference brief, exhibit 1, p. 6.

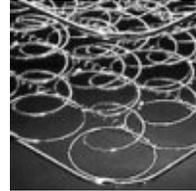
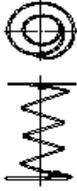
<sup>19</sup> Petitioner's postconference brief, exhibit 1, p. 4.

<sup>20</sup> Ibid.

<sup>21</sup> Petitioner's postconference brief, exhibit 1, p. 4.

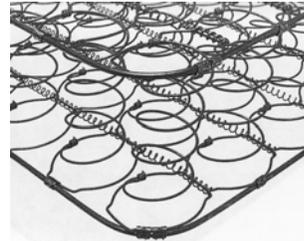
**Figure I-2**  
**Types of non-pocketed coils**

**Bonnell Coil**



Source: *Uncovered Innerspring Units from China, inv. No. TA-421-5, p. I-4*; Mattressinside.com, "Coil (innerspring) mattress," found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008; Sleep Gallery, "Sealy Features and Benefits," found at <http://www.thesleepgallery.com/products/mattresses/conventional/sealy/posture/fb.htm>, retrieved January 27, 2008.

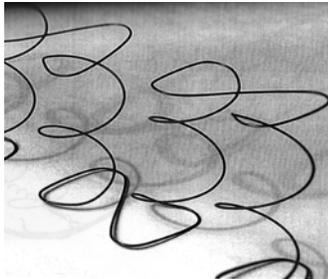
**Offset Coils**



Source: *Uncovered Innerspring Units from China, inv. No. TA-421-5, p. I-4*; Mattressinside.com, "Coil (innerspring) mattress," found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008; Petitioner's postconference brief, exhibit 8, hingelex offset.

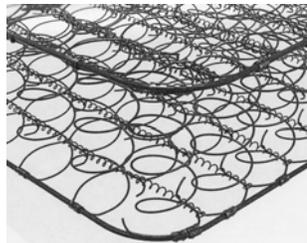
**Figure I-2**  
**Types of non-pocketed coils—Continued**

**Continuous Coils**



Source: Petitioner's postconference brief, exhibit 8, miracoil-continuous; Mattressinside.com, "Coil (innerspring) mattress," found at <http://www.mattressinside.com/coil.html>, retrieved January 27, 2008.

**LFK Coils**



Source: *Uncovered Innerspring Units from China*, inv. No. TA-421-5, p. I-4; BedMaster, "What Spring is That?" found at <http://www.bedmaster.com.au/news2.html>, retrieved January 27, 2008; and, Petitioner's postconference brief, exhibit 8, Iuraflex LFK.

Pocketed innerspring units manufactured from pocketed coils include "individual coils of steel wire that are covered by non-woven synthetic material and then held together by gluing together a specific number of coils," which are then assembled to the size of the innerspring unit (figure I-3).<sup>22</sup> Pocketed coils are also known as Marshall coils and are individual coils that generally have a cylindrical shape and are knotted and inserted into a fabric "pocket."<sup>23</sup>

---

<sup>22</sup> Petition, p. 11.

<sup>23</sup> Petitioner's postconference brief, exhibit 1, p. 4.

**Figure I-3**  
**Pocketed coils**



Source: ChooseaMattress.com, “Innerspring,” found at <http://chooseamattress.com/innerspring.html>, retrieved January 27, 2008; and Home and Garden Television, “Mattresses,” found at [http://www.hgtv.com/hgtv/dc\\_furniture\\_beds/article/0,1793,HGTV\\_3439\\_2614524,00.html](http://www.hgtv.com/hgtv/dc_furniture_beds/article/0,1793,HGTV_3439_2614524,00.html), retrieved January 30, 2008.

### **Manufacturing Facilities and Production Employees<sup>24</sup>**

Both non-pocketed and pocketed innerspring units are manufactured using a similar production process. In the first stage, high carbon steel rod is manufactured into wire. In this process, the rod is pulled through a series of dies until the desired diameter and tensile strength are achieved. The wire is shipped on large carriers called standards. This wire is sometimes purchased from suppliers and sometimes produced by the innerspring manufacturers themselves.<sup>25</sup>

In the next stage, wire is fed into a machine by means of steel feed wheels, which push the wire against a pin that is controlled by a mechanical cam that bends the wire into a spiraled coil. This spiraled coil is then moved mechanically to a forming or knotting station for processing. Once completed, the finished coil is either automatically fed into an assembly machine or manually placed into a container or another machine.<sup>26</sup>

The coils are fed into an assembler where they are held in a fixture that allows the helical to lace or sew a specific number of coils together. The assembler will then index the completed row of coils in preparation for the next row to be fed and attached to the previous. Once the finished size of an innerspring unit is reached, the assembled coils are ejected from the machine.<sup>27</sup>

To form the border, heavy gauge wire is mechanically straightened, cut to length, and then bent, either manually or mechanically, into a rectangular shape. The ends of the wire are either welded or held together using a metal ring. The border is attached to the assembled coils using a metal clip, metal ring,

---

<sup>24</sup> For the purposes of these investigations, Commission staff has taken information provided by petitioners in Commission Inv. No. TA-421-5, information from the petition in these investigations, testimony given at the Commission’s conference, and postconference submissions regarding details concerning the manufacturing process of innerspring units. In response to a Commission staff question, the Petitioner indicated that the manufacturing process has not changed since the Commission’s 421 investigation on uncovered innerspring units in 2004. Staff interview with Johai Baisburd, counsel for Petitioner, January 28, 2008.

<sup>25</sup> *Uncovered Innerspring Units from China*, Inv. No. TA-421-5, USITC Publication 3676, March 2004, pp. I-5 and I-6.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

or large diameter helical. Finally, the innerspring is often tempered according to manufacturer or customer requirements in large tempering ovens, although some manufacturers electrically temper innersprings during the forming process.<sup>28</sup> Tempering allows the formed wire to retain its shape and “removes the stresses set during the manufacturing process.”<sup>29</sup>

For pocketed innerspring units, the individual coils are inserted into non-woven fabric “pockets.” The individual coils (whether pocketed or non-pocketed) are then assembled into the size that corresponds to the final mattresses. After assembly, non-pocketed coils are laced together using helical wires, while pocketed coils are glued together.<sup>30</sup> The same manufacturing employees have the capability to produce both pocketed and non-pocketed innerspring units.<sup>31</sup>

The production process of an innerspring unit can be automatic, semi-automatic, and/or manual.<sup>32</sup> Production in the United States is completely automated, or on fully-automated innerspring production equipment (coiling, knotting, heat treating of coils, and assembly of the final innerspring unit).<sup>33</sup> In a semi-automatic production process, a machine will form the coil, knot, and heat treat the coils. Manual labor is then required to feed coils into an assembly machine that is separate from the coiling machinery that completes the assembly of the unit to the designated size.<sup>34</sup> In the manual innerspring manufacturing process, machines are used to form the coil and knot the coil, but heat treatment is performed in an oven after the innerspring unit is formed. Helical wires are then manually laced through the coils.<sup>35</sup>

The same facilities and production workers can produce both non-pocketed and pocketed innerspring units.<sup>36</sup> In conference testimony, representatives of both Leggett & Platt and Hickory Springs indicated that their machinery is dedicated to specific product lines.<sup>37</sup> These representatives also indicated with the proper training, the same set of employees can produce different product lines, both pocketed and non-pocketed innerspring units.<sup>38</sup>

According to respondents, differing production methods are employed in the subject countries. Reportedly, the predominant method of producing innersprings in China is by the manual and semi-automatic methods,<sup>39</sup> while South African producers reportedly use fully-automated innerspring production equipment.<sup>40</sup> Respondents testifying at the Commission’s conference indicated that production in Vietnam was “rudimentary” and similar to that of the Chinese producers (by hand or semi-automatic production).<sup>41</sup>

---

<sup>28</sup> Ibid.

<sup>29</sup> Furniture and Things, “About Beds and Mattresses,” found at: [http://www.furnitureandthings.com/about.php?show=about\\_beds](http://www.furnitureandthings.com/about.php?show=about_beds), retrieved January 27, 2008.

<sup>30</sup> Petition, p. 12 and Petitioner’s postconference brief, p. 5.

<sup>31</sup> Petitioner’s postconference brief, p. 5.

<sup>32</sup> Conference transcript, pp. 133-134 (Enoch) and Petitioner’s postconference, exhibit 1, p. 8.

<sup>33</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, appendix A, p. 3.

<sup>34</sup> Conference transcript, p. 134 (Enoch) and Petitioner’s postconference brief, exhibit 1, p. 8.

<sup>35</sup> Petitioner’s postconference brief, exhibit 1, p. 9

<sup>36</sup> Conference transcript, p. 40 (Bush).

<sup>37</sup> Conference transcript, p. 62 (Davis and Bush).

<sup>38</sup> Conference transcript, pp. 62-63 (Davis and Bush).

<sup>39</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 3 and Conference transcript, p. 134 (Enoch). In their postconference brief, Petitioners indicated that they agree manual production occurs in China. Petitioner’s postconference brief, exhibit 1, p. 9.

<sup>40</sup> Ad Hoc Innersprings Importer’s Coalition postconference brief, app. A, p. 3 and Conference transcript, p. 135 (Wolfson).

<sup>41</sup> Ad Hoc Innersprings Importer’s Coalition postconference brief, app. A, p. 3 and Conference transcript, p. 135 (Tramel).

## **Interchangeability and Customer and Producer Perceptions**

U.S. producer and importer questionnaire respondents reported that there was general interchangeability between U.S.-produced, Chinese, South African, and Vietnamese uncovered innerspring units. Customers and producers consider non-pocketed and pocketed innerspring units to be interchangeable or fungible products, and mattress manufacturers will produce mattresses with different innersprings based on consumer preferences.<sup>42</sup> More detailed information on interchangeability and customer and producer perceptions can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

## **Channels of Distribution**

For the most part, during the period examined in these investigations, virtually all shipments of uncovered innerspring units by U.S. producers and importers went to end users for the production of mattresses. More detailed information on channels of distribution can be found in Part II of this report, *Conditions of Competition in the U.S. Market*.

## **Price**

Information with regard to prices of uncovered innerspring units is presented in Part V of this report, *Pricing and Related Information*.

## **DOMESTIC LIKE PRODUCT AND THE DOMESTIC INDUSTRY**

No issues with respect to like product and the domestic industry have been raised in these investigations. Petitioners have proposed a domestic like product that consists of “all uncovered innersprings, regardless of whether they are produced from pocketed or non-pocketed coils”<sup>43</sup> and a domestic industry that “consists of U.S. producers of the like product – innersprings.”<sup>44</sup> In its postconference submission, Hickory Springs endorsed the positions taken by petitioner.<sup>45</sup> Respondents offered no comment with respect to like product at the staff conference or in their postconference submissions. With respect to the domestic industry, respondents stated that the domestic industry should consist of both merchant market and captive producers.<sup>46</sup>

---

<sup>42</sup> Petitioner’s postconference brief, p. 4.

<sup>43</sup> Petition, p. 10 and Conference transcript, p. 10 (Baisburd).

<sup>44</sup> Ibid., 13. Petitioner made no distinction between merchant market and captive producers.

<sup>45</sup> Hickory Springs postconference brief, pp. 3-6.

<sup>46</sup> Ad Hoc Innersprings Importers’ Coalition postconference brief, pp. 19-20 and Chinese Respondents’ postconference brief, p. 9, fn. 25.

## **PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET**

### **U.S. MARKET SEGMENTS AND CHANNELS OF DISTRIBUTION**

Innersprings are composed of a series of individual metal springs wired together and fitted to an outer wire frame, suitable for use as the core component in the manufacture of mattresses. These innerspring units correspond to the sizes of adult mattresses (twin, full, queen, king, etc.) and those used in smaller constructions, such as crib and youth mattresses. The vast majority of mattresses produced and consumed in the United States are innerspring mattresses.<sup>1</sup>

Innerspring units can be pocketed, individual coils covered by a non-woven synthetic material and glued together, or non-pocketed, individual coils laced together without a covering.<sup>2</sup> In addition, there are a variety of proprietary innerspring designs that allow finished mattress manufacturers to differentiate their products in terms of quality and price.<sup>3</sup> Leggett & Platt reported that mattress makers can and do switch from generic Bonnell innersprings to proprietary innersprings and from pocketed to non-pocketed innersprings depending on consumer preferences and cost considerations.<sup>4</sup>

The innerspring industry in the United States is comprised of two groups of manufacturers: bedding suppliers that produce innersprings to supply mattress manufacturers and maker/users that produce innersprings for internal consumption in the production of finished mattresses.<sup>5</sup> Maker/users buy innersprings from other U.S. producers at certain times to supplement their own production.<sup>6</sup>

The majority of innersprings sold in the United States, whether domestically produced or imported from subject countries, are sold directly to end users (mattress manufacturers), with only a limited quantity sold to distributors.<sup>7</sup>

### **GEOGRAPHIC MARKETS**

U.S. producers reported serving national markets, although one producer reported that its sales were concentrated in a particular region. Generally, importers reported serving the Southeast, Southwest, and the West Coast, with five importers reporting that they serve the national market (*see* table II-1).<sup>8</sup>

---

<sup>1</sup> In the third quarter of 2007, 90.2 percent of all mattresses shipped in the United States were innerspring mattresses. International Sleep Products Association, *The Bedding Barometer*, September 2007.

<sup>2</sup> Petitioner reported that both types of innerspring units have the same end use and are interchangeable as the main component in the manufacture of innerspring mattresses. Petition, pp. 10-11. Leggett & Platt also reported that pocketed innersprings represent approximately 10-12 percent of the total innerspring market in the United States. Conference transcript, p. 64 (Salyer).

<sup>3</sup> Conference transcript, pp. 68-69 and 75 (Davis). However, the generic, lowest priced Bonnell coils are still the predominant innerspring in the United States, generally accounting for 75 percent of innerspring units in the market. Conference transcript, p. 80 (Davis). Sales of non-proprietary innersprings increased from \*\*\* percent of Leggett & Platt's innersprings sales in 2004 to \*\*\* percent in 2007. Petitioner's postconference brief, p. 11 and exhibit 11.

<sup>4</sup> Petitioner's postconference brief, p. 15.

<sup>5</sup> Petitioner reported that, of the 21 million unit U.S. innerspring market, approximately one-third is covered by the maker/users. Conference transcript, p. 22 (Salyer).

<sup>6</sup> Conference transcript, pp. 67-68 (Davis) and petitioner's postconference brief, exhibit 1, p. 2.

<sup>7</sup> Over 96 percent of all shipments of both U.S.-produced innersprings and innersprings imported from China, South Africa, and Vietnam were shipped to end users in each year during the period of investigation.

<sup>8</sup> Of the 40 responding importers/consignees, 20 reported that they use all of their imported innersprings internally and so did not answer questions relating to sales of imported innersprings.

**Table II-1**

**Innersprings: Geographic market areas in the United States served by domestic producers and importers of subject product**

<b>Region</b>	<b>Producers</b>	<b>Importers</b>
National	***	5
Northeast	***	2
Mid-Atlantic	***	1
Midwest	***	2
Southeast	***	7
Southwest	***	4
Rocky Mountains	***	1
West Coast	***	6
Northwest	***	2

Note.—Five producers and 20 importers responded to this question. Firms were not limited to the number of market areas that they could report.

Source: Compiled from data submitted in response to Commission questionnaires.

**SUPPLY AND DEMAND CONSIDERATIONS**

**U.S. Supply**

Petitioner, Leggett & Platt, is the largest U.S. manufacturer of innersprings and has manufacturing facilities throughout the South and Midwest with a nationwide distribution system.<sup>9</sup> There are several other smaller U.S. manufacturers, including some that manufacture innersprings for internal consumption (*see* part III of this report for additional information). Two U.S. manufacturers, Atlas and Saval, went out of business in recent years.<sup>10</sup>

When asked if there had been any changes in the product range or marketing of innersprings, half of the responding producers and the vast majority of responding importers reported that there have not been any significant changes. Of the 4 producers and 10 importers reporting that there have been changes, some reported that there have been new preferences for higher-profile innersprings, higher spring count innersprings, more expensive innersprings, and non-innerspring mattresses (citing such products as airbeds and memory foam). \*\*\* reported that preferences have shifted toward taller innersprings but that coil counts have decreased.

No producer reported being unable to supply innersprings since 2004. Two importers reported having experienced supply problems with innersprings imported from China. \*\*\* reported that with a 6 to 8 week lead time to get innersprings from China, it occasionally runs out of certain products. \*\*\* reported that it had received a number of defective shipments of innersprings imported from China during the summer of 2007.

---

<sup>9</sup> Since 2004, Leggett & Platt has closed \*\*\* manufacturing facilities and \*\*\* distribution facilities. Petition, p. 3.

<sup>10</sup> Saval shut down in October 2003, and Atlas ceased operation in December 2006. Petition, p. 2.

## **Domestic Production**

Based on available information, U.S. producers are likely to respond to changes in demand with moderate changes in the quantity of shipments of U.S.-produced innersprings to the U.S. market. The main contributing factors to the moderate degree of responsiveness of supply are the availability of unused capacity, moderate levels of inventories, low levels of export shipments, and no production alternatives.

### ***Industry capacity***

U.S. producers' reported capacity utilization decreased from 81.8 percent in 2004 to 78.8 percent in 2005 and then increased to 81.2 percent in 2006 (*see* table III-2).<sup>11</sup> Capacity utilization was lower in January-September 2007 (78.5 percent) than it was in the same period in 2006 (84.2 percent).

### ***Alternative markets***

U.S. producers' export shipments as a percent of total shipments were \*\*\* percent in 2004, \*\*\* (*see* table III-2), and this low level of exports during the period indicates that domestic producers are unlikely to be able to shift shipments between the United States and other markets in response to price changes.

### ***Inventory levels***

U.S. producers' inventories, as a share of total shipments, rose from \*\*\* percent in 2004 to \*\*\* percent in 2006 (*see* table III-2). Inventories were lower in January-September 2007 (\*\*\* percent) than they were during the same period in 2006 (\*\*\* percent).

### ***Production alternatives***

No producer reported that it produces other products using the same equipment and machinery or production and related workers that it uses to produce innersprings.

## **Foreign Supply**

### **Subject Imports**

Imports of innersprings from China have been in the U.S. market for several years, but imports from South Africa and Vietnam did not appear in official import statistics until 2005.<sup>12</sup>

#### ***China***

Based on available information, Chinese producers are likely to respond to changes in demand with moderate changes in the quantity of shipments of innersprings to the U.S. market. The main

---

<sup>11</sup> Petitioner reported that, in its reported capacity data, it did not include the \*\*\*. Petition, p. 26.

<sup>12</sup> Petition, p. 16. Petitioner reported that it believes some subject imports of innersprings are misclassified under other HTS numbers. Petition, p. 20. In addition, evidence on the record may indicate that imports of innersprings from South Africa entered the U.S. market in 2004 and prior to 2004. Petitioner's postconference brief, p. 8.

contributing factors to the moderate degree of responsiveness of supply are the availability of some unused capacity, large export shipments, and low levels of inventories.

Chinese producers' reported capacity utilization increased from 87.1 percent in 2004 to 94.9 percent in 2006 (*see* table VII-1). Capacity utilization was 92.6 percent in January-September 2007, as compared to 93.7 percent during the same period in 2006.

Inventories, as a share of total shipments, decreased from 6.2 percent in 2004 to 1.6 percent in 2006.

Chinese producers' export shipments, as a share of total shipments, increased from 56.8 percent in 2004 to 65.0 percent in 2005 and then decreased to 61.5 percent in 2006. The majority of Chinese producers' export shipments went to the United States during the period of investigation.

Chinese producers reported that they do not produce other products on the same equipment and machinery used in the production of innersprings.<sup>13</sup>

### ***South Africa***

Based on available information, South African producers are likely to respond to changes in demand with moderate-to-large changes in the quantity of shipments of innersprings to the U.S. market.<sup>14</sup> The main contributing factors to the moderate-to-high degree of responsiveness of supply are the availability of unused capacity, large export shipments, and low levels of inventories.

South African producers' reported capacity utilization increased from \*\*\* percent in 2004 to \*\*\* percent in 2006 (*see* table VII-2). Capacity utilization was lower in January-September 2007 (\*\*\*) percent) than it was in January-September 2006 (\*\*\*) percent.

Inventories decreased from \*\*\* percent of total shipments in 2004 to \*\*\* percent in 2006.

South African producers' export shipments, as a share of total shipments, increased from 2004 to 2005 before falling to \*\*\* percent in 2006. Export shipments were \*\*\* percent in January-September 2007, as compared to \*\*\* percent during the same period in 2006. The \*\*\* of South African exports of innersprings are shipped to the United States.

Innerspring producers in South Africa reported that they do not produce other products on the same equipment and machinery used in the production of innersprings.

### ***Vietnam***

Only one producer of innersprings in Vietnam submitted a foreign producer questionnaire response. From that information, reported capacity utilization was \*\*\* percent (*see* table VII-3). Inventories, as a share of total shipments, were \*\*\*, but increased from \*\*\* percent in 2004 to \*\*\* percent in 2006. The Vietnamese producer reported that \*\*\* percent of its total shipments were shipped to the United States during the period of investigation.

---

<sup>13</sup> Innerspring production in China reportedly involves a great deal of manual labor for the assembly of innerspring units. Conference transcript, p. 18 (Davis) and p. 115 (Enoch).

<sup>14</sup> Importers reported that imports of innersprings from South Africa serve a limited and distinct segment of the U.S. market for high-quality Bonnell springs and that South African innersprings are produced from 90 percent virgin steel with thicker gauge wire and greater coil height. Ad-Hoc Innersprings Importers' Coalition's postconference brief, pp. 47-48.

## **Nonsubject Imports**

Although there are other producers of innersprings in various countries, imports from those countries have been at low levels since 2004.<sup>15</sup> Imports of innersprings from nonsubject countries decreased from \*\*\* units in 2004 to \*\*\* units in 2006 (*see* table IV-2).

## **U.S. Demand**

The sole end use for innersprings, whether pocketed or non-pocketed, is to make innerspring mattresses, corresponding in size to standard measures: king, queen, full, twin, and variations such as full long and California king.

## **Demand Characteristics**

From 2004 to 2006, apparent U.S. consumption of innersprings decreased by 4.9 percent, and consumption was lower in January-September 2007 than it was in the same period in 2006.<sup>16</sup> The overall demand for innersprings depends upon the demand for end-use applications, namely mattresses. As a result, demand is generally related to the amount of housing-related activity in the economy, and demand generally tracks overall economic activity.<sup>17</sup> Housing starts, used in the innersprings industry as an indicator of bedding demand,<sup>18</sup> grew during 2004 through early 2006, but then generally fell during 2006 and 2007 (figure II-1).<sup>19</sup> The downturn in the U.S. housing market in 2007 has negatively affected the innerspring and finished mattress markets, and Leggett & Platt reported that it does not expect an improvement until mid-to-late 2009.<sup>20</sup>

---

<sup>15</sup> According to the International Sleep Products Association (ISPA), relatively large quantities of uncovered innerspring units were imported from Mexico and other nonsubject countries in 2004. Imports from nonsubject countries then declined in 2005 and 2006. ISPA 2006 Mattress Industry, Industry Report of Sales and Trends, figure 18, p. 19.

<sup>16</sup> Petitioner reported that the misclassification of imports will affect the apparent consumption data. Conference transcript, pp. 89-90 (Baisburd).

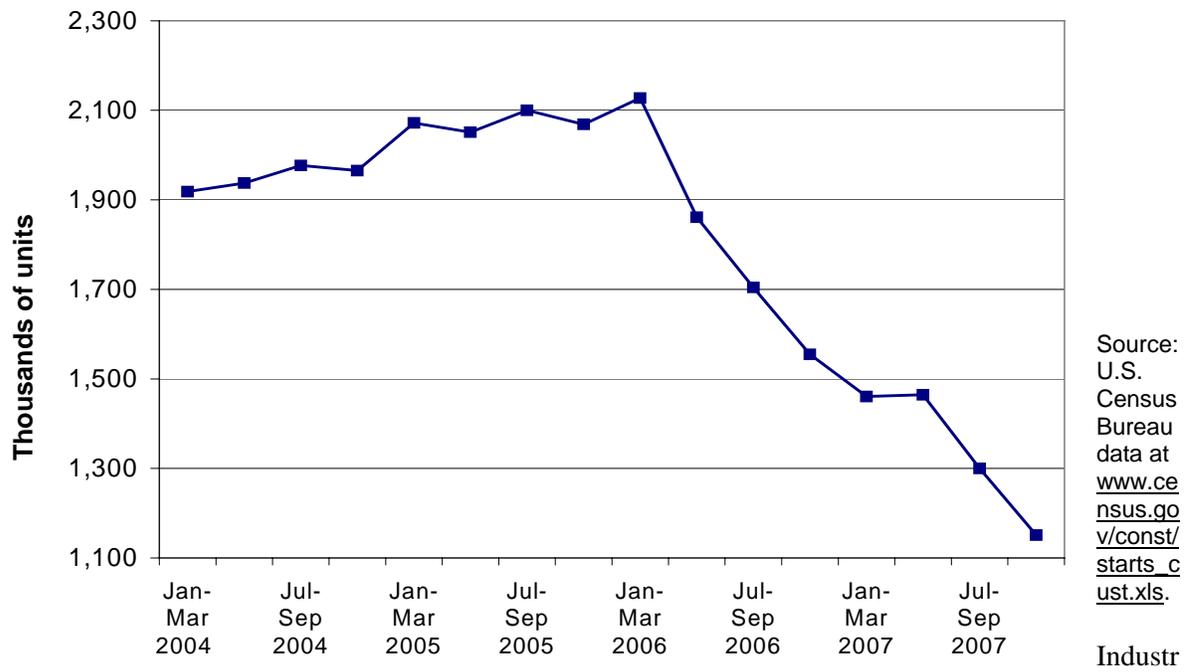
<sup>17</sup> Importers reported that the decision to purchase a mattress is generally deferrable and subject to such factors as consumer sentiment and prices of other items such as gasoline. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 15.

<sup>18</sup> Other economic indicators, such as the producer price index for bedding and data on existing single-family home sales, were included in exhibit I-5 of the petition.

<sup>19</sup> The National Association of Home Builders forecasts that housing starts will continue to drop in 2008 before rebounding somewhat in 2009. For additional information, see [http://www.nahb.org/fileUpload\\_details.aspx?contentID=75231](http://www.nahb.org/fileUpload_details.aspx?contentID=75231), retrieved January 4, 2008.

<sup>20</sup> Conference transcript, p. 17 (Davis).

**Figure II-1**  
**Innersprings: Quarterly averages of seasonally adjusted annual rates of housing starts, January 2004-December 2007**



sources have estimated that the replacement rate for a mattress is generally from 8 to 10 years.<sup>21</sup> The trends in recent years toward larger homes with more bedrooms and with consumers buying second homes have contributed to the demand for innerspring units.

Respondents reported that there has been an increase in sales of non-innerspring mattresses recently, mattresses made from air and various types of foam, which has contributed to the erosion of demand for innerspring mattresses.<sup>22</sup> In addition, respondents reported that there have been increased imports of finished innerspring mattresses, which may cause the demand for innersprings units in the U.S. market to decrease.<sup>23</sup>

Producers and importers were asked specifically how the demand for innersprings in the U.S. market has changed since 2004. Five producers and 18 importers reported that the demand for innersprings has decreased since 2004. One producer and nine importers reported that the demand for innersprings has increased since 2004. Two producers and four importers reported that the demand for innersprings is essentially unchanged, and nine importers reported that they did not know how demand has changed since 2004.

<sup>21</sup> Conference transcript, p. 87 (Davis).

<sup>22</sup> Conference transcript, pp. 108-109 (Diamonstein).

<sup>23</sup> Conference transcript, p. 145 (Tramel) and pp. 145-146 (Cameron).

Despite the number of producers and importers that reported that the demand for innersprings has decreased since 2004, data from the ISPA<sup>24</sup> show that U.S. shipments of innerspring mattresses increased from 20.8 million units in 2004 to 21.5 million units in 2005.<sup>25</sup> As each innerspring mattress contains one innerspring unit, there is a direct correlation between sales of innerspring mattresses and the demand for innersprings. In addition, according to the ISPA data, the demand for innersprings increased in the first three quarters of 2007 when compared to the same period in 2006.

Producers and importers also were asked if the innersprings market is subject to business cycles or conditions of competition distinctive to innersprings, and 7 producers and 23 importers responded affirmatively.<sup>26</sup> Most reported that the second and third quarters of the year are generally busier than the first and fourth quarters. Others reported that the innersprings market follows overall economic conditions, and more specifically, the housing market. Some importers reported that the dominance of Leggett & Platt as a supplier is a significant condition of competition. \*\*\* reported that major mattress brands get a competitive advantage from Leggett & Platt's offers of exclusive, proprietary products at low prices.

Six producers and 14 importers reported that there have been changes in the business cycle or conditions of competition for innersprings since 2004, with many reporting that overall economic conditions have deteriorated recently and that raw material and transportation prices have increased during the period. \*\*\* reported that Chinese producers have been innovative and may force Leggett & Platt to be more innovative as well. \*\*\* reported that changes have centered around consolidation in the U.S. industry and the increased popularity of non-innerspring products such as air and foam. \*\*\* reported that the presence of imports from China at the end of 2006 forced prices down in the U.S. market.

## **Substitute Products**

Most producers and importers reported that water, air, fiber, and foam are products that may be substituted for innersprings when producing a mattress and that all of these products can be used as mattress cores.<sup>27</sup> \*\*\* reported that most foam mattresses are made from high-quality foams such as latex or visco-elastic, which cost more than innersprings and limit the sale of foam mattresses to the ultra-premium market.<sup>28</sup> Five importers reported that there are no substitutes for innersprings.

Two producers and five importers reported that the prices for these substitute products are higher than for innersprings, and others reported that these substitute products are reserved for "specialty" beds. Respondents reported that the demand for mattresses made with foam and air has increased since 2004.<sup>29</sup>

---

<sup>24</sup> Leggett & Platt reported that ISPA is the authoritative source for data on the mattress industry. Conference transcript, p. 71 (Davis).

<sup>25</sup> Petitioner's postconference brief, p. 10.

<sup>26</sup> Chinese producers reported that the U.S. market for innersprings has been closely correlated with fluctuations of the U.S. housing market since 2004. Chinese respondents' postconference brief, pp. 13-14.

<sup>27</sup> Non-innerspring unit shipments were 8.9 percent of all mattresses shipped during 2006. Although the value of non-innerspring mattress shipments was higher in 2006 than in 2005, the units shipped were lower in 2006. ISPA 2006 Mattress Industry, Industry Report of Sales and Trends, p. 3.

<sup>28</sup> \*\*\* also reported that air bladders strong enough to hold up over years of daily use are very expensive and that water beds were a fad that has run its course.

<sup>29</sup> Conference transcript, p. 108 (Diamonstein).

## **Cost Share**

Producers and importers were asked to provide information on the cost share of innersprings relative to the end products in which they are used. All producers and importers reported that mattresses are the sole end use for innersprings. Producers reported that between 7 and 44 percent of the total cost of a mattress is accounted for by the innerspring.<sup>30</sup> Importers generally reported that between 8 and 50 percent of the total cost of a mattress is accounted for by the innerspring.<sup>31</sup>

## **Global Demand**

Producers and importers were asked how the demand for innersprings outside the United States has changed since 2004.<sup>32</sup> One producer and nine importers reported that demand has increased in the rest of the world, with most citing increased wealth and a switch from other types of mattresses to innerspring mattresses.<sup>33</sup> One producer and three importers reported that the demand for innersprings outside of the United States has decreased since 2004, and one producer and four importers reported that demand is unchanged. Five producers and 22 importers reported that they did not know how the demand for innersprings has changed outside of the United States.

## **SUBSTITUTABILITY ISSUES**

The degree of substitution between domestic and imported products depends upon such factors as relative prices, quality, and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there may be some differences in specification between domestic and imported innersprings, especially given the variety of proprietary designs in the marketplace, but that overall, there is likely to be a high degree of substitution between innersprings produced in the United States and those produced in China, South Africa, and Vietnam.

## **Factors Affecting Purchasing Decisions**

Petitioner describes innerspring units as a price-sensitive commodity product,<sup>34</sup> where the quality of imported innersprings has improved over the period of investigation.<sup>35</sup> Leggett & Platt also reported that quality differences do not make a difference to end users if the price of imported innersprings is low

---

<sup>30</sup> Hickory Springs reported that the cost of an innerspring unit, while not the majority of the cost of producing a mattress, is the largest component of the cost, accounting for approximately 40 percent of the cost, depending on the type of mattress. Hickory Springs' postconference brief, p. 11.

<sup>31</sup> \*\*\* reported that 85 percent of the total cost of a mattress is accounted for by the innerspring, but that for futons and sleeper-sofas, the cost share is 1 percent. \*\*\* reported that the cost share can be as high as 60 percent.

<sup>32</sup> Chinese producers reported that the Chinese housing market has been booming and thus created a higher demand for bedding components such as innersprings. Chinese respondents' postconference brief, pp. 5-6.

<sup>33</sup> \*\*\* reported that markets outside the United States typically have a smaller percentage of sleep products that are innerspring mattresses but that most are still in excess of 50 percent. It also reported that the United States is the largest market for innersprings in the world and that innerspring prices are typically higher in the United States than in the rest of the world.

<sup>34</sup> Conference transcript, p. 8 (Corr).

<sup>35</sup> Conference transcript, p. 74 (Davis).

enough.<sup>36</sup> In addition, finished mattress manufacturers have reportedly been de-contenting or de-specing in order to produce a lower-cost mattress; with the prices of foam and other mattress raw materials increasing, mattress manufacturers have substituted lower-cost innersprings, such as generic Bonnell coils, in place of higher-cost, proprietary alternatives.<sup>37</sup>

Respondents have described three types of innerspring purchasers: the large, national name-branded mattress manufacturers,<sup>38</sup> very small mattress manufacturers, and small-to-medium sized non-integrated, independent mattress manufacturers.<sup>39</sup> Respondents reported that for the very large and the very small mattress manufacturers, imports do not play a significant role, and that even for the small-to-medium sized mattress manufacturers, many continue to buy domestically produced as well as imported innersprings.

In addition, respondents reported that U.S. innerspring producers, specifically Leggett & Platt, have a number of advantages relative to importers of innersprings: they produce other components for mattresses and can offer package deals with discounts, they offer payment terms, and they have lower transportation costs and advantages in logistics.<sup>40</sup>

Respondents also reported that mattress manufacturers have tried to diversify their supply in order to minimize the impact of any supply problems with any one supplier.<sup>41</sup> Mattress production is reportedly a just-in-time business, and therefore, respondents assert that imports can only serve as a supplement to purchases of U.S.-produced innersprings.<sup>42</sup>

## Lead Times

\*\*\* reported that \*\*\* percent, respectively, of their innersprings were sold out of inventory and available in \*\*\*. \*\*\* reported that \*\*\* percent of its innersprings were sold produced to order and available in \*\*\*, and \*\*\* reported that \*\*\* percent of its innersprings were sold produced to order and available in \*\*\*. \*\*\* reported that \*\*\* percent of its sales are produced to order and available in \*\*\*. The other three producers did not respond to the question.

Ten importers reported that at least 90 percent of their innersprings were sold produced to order, and lead times ranged from 4 to 8 weeks. Nine importers reported that at least 80 percent of their innersprings were sold from inventory, and lead times ranged from 1 to 5 days.<sup>43</sup>

## Comparisons of Domestic Products, Subject Imports, and Nonsubject Imports

Producers and importers were asked to assess how interchangeable innersprings from the United States are with innersprings from both subject and nonsubject countries. Their answers are summarized in table II-2. All producers that reported familiarity with imported innersprings and the vast majority of importers reported that U.S.-produced innersprings are always or frequently interchangeable with innersprings imported from all three subject countries, as well as nonsubject countries. Five importers

---

<sup>36</sup> Conference transcript, p. 74 (Ryan).

<sup>37</sup> Conference transcript, pp. 69 and 88 (Davis) and petitioner's postconference brief, p. 9.

<sup>38</sup> Respondents reported that the so-called "S brands," which include Sealy, Serta, and Simmons, represent approximately 60 percent of the U.S. innerspring mattress market. Conference transcript, pp. 104-105 (Tramel).

<sup>39</sup> Conference transcript, pp. 99-100 (Mendoza).

<sup>40</sup> Conference transcript, pp. 110-111 (Diamonstein).

<sup>41</sup> Conference transcript, pp. 159-160 (Tramel).

<sup>42</sup> Conference transcript, pp. 106 and 156-157 (Tramel).

<sup>43</sup> One importer reported that its lead time for innersprings sold from inventory was 10 days.

reported reasons that limit or preclude interchangeable use, with all five reporting factors that involve China specifically. \*\*\* reported that innersprings imported from China are generally heavier and of better quality; \*\*\* reported that mattresses produced in China use different products; \*\*\* reported that prices of imports from China have been going up because of the exchange rate and cuts in the export tax rebate; \*\*\* reported that coil count, innerspring height, edge support, firmness, and wire gauge may vary; and \*\*\* reported that Leggett & Platt has patents on certain types of innersprings.

Producers and importers were asked to assess how often differences other than price were significant in sales of innersprings from the United States, subject countries, and nonsubject countries (table II-3). Producers<sup>44</sup> and the vast majority of importers reported that differences other than price are sometimes or never a significant factor in sales of innersprings.

In explaining the significance of these non-price factors, 8 of the 14 responding importers reported that the quality of the imported innersprings is better than that for U.S.-produced innersprings.<sup>45</sup> By contrast, \*\*\* reported that the quality and reliability of innersprings imported from China are not as good as for U.S.-produced innersprings. Two importers reported that Leggett & Platt has specific non-price advantages, specifically shorter lead times, favorable terms, volume discounts, and closer proximity to customers. \*\*\* reported that imports have a small advantage in that they only supply small needs of products that Leggett & Platt cannot supply, but that Leggett & Platt has some products that manufacturers in China cannot supply. \*\*\* reported that terms are one reason to buy imports of innersprings from South Africa, especially when offered 90- or 120-day terms.

---

<sup>44</sup> It appears as though \*\*\* did not fully understand the question, as they reported that differences other than price were \*\*\* significant in sales of innersprings from one or all of the country combinations but then did not explain their answers as requested.

<sup>45</sup> Five importers reported that the quality of imports from China was superior to U.S.-produced innersprings, and two importers reported that the quality of imports from South Africa was superior to U.S.-produced innersprings. One importer reported that the quality of imports, in general, was superior.

**Table II-2  
Innersprings: U.S. producers' and importers' perceived degree of interchangeability of products produced in the United States and in other countries<sup>1</sup>**

Country comparison	U.S. producers					U.S. importers				
	A	F	S	N	0	A	F	S	N	0
U.S. vs. China	4	2	0	0	2	16	11	3	0	10
U.S. vs. South Africa	3	2	0	0	3	5	3	1	0	31
U.S. vs. Vietnam	3	0	0	0	5	4	2	1	0	33
U.S. vs. other countries	3	0	0	0	5	3	1	1	0	35
China vs. South Africa	3	0	0	0	5	3	2	0	0	35
China vs. Vietnam	3	0	0	0	5	4	2	0	0	34
China vs. other countries	3	0	0	0	5	3	1	0	0	36
South Africa vs. Vietnam	3	0	0	0	5	3	2	0	0	35
South Africa vs. other countries	3	0	0	0	5	3	1	0	0	36
Vietnam vs. other countries	3	0	0	0	5	3	1	0	0	36

<sup>1</sup> Producers and importers were asked if innersprings produced in the United States and in other countries are used interchangeably and to what degree.

Note.--"A" = Always, "F" = Frequently, "S" = Sometimes, "N" = Never, and "0" = No familiarity.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table II-3****Innersprings: U.S. producers' and importers' perceived importance of factors other than price in sales of product produced in the United States and in other countries<sup>1</sup>**

Country comparison	U.S. producers					U.S. importers				
	A	F	S	N	0	A	F	S	N	0
U.S. vs. China	2	0	2	0	4	3	8	9	4	16
U.S. vs. South Africa	1	0	2	0	5	2	1	3	1	33
U.S. vs. Vietnam	1	0	2	0	5	0	0	3	2	35
U.S. vs. other countries	1	0	2	0	5	0	0	3	1	36
China vs. South Africa	1	0	0	2	5	0	0	0	3	37
China vs. Vietnam	1	0	0	2	5	0	0	0	4	36
China vs. other countries	1	0	0	2	5	0	0	0	3	37
South Africa vs. Vietnam	1	0	0	2	5	0	0	0	3	37
South Africa vs. other countries	1	0	0	2	5	0	0	0	3	37
Vietnam vs. other countries	1	0	0	2	5	0	0	0	3	37

<sup>1</sup> Producers and importers were asked if differences other than price between innersprings produced in the United States and those produced in other countries were a significant factor in sales of the innersprings.

Note.--“A” = Always, “F” = Frequently, “S” = Sometimes, “N” = Never, and “0” = No familiarity.

Source: Compiled from data submitted in response to Commission questionnaires.

### **PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT**

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the alleged margins of dumping were presented earlier in this report and information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V. Information on the other factors specified is presented in this section and/or Part VI and (except as noted) is based on the questionnaire responses of seven firms that accounted for virtually all of U.S. production of uncovered innerspring units during 2006.

#### **U.S. PRODUCERS**

The Commission sent questionnaires to the six firms cited in the petition as well as three additional firms who provided producer data during the 421 investigation, and one firm, \*\*\*, the Commission was made aware of subsequent to the initiation of these investigations. Responses were received from eight firms,<sup>1 2</sup> seven of whom provided usable trade data on their production of uncovered innerspring units.<sup>3 4</sup> Producers of uncovered innerspring units, their position with respect to the petition, and information on their production of uncovered innerspring units are shown in table III-1.

#### **CHANGES IN U.S. PRODUCERS' OPERATIONS**

Producers were asked to describe changes in their operations since January 1, 2004.<sup>5</sup> \*\*\* described changes, while \*\*\* said they had no changes in operations.

\*\*\* described the following changes: \*\*\*.

\*\*\* offered the following relative to the changes in its operations: \*\*\*.

\*\*\* described the changes to its operations thusly: \*\*\*.

As noted earlier, Atlas, headquartered in Gardena, CA, closed its manufacturing operations in December 2006 citing inability to compete with increasing import competition. Atlas had manufactured bedding and furniture products since 1932. Innersprings accounted for \*\*\* percent of Atlas' total sales in the facilities where innersprings were produced during 2003; \*\*\*. In 2003, Atlas accounted for \*\*\*

---

<sup>1</sup> The six firms cited in the petition were: (1) Leggett & Platt, (2) Hickory Springs, (3) Sealy Inc. (Sealy), (4) Simmons Bedding Co. (Simmons), (5) Spring Co., Inc. (Springco), and (6) Symbol Mattress, Inc. (Symbol). Questionnaires were also sent to \*\*\*. \*\*\*.

<sup>2</sup> Leggett & Platt has foreign production operations in \*\*\*.

<sup>3</sup> \*\*\*.

<sup>4</sup> Of the eight, four (\*\*\*) internally consumed all, or almost all, of their production of uncovered innerspring units in the production of innerspring mattresses. In 2006, \*\*\*.

<sup>5</sup> U.S. producers' questionnaire, Question II-4.

**Table III-1**

**Uncovered innerspring units: U.S. producers, locations, position on the petition, and production and shares of production in 2006**

Firm	Plant location(s)	Position	Reported production of uncovered innerspring units in 2006	
			Quantity (1,000 units)	Share (percent)
Dixie	Miami, FL	Supports	***	***
Hickory Springs	Holland, MI Verona, MS Sheboygan, WI High Point, NC Micaville, NC	Supports	***	***
Leggett & Platt	Monroe, GA Winchester, KY Carthage, MO Tupelo, MS High Point, NC Ennis, TX	Petitioner	***	***
***	***	***1	***	***
***2	***	***1	***	***
Springco	Hialeah, FL	Supports	***	***
***	***	***	***	***
***	***	***	***	***

<sup>1</sup> Firm asked that its position(s) on the petition not be made public. U.S. Producer's questionnaire, Question I-3.  
<sup>2</sup> \*\*\*.

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

percent of U.S. production of uncovered innerspring units. With its closure, Leggett & Platt purchased Atlas' production equipment.<sup>6</sup> As mentioned earlier, \*\*\*.<sup>7</sup>

<sup>6</sup> Leggett & Platt put the production equipment into storage.

<sup>7</sup> \*\*\*.

## **U.S. PRODUCERS' CAPACITY, PRODUCTION, CAPACITY UTILIZATION, SHIPMENT, INVENTORY, AND EMPLOYMENT DATA**

Table III-2 presents U.S. producers' capacity, production, capacity utilization, shipment, inventory, and employment data for uncovered innerspring units. As noted earlier, certain of the U.S. producers consume all, or a portion, of their production captively. In this regard, staff asked parties to the current investigations to comment on how that issue should be approached in these investigations. In its postconference submission, counsel for the Ad Hoc Innersprings Importers' Coalition stated:

“The Commission is to base its determination of the impact of subject imports on the domestic industry as a whole, which in this case includes the U. S. Producers that produce solely for their own internal consumption. The captive consumption provision is not applicable to this case. That provision permits the Commission to focus primarily upon the merchant market when defining the domestic like product and the affected U.S. industry. Even assuming, *arguendo*, that innersprings could be said to constitute the “predominant material input in the production of the downstream article” (i.e., innerspring mattresses), there is no dispute that the innersprings sold by the domestic industry into the merchant market are used for the identical downstream product as are the innersprings produced for captive consumption: innerspring mattresses. At the staff conference, counsel for Leggett & Platt did not argue that the captive production provision applies, but rather, argued that the significant amount of captive production was a relevant “condition of competition.” We agree. However, the relevance of this condition of competition is not, as counsel implied, that the Commission should focus on the impact of imports on the merchant market producers. Rather, as discussed *supra*, it is that the captive segment of the market {that} is effectively foreclosed to competition from subject imports.”<sup>8</sup>

In its postconference submission, counsel for the Chinese Respondents stated, in part:

“. . . the ITC analysis should analyze the entire market of innersprings, including Leggett & Platt's internal production of mattress as well as the merchant market.”<sup>9</sup>

In these investigations, U.S. producers' internal consumption accounted for \*\*\* percent of total U.S. producers' U.S. shipments in 2004, \*\*\* percent in 2005, and \*\*\* percent in 2006.

---

<sup>8</sup> Ad Hoc Innersprings Importers' Coalition postconference brief, pp. 19-20.

<sup>9</sup> Chinese Respondents' postconference brief, p. 9, fn. 25.

Table III-2<sup>1</sup>

Uncovered innerspring units: U.S. capacity, production, capacity utilization, shipments, by type, end-of-period inventories, and employment-related indicators, 2004-06, January-September 2006, and January-September 2007

Item	Calendar year			January-September	
	2004	2005	2006	2006	2007
Capacity (1,000 units)	24,540	24,793	22,211	16,674	17,133
Production (1,000 units)	20,093	19,549	18,042	14,042	13,456
Capacity utilization (percent)	81.9	78.8	81.2	84.2	78.5
Commercial shipments:					
Quantity (1,000 units)	***	***	***	***	***
Value (1,000 dollars)	***	***	***	***	***
Unit value (per unit)	***	***	***	***	***
Share of quantity (percent)	***	***	***	***	***
Internal consumption:					
Quantity (1,000 units)	***	***	***	***	***
Value (1,000 dollars)	***	***	***	***	***
Unit value (per unit)	***	***	***	***	***
Share of quantity (percent)	***	***	***	***	***
Transfers to related firms:					
Quantity (1,000 units)	***	***	***	***	***
Value (1,000 dollars)	***	***	***	***	***
Unit value (per unit)	***	***	***	***	***
Share of quantity (percent)	***	***	***	***	***
Total U.S. shipments:					
Quantity (1,000 units)	19,405	18,660	17,288	13,477	12,928
Value (1,000 dollars)	548,785	556,233	492,997	385,819	360,744
Unit value (per unit)	\$28.28	\$29.81	\$28.52	\$28.63	\$27.90
Share of quantity (percent)	***	***	***	***	***

Table continued on the next page.

Table III-2<sup>1</sup>

Uncovered innerspring units: U.S. capacity, production, capacity utilization, shipments, by type, end-of-period inventories, and employment-related indicators, 2004-06, January-September 2006, and January-September 2007

Item	Calendar year			January-September	
	2004	2005	2006	2006	2007
Exports: <sup>2</sup>					
Quantity (1,000 units)	***	***	***	***	***
Value (1,000 dollars)	***	***	***	***	***
Unit value (per unit)	***	***	***	***	***
Share of quantity (percent)	***	***	***	***	***
Total shipments:					
Quantity (1,000 units)	***	***	***	***	***
Value (1,000 dollars)	***	***	***	***	***
Unit value (per unit)	***	***	***	***	***
Share of quantity (percent)	100.0	100.0	100.0	100.0	100.0
Inventories (1,000 units)	2,140	2,170	2,103	2,120	1,914
Ratio of inventories to total shipments (percent)	***	***	***	***	***
Production and related workers (PRWs)	2,248	2,151	2,021	2,017	1,822
Hours worked by PRWs (1,000 hours)	4,627	4,402	4,077	3,054	2,738
Hours worked per PRW	2,058	2,046	2,017	1,514	1,503
Wages paid to PRWs (1,000 dollars)	62,778	59,877	56,003	43,074	39,984
Hourly wages	\$13.57	\$13.60	\$13.74	\$14.10	\$14.60
Productivity (units produced per hour)	4.3	4.4	4.4	4.6	4.9
Unit labor costs (per unit)	\$3.12	\$3.06	\$3.10	\$3.07	\$2.97

<sup>1</sup> Data on shipments (producers and importers) of uncovered innerspring units, by type, are presented in Appendix D.

<sup>2</sup> \*\*\* reported exports of uncovered innerspring units. The export markets reported included Australia, Brazil, Canada, France, Italy, Japan, Mexico, Nicaragua, and Saudi Arabia. \*\*\*.

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

## U.S. PRODUCERS' IMPORTS

Three U.S. producers, \*\*\*, reported that they imported uncovered innerspring units from countries subject to these investigations. \*\*\* imported from China, while \*\*\* imported from South Africa. One producer, \*\*\* reported imports from nonsubject sources.<sup>10</sup> Table III-3 presents U.S. producers' direct imports of uncovered innerspring units from subject sources.

**Table III-3**

**Uncovered innerspring units: U.S. producers' imports from subject countries, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

---

<sup>10</sup> \*\*\*.

## **PART IV: U.S. IMPORTS, APPARENT CONSUMPTION, AND MARKET SHARES**

### **U.S. IMPORTERS**

The Commission sent questionnaires to 75 firms believed to be importers and/or consignees of uncovered innerspring units, based on information provided in the petition and information provided by U.S. Customs and Border Protection. In addition, importer questionnaires were sent to the eight firms that received producer questionnaires. Useable questionnaire responses were received from 41 firms – a mix of importers of record and consignees. With one minor exception, the data received from consignees were covered by the importers of record that responded to the importer questionnaires. Hence, only the data from the importers of record have been used in this section to avoid double counting of imports.

From the outset of these investigations, the petitioner contended that while uncovered innerspring units are properly classified and imported under HTS statistical reporting number 9404.29.9010, a significant amount of product has been misclassified and imported under HTS statistical reporting numbers 9404.10.0000, 7320.20.5010, 7320.90.5010, and 7326.20.0070. In its importer questionnaire, the Commission asked respondents to note the HTS number(s) used in their importation of uncovered innerspring units. While the majority of subject product was entered under 9404.29.9010, product was also entered under each of the HTS numbers noted previously. In most cases, the instances of misclassifications involved entries of product from China. As a share of official statistics (HTS 9404.29.9010), questionnaire responses were received from importers of record that in 2006 accounted for more than 100.0 percent of U.S. imports from China, nearly \*\*\* percent from South Africa, more than \*\*\* percent from Vietnam, and \*\*\* percent from nonsubject sources. Table IV-1 presents a list of the 18 importers of record responding to the Commission's questionnaire and the countries from which they imported during 2004-September 2007.

**Table IV-1  
Uncovered innerspring units: U.S. importers of record and sources of their imports, 2004-September 2007**

\* \* \* \* \*

### **U.S. IMPORTS**

As noted earlier, imports of uncovered innerspring units have been entered under five different HTS statistical reporting numbers. Hence, using the proper classification, 9404.29.9010, would lead to undercounting. Thus, given the coverage reported in importer questionnaires and the fact that it captures subject product that was entered under HTS numbers 9404.10.0000, 7320.20.5010, 7320.90.5010, and 7326.20.0070, as well as HTS 9404.29.9010, importer questionnaire data have been used in this report.

At the staff conference in these investigations, parties were asked to advise as to how they would go about developing import numbers given the obvious problems with misclassification.<sup>1</sup> Their responses follow:

---

<sup>1</sup> Counsel for Hickory Springs and counsel for Chinese Respondents offered general comments regarding import data issues, but did not offer specific ideas to develop import numbers. Hickory Springs' postconference brief, pp. 7-9 and Chinese Respondents' postconference brief, pp. 4-5.

Petitioners: “First, it appears that the responses to the importers’ questionnaires provide \*\*\* coverage for Chinese imports because the major importers of Chinese innersprings – \*\*\* – have submitted responses. Therefore, the Commission should base Chinese import volumes and values on the questionnaire responses. Second, the Commission should calculate the volume and value of imports from South Africa and Vietnam based on the following HTS subheadings: 9404.29.9010, 9404.10.0000, 7320.20.5010, and 7320.90.5010. Subject imports also appear to have entered under 7326.20.0070. Given the time constraints on Commission staff and the parties at this preliminary phase, it would be difficult to estimate the portion of 7326.20.0070 that cover subject imports because that is a basket provision that applies to “other articles of steel wire.”<sup>2</sup>

Ad Hoc  
Innersprings  
Importers’  
Coalition:

“The HTS category most closely aligned with innersprings is 9404.29.9010, “mattresses, uncovered innerspring units.” Quantity data are reported in this category on a units basis in the Census statistics. However, questionnaire responses also show that some importers, other than importers from South Africa, classified their imports of innersprings under three other HTS categories: 7320.20.5010, 7320.90.5010, and 7326.20.0070, which also includes nonsubject merchandise. The questionnaires also show that those importers reporting using 9404.29.9010 did not represent full coverage, when compared to Census data. For these reasons, we recommend that the Commission calculate subject and nonsubject imports in the following manner. We recommend that subject imports be calculated using Census data reported in HTS 9404.29.9010, plus questionnaire data for those importers using a different HTS category.”<sup>3</sup>

Imports of uncovered innerspring units based on data reported in response to Commission questionnaires are presented in table IV-2.<sup>4</sup>

---

<sup>2</sup> Petitioner’s postconference brief, pp. 17-18 and exhibit 17.

<sup>3</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, pp. 27-28 and exhibit 1.

<sup>4</sup> Imports of uncovered innerspring units using official Commerce statistics (HTS 9404.29.9010 alone and HTS 9404.29.9010, 9404.10.0000, 7320.20.5010, 7320.90.5010 combined) are presented in app. E.

**Table IV-2**  
**Uncovered innerspring units: Imports, by sources, 2004-06, January-September 2006, and January-September 2007**

Source	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Quantity (1,000 units)</b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
Subtotal, subject sources	***	***	***	***	***
Nonsubject sources	***	***	***	***	***
Total	1,350	2,185	2,441	1,795	1,606
<b>Value (1,000 dollars)<sup>1</sup></b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
Subtotal, subject sources	***	***	***	***	***
Nonsubject sources	***	***	***	***	***
Total	20,810	33,407	37,050	29,012	23,690
<b>Unit value (per unit)<sup>1</sup></b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
Subtotal, subject sources	***	***	***	***	***
Nonsubject sources	***	***	***	***	***
Average	\$15.41	\$15.29	\$15.18	\$16.16	\$14.75
Table continued next page.					

**Table IV-2**  
**Uncovered innerspring units: Imports, by sources, 2004-06, January-September 2006, and January-September 2007**

Source	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Share of quantity (percent)</b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
Subtotal, subject sources	***	***	***	***	***
Nonsubject sources	***	***	***	***	***
Total	100.0	100.0	100.0	100.0	100.0
<b>Share of value (percent)</b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
Subtotal, subject sources	***	***	***	***	***
Nonsubject sources	***	***	***	***	***
Total	100.0	100.0	100.0	100.0	100.0
<sup>1</sup> Landed, duty-paid. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.					

## NEGLIGENCE

The Tariff Act provides for the termination of an investigation if imports of the subject product from a country are less than 3 percent of total imports, or, if there is more than one such country, their combined share is less than or equal to 7 percent of total imports, during the most recent 12 months for which data are available preceding the filing of the petition – in this case December 2006 to November 2007. Table IV-3 presents the shares according to official statistics (HTS 9404.29.9010).

**Table IV-3**

**Uncovered innerspring units: U.S. imports, by sources, based on official Commerce statistics, and shares of total imports (in percent), December 2006-November 2007**

Source	Imports (1,000 units)	Share of total imports (percent)
China	1,022	73.1
South Africa	241	17.2
Vietnam	123	8.8
Nonsubject sources	13	0.9
Total	1,399	100.0
Note.—Because of rounding, figures may not add to the totals shown.		
Source: Compiled from official Commerce statistics (HTS 9404.29.9010).		

## APPARENT U.S. CONSUMPTION AND U.S. MARKET SHARES

Table IV-4 shows data on total apparent U.S. consumption and open-market consumption for uncovered innerspring units using data compiled from responses to Commission questionnaires.

Open-market apparent U.S. consumption<sup>5</sup> of uncovered innerspring units decreased by \*\*\* percent on a quantity basis and \*\*\* percent on a value basis during 2004-06. As shown in table IV-5, U.S. producers' market share, based on quantity, decreased from \*\*\* percent in 2004 to \*\*\* percent in 2006. The market share of the subject countries, based on quantity, increased from \*\*\* percent in 2004 to \*\*\* percent in 2006.

Total apparent U.S. consumption<sup>6</sup> of uncovered innerspring units dropped by 4.9 percent on a quantity basis and 6.6 percent on a value basis during 2004-06. As shown in table IV-6, U.S. producers' market share, based on quantity, decreased from 93.7 percent in 2004 to 87.8 percent in 2006. The market share of the subject countries, based on quantity, increased from \*\*\* percent in 2004 to \*\*\* percent in 2006.

---

<sup>5</sup> Does not include internally consumed (captive) shipments of domestic producers.

<sup>6</sup> Includes internally consumed (captive) shipments of domestic producers.

**Table IV-4**

**Uncovered innerspring units: U.S. producers' U.S. shipments, by types, U.S. imports, by sources, and open-market and total U.S. consumption (open market and total), 2004-06, January-September 2006, and January-September 2007**

Item	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Quantity (1,000 units)</b>					
U.S. producers' U.S. shipments: Commercial (open-market)	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. producers' total U.S. shipments	19,405	18,660	17,288	13,477	12,928
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	1,294	2,128	2,401	1,743	1,584
Open-market U.S. consumption	***	***	***	***	***
Total U.S. consumption	20,699	20,788	19,689	15,220	14,512
<b>Value (1,000 dollars)</b>					
U.S. producers' U.S. shipments: Commercial (open-market)	***	***	***	***	***
Internal consumption	***	***	***	***	***
U.S. producers' total U.S. shipments	548,785	556,233	492,997	385,819	360,744
U.S. shipments of imports <sup>1</sup> from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	22,515	36,915	40,874	31,635	24,975
Open-market U.S. consumption	***	***	***	***	***
Total U.S. consumption	571,300	593,148	533,871	417,454	385,719
<sup>1</sup> Landed, duty-paid. Note.--Because of rounding, figures may not add to the totals shown. Source: Compiled from data submitted in response to Commission questionnaires.					

**Table IV-5**

**Uncovered innerspring units: Open-market U.S. consumption<sup>1</sup> and market shares, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table IV-6**

**Uncovered innerspring units: Total U.S. consumption and market shares, 2004-06, January-September 2006, and January-September 2007**

Item	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Quantity (1,000 units)</b>					
Total U.S. consumption	20,699	20,788	19,689	15,220	14,512
<b>Value (1,000 dollars)</b>					
Total U.S. consumption	571,300	593,148	533,871	417,454	385,719
<b>Share of quantity (percent)</b>					
U.S. producers' U.S. shipments	93.7	89.8	87.8	88.5	89.1
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	6.3	10.2	12.2	11.5	10.9
<b>Share of value (percent)</b>					
U.S. producers' U.S. shipments	96.1	93.8	92.3	92.4	93.5
U.S. shipments of imports from-- China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
Total	3.9	6.2	7.7	7.6	6.5

<sup>1</sup> Includes internally consumed (captive) shipments of domestic producers.

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

## RATIO OF IMPORTS TO U.S. PRODUCTION

Information concerning the ratio of imports to U.S. production of uncovered innerspring units is presented in table IV-7.

**Table IV-7**  
**Uncovered innerspring units: Ratio of U.S. imports to U.S. production, by sources, 2004-06, January-September 2006, and January-September 2007**

Item	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Ratio of U.S. imports to domestic production (<i>percent</i>)</b>					
China	***	***	***	***	***
South Africa	***	***	***	***	***
Vietnam	***	***	***	***	***
All subject countries	***	***	***	***	***
Nonsubject countries	***	***	***	***	***
All countries	6.7	11.2	13.5	12.8	11.9
Source: Compiled from data submitted in response to Commission questionnaires.					

## CUMULATION CONSIDERATIONS

In assessing whether subject imports compete with each other and with the domestic like product, the Commission has generally considered four factors: (1) the degree of fungibility, including specific customer requirements and other quality related questions; (2) presence of sales or offers to sell in the same geographical markets; (3) common channels of distribution; and (4) simultaneous presence in the market. Degree of fungibility and channels of distribution are discussed in Parts I and II of this report; geographical markets and presence in the market are discussed below.

### Geographical Markets

Uncovered innerspring units produced in the United States are shipped nationwide. While imports of uncovered innerspring units from the subject countries may enter specific Customs districts, the product is then generally sold in multiple regions or nationwide. Chinese product entered through 26 districts; South African product entered through 10 districts; and, Vietnamese product entered through 6 districts. Table IV-8, based on Commerce statistics for the period 2004-06 and January-September 2007, presents U.S. import quantities (HTS 9404.29.9010) of uncovered innerspring units, by each subject country, according to the Customs districts.

Table IV-8

Uncover innerspring units: U.S. imports, by subject countries and by customs districts, 2004-06 and January-September 2007

Customs district	China				South Africa				Vietnam			
	2004	2005	2006	Jan.-Sept. 2007	2004	2005	2006	Jan.-Sept. 2007	2004	2005	2006	Jan.-Sept. 2007
	Quantity (1,000 units)											
Boston, MA	-	24	11	15	-	-	-	-	-	-	-	-
Buffalo, NY	-	-	-	1	-	-	-	-	-	-	-	-
Charleston, SC	18	63	31	11	-	15	86	-	-	-	-	-
Charlotte, NC	3	-	1	27	-	-	-	-	-	-	-	-
Chicago, IL	7	76	56	29	-	6	30	-	-	-	-	-
Cleveland, OH	3	13	46	51	-	-	-	-	-	-	-	-
Columbia-Snake, OR	-	9	33	27	-	-	-	-	-	-	2	-
Dallas-Fort Worth, TX	-	6	26	-	-	-	-	-	-	-	-	1
Detroit, MI	( <sup>1</sup> )	-	-	1	-	-	-	-	-	-	-	-
Great Falls, MT	-	4	3	-	-	-	-	-	-	-	-	-
Houston-Galveston, TX	6	45	52	16	-	68	99	46	-	-	-	-
Los Angeles, CA	620	1,130	819	439	-	-	-	-	-	35	145	86
Miami, FL	-	12	6	-	-	( <sup>1</sup> )	( <sup>1</sup> )	1	-	-	( <sup>1</sup> )	-
Minneapolis, MN	-	1	1	2	-	-	-	-	-	-	-	-
Mobile, AL	0	0	8	0	-	-	-	-	-	-	-	-
New Orleans, LA	2	2	27	60	-	( <sup>1</sup> )	24	-	-	-	-	-
New York, NY	21	57	10	10	-	38	85	25	-	-	-	-
Norfolk, VA	4	7	2	2	-	-	-	1	-	-	-	-
Ogdensburg, NY	( <sup>1</sup> )	-	-	-	-	-	-	-	-	-	-	-
Philadelphia, PA	-	4	19	-	-	-	26	30	-	-	-	-
San Francisco, CA	-	32	26	8	-	-	-	-	-	-	7	-
San Juan, PR	0	0	13	43	-	-	-	-	-	-	-	-
Savannah, GA	2	4	21	18	-	27	1	-	-	-	-	-
Seattle, WA	6	47	109	16	-	-	-	-	-	-	16	-
St. Louis, MO	-	-	-	3	-	-	-	-	-	-	-	-
Tampa, FL	-	1	1	-	-	-	90	45	-	-	-	-
Total	694	1,536	1,322	778	0	35	442	148	-	35	171	87
<sup>1</sup> Less than 500 units.												
Source: Compiled from official Commerce statistics (9404.29.9010).												

### Simultaneous Presence in the Market

Uncovered innerspring units produced in the United States were present in the market throughout the period for which data were collected. Table IV-9 presents monthly U.S. imports of uncovered innerspring units during January 2005-September 2007. Based on official U.S. import statistics (HTS 9404.90.2010), there were U.S. imports of uncovered innerspring units from China each month during January 2005-September 2007; from South Africa each month from August 2005 to September 2007; and from Vietnam each month from October 2005 to September 2007.

**Table IV-9**  
**Uncovered innerspring units: U.S. imports, by source and month, January 2005-September 2007**

Month	China	South Africa	Vietnam	All other sources	Total
<b>Quantity (1000 units)</b>					
January 2005	146	-	-	6	152
February 2005	87	-	-	5	92
March 2005	94	-	-	5	99
April 2005	131	-	-	5	136
May 2005	141	-	-	4	145
June 2005	169	-	3	4	176
July 2005	114	-	-	4	118
August 2005	122	1	-	7	130
September 2005	107	21	-	3	130
October 2005	156	37	10	5	208
November 2005	146	51	12	5	215
December 2005	122	45	9	4	180
January 2006	116	51	12	4	183
February 2006	110	24	4	4	141
March 2006	132	22	9	7	170
April 2006	186	60	15	8	269
May 2006	135	42	10	4	191
June 2006	108	38	20	3	169
July 2006	102	31	18	-	151
August 2006	128	31	20	5	184
September 2006	132	36	15	2	185
Table continued on next page.					

**Table IV-9--Continued****Uncovered innerspring units: U.S. imports, by source and month, January 2005-September 2007**

Month	China	South Africa	Vietnam	All other sources	Total
<b>Quantity (1000 units)</b>					
October 2006	69	30	14	4	116
November 2006	61	35	14	-	110
December 2006	43	41	20	2	107
January 2007	56	30	12	-	99
February 2007	64	15	22	-	101
March 2007	60	13	10	-	84
April 2007	90	12	11	3	116
May 2007	97	17	8	1	123
June 2007	109	11	11	1	131
July 2007	99	11	6	3	118
August 2007	99	17	3	2	120
September 2007	105	22	4	1	131

Source: Compiled from official Commerce statistics (HTS 9404.29.9010).



## **PART V: PRICING AND RELATED INFORMATION**

### **FACTORS AFFECTING PRICES**

#### **Raw Materials**

The main raw material used in the production of innersprings is carbon steel wire; for both pocketed and non-pocketed innersprings, it is used to produce the innerspring coils, and for non-pocketed innersprings, it is also used to produce the helical wire that is used to lace the individual coils and the wire border that is attached to the top and bottom perimeter of the innerspring unit. The price of carbon steel wire rod increased throughout 2004, leveled off somewhat in 2005 and 2006, and then hit a period high in mid-2007 before decreasing somewhat later in the year (figure V-1).<sup>1</sup>

For pocketed innersprings, the innerspring coils are inserted into fabric pockets, generally made of non-woven polypropylene. Steel clips and industrial glue are also used in the manufacture of innersprings.

Producers and importers were asked to describe any trends in the prices of raw materials used to produce innersprings and whether they expect these trends to continue. All 8 responding producers and 25 of the 40 responding importers reported that raw material prices have increased since 2004,<sup>2</sup> with 4 producers and 14 importers reporting that they expect the increases to continue, at least through 2008. \*\*\* reported that its suppliers imposed price increases for wire on January 1, 2008 and that it has received letters announcing additional price increases in February.

Three importers reported that the cost of wire and wire rod has risen dramatically in China, especially in recent months, with all three attributing the increase to the high demand for steel in China.<sup>3</sup>

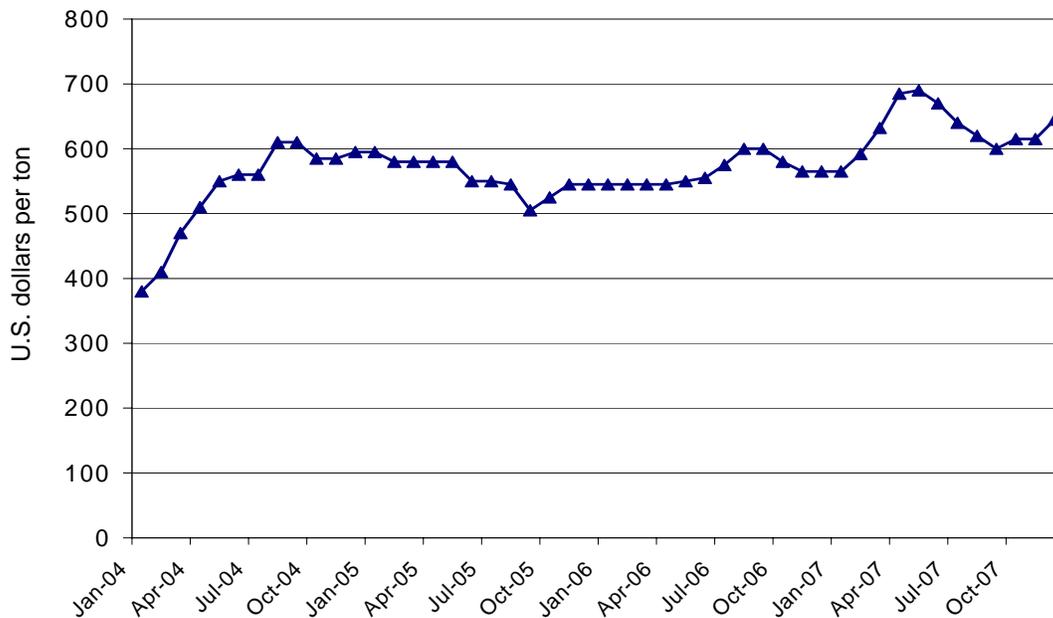
---

<sup>1</sup> Petitioner reported that its costs for wire rod increased from \*\*\* per ton in January 2004 to \*\*\* per ton in December 2004. Petition, p. 23.

<sup>2</sup> \*\*\* reported that raw material prices increased significantly in 2004 and were followed by small declines in 2005, with minor increases since that time.

<sup>3</sup> Industry representatives also reported that raw material costs have increased recently in China, making imports less competitive. Conference transcript p. 113 (Diamonstein) and pp. 116-117 (Enoch) and Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 42 and exhibit 3.

**Figure V-1**  
**Carbon steel wire rod: Average monthly U.S. spot price in dollars per ton, January 2004-December 2007**



So  
 Compiled from data published in \*\*\*.

urce:

### Transportation Costs to the U.S. Market

Transportation costs for innersprings to the United States (excluding U.S. inland transportation costs) from the three subject countries are estimated for 2006 in the tabulation that follows. These estimates are derived from official import data and represent the transportation and other charges on imports valued on a c.i.f. basis, as compared with customs value.<sup>4</sup>

Country	Estimated shipping cost in 2006 (in percent)
China	20.2
South Africa	0.5
Vietnam	24.2

<sup>4</sup> These estimates are based on HTS subheading 9404.29.9010.

## U.S. Inland Transportation Costs

U.S. producers reported that, generally, U.S. inland transportation costs were 3 or 4 percent of the total delivered cost of innersprings.<sup>5</sup> Importers generally reported that inland transportation costs were anywhere from 2 to 15 percent of the total delivered cost of innersprings, with three importers reporting that inland transportation costs were less than 2 percent and one importer reporting that costs were more than 15 percent.<sup>6</sup>

The five responding U.S. producers reported that \*\*\* arranged delivery, with two reporting that they shipped \*\*\* of their innersprings less than 100 miles and three reporting that they shipped \*\*\* of their innersprings between 101 and 1,000 miles. Sixteen of the 17 responding importers reported that they arranged delivery, and 11 importers reported shipping the majority of their innersprings less than 100 miles. Three importers reported shipping the majority of their innersprings between 101 and 1,000 miles, and two reported shipping the majority of their innersprings over 1,000 miles.

## Exchange Rates

Quarterly data reported by the International Monetary Fund indicate that the nominal value of the Chinese yuan appreciated relative to the U.S. dollar beginning in mid-2005 (figure V-2).<sup>7</sup> Both the nominal and real values of the South African rand fluctuated relative to the U.S. dollar during the period, and both the nominal and real values of the Vietnamese dong depreciated relative to the U.S. dollar since January 2004.<sup>8</sup>

---

<sup>5</sup> \*\*\* reported that U.S. inland transportation costs were \*\*\* percent of the total delivered cost of innersprings, and \*\*\* reported that transportation costs were \*\*\* percent.

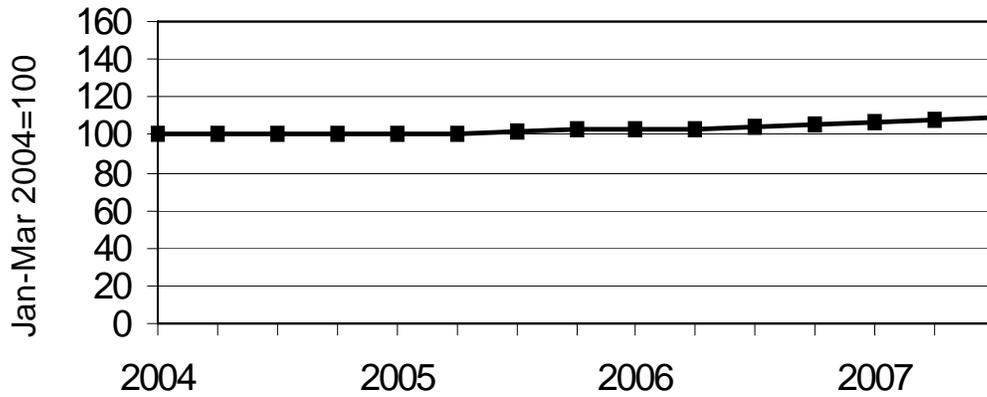
<sup>6</sup> It was apparent that other importers did not understand the question, responding with values between 90 and 100 percent.

<sup>7</sup> Real values of the Chinese yuan are not available.

<sup>8</sup> As of January 28, 2008, statistics from the International Monetary Fund included only data through the first quarter of 2007 for Vietnam. In addition, in calculating the real value of the dong, a consumer price index was used because a producer price index for Vietnam is not available from the International Monetary Fund statistics. Vietnam manages the movement of its currency by buying or selling the dollar to stabilize the exchange rate. The central bank sets an official dollar/dong rate for daily trading on the country's interbank market and allows banks to trade within a certain percent on either side of that rate.

**Figure V-2**  
**Exchange rates: Indices of the nominal exchange rate of the Chinese currency and the nominal and real exchange rates of the South African and Vietnamese currencies relative to the U.S. dollar, by quarters, January 2004-September 2007**

### China



### South Africa

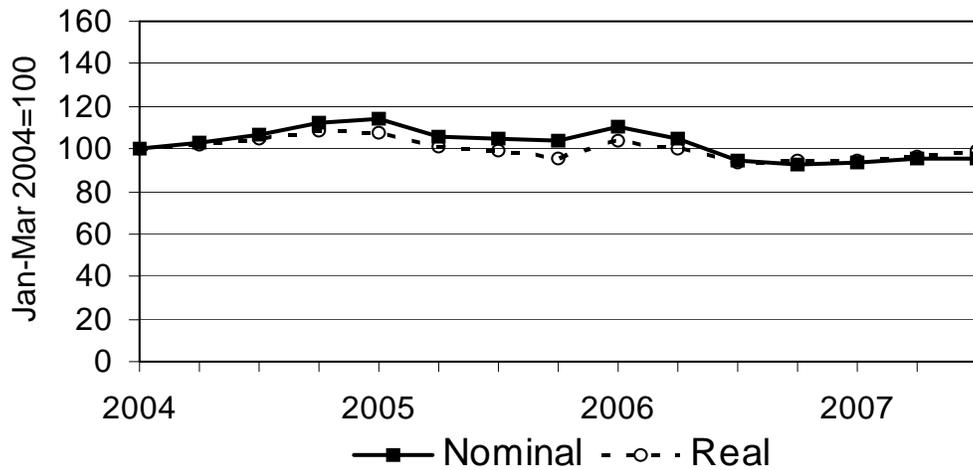
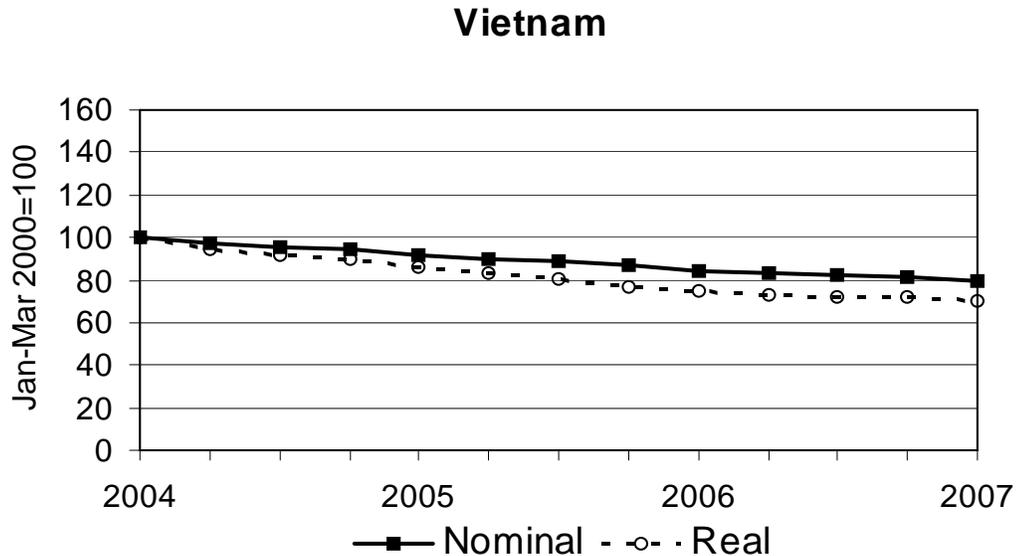


Figure V-2--Continued

Exchange rates: Indices of the nominal exchange rate of the Chinese currency and the nominal and real exchange rates of the South African and Vietnamese currencies relative to the U.S. dollar, by quarters, January 2004-September 2007



Source: International Monetary Fund, *International Financial Statistics*, retrieved from <http://ifs.apdi.net/imf/about.asp> on January 3, 2008.

## PRICING PRACTICES

### Pricing Methods

\*\*\* reported that it does not use set price lists but rather \*\*\* based on volumes, the product mix, and margins and that for a few customers, \*\*\*. \*\*\* reported that prices are \*\*\*,<sup>9</sup> \*\*\* reported that it uses \*\*\*, and \*\*\* reported that it \*\*\*. The other four U.S. producers did not respond to this question.

Six importers reported that prices are determined on a transaction-by-transaction basis, two importers reported that they use price lists, and one reported that it uses contracts for multiple shipments.<sup>10</sup> Other importers reported specific formulas that are used for setting prices; \*\*\* reported that it charges 5 percent over costs and expenses, and \*\*\* reported that it generally adds 10 percent to its costs but will add more for different delivery situations. \*\*\* reported that its prices depend on quantities and the payment method and that prices vary depending on where the innersprings are being shipped.

---

<sup>9</sup> Hickory Springs reported that its business is focused on relationships with customers rather than order-to-order or by contracts. Negotiation and feedback are used rather than set price lists. Conference transcript, p. 39 (Bush).

<sup>10</sup> Of the 41 responding importers/consignees, 20 reported that they use all of their imported innersprings internally and so did not answer any of the questions in this section and did not report price data.

Innersprings sell for a wide range of prices, with differences between pocketed and non-pocketed units and differences between proprietary and non-proprietary designs.<sup>11</sup> U.S. producers have typically given advance notice of price increases, which are generally tied to increases in the price of raw materials. Up until recently, Leggett & Platt would generally make a price announcement several weeks in advance and the rest of the U.S. innerspring producers would follow the increase.<sup>12</sup> Leggett & Platt reported that it increased prices several times in 2004 due to a rapid increase in raw material prices and then again in April 2007.<sup>13</sup> Hickory Springs reported that it announced a price increase in April 2007 and another price increase set for January 2008 but reported that it was unable to push through that price increase.<sup>14</sup>

When asked to list the names of firms considered to be price leaders in the innersprings market, the overwhelming number of responding producers and importers named Leggett & Platt. \*\*\* reported that Leggett & Platt is no longer considered the price leader because of the competition from low-priced imports. Seven importers also named Hickory Springs as a price leader, and fewer numbers of importers named Springco and Barber. \*\*\* reported that all Leggett & Platt's price changes during the last 10 years have been increases, that they have been in effect for the whole country, and that they are usually announced 30-45 days in advance. \*\*\* reported that Leggett & Platt's price increases are announced 30 days in advance for the whole country and for all product lines. \*\*\* reported that Leggett & Platt and Hickory Springs based their price change announcements on the price of steel.

### **Sales Terms and Discounts**

Four producers reported sales terms that offered discounts for early payment, and one producer reported terms of net 30 or 60 days. Most importers reported sales terms of net 30 days, with five reporting discounts for early payment and two accepting only cash on delivery. The vast majority of producers and importers reported that prices are generally quoted as delivered prices. Two importers reported quoting delivered and f.o.b. prices, and two importers reported quoting only f.o.b. prices.

Three producers reported that more than half of their sales of innersprings are on a spot basis; only \*\*\* reported a significant percent of sales by long-term contract and \*\*\* reported a significant percent of sales by short-term contract. Ten importers reported that 90 percent or more of their sales are on a spot basis; one importer reported that half of its sales were on a long-term contract basis; and four importers reported that 90 percent or more of sales were on a short-term contract basis.

Three producers reported provisions of long-term contracts, with one reporting that contracts are \*\*\* in length and one reporting that contracts are \*\*\* in length.<sup>15</sup> Producers reported that generally, long-term contracts can be renegotiated and that they include meet-or-release provisions. One producer reported that both price and quantity are fixed, one reported that price is fixed, and one reported that neither is fixed for long-term contracts. \*\*\* reported that short-term contracts are \*\*\* in length, with \*\*\*, and \*\*\* reported that short-term contracts are \*\*\* in length, with \*\*\*.

---

<sup>11</sup> Petition, pp. 12-13.

<sup>12</sup> Conference transcript, p. 44 (Bush). Hickory Springs reported that since imports of innersprings have become a major factor in the U.S. market, the situation has changed.

<sup>13</sup> Conference transcript, p. 65 (Salyer). Leggett & Platt reported that it was unable to fully recover its increased raw material costs through the price increases. Conference transcript, p. 25 (Salyer). Importers, such as \*\*\* reported additional price increases instituted by Leggett & Platt in 2005.

<sup>14</sup> Conference transcript, pp. 44 and 66 (Bush).

<sup>15</sup> The other producer, \*\*\* reported that long-term contracts are \*\*\* in length and thus not considered "long-term" contracts by Commission definitions.

Importers reported that long-term contracts are generally 12 to 18 months in length, with renegotiations possible and meet-or-release provisions included. Only one importer reported that both price and quantity are fixed in short-term contracts; the other responding importers reported that neither is fixed. Importers also reported that short-term contracts are generally 3 to 6 months in length, with both price and quantity fixed and no meet-or-release provisions included. Importers were evenly split as to whether renegotiations were possible for short-term contracts.

\*\*\* reported that its discounts are based on quarterly or annual volumes and, as a percent of net sales, range from \*\*\* percent.<sup>16</sup> \*\*\* reported that discounts are part of the negotiation process, \*\*\* reported that it only gives discounts for cash on delivery, \*\*\* gives a discount for early payment, and \*\*\* reported that it recently instituted a volume discount of \*\*\* percent.<sup>17</sup>

Only four importers reporting giving discounts; \*\*\*, reported a 2 percent discount for early payment, and \*\*\* reported a 2 percent volume discount.

## PRICE DATA

The Commission requested U.S. producers and importers of innersprings to provide quarterly data for the total quantity and f.o.b. value of innersprings that were shipped to unrelated customers in the U.S. market.<sup>18</sup> Data were requested for the period January 2004 to September 2007. The products for which pricing data were requested are as follows:<sup>19</sup>

**Product 1.—Twin size: 206 to 226 coils, 6 gauge border rods, 13 gauge coil, 5" to 5.5" height, unit dimensions of 36.5" x 73",**

**Product 2.—Twin size: 230 to 250 coils, 6 gauge border rods, 13 gauge coil, 6.75" to 7.25" height, unit dimensions of 36.5" x 73",**

**Product 3.—Full size: 302 to 322 coils, 6 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 51.5" x 73",**

**Product 4.—Queen size: 380 to 400 coils, 6 gauge border rods, 13 gauge coil, 5" to 5.5" height, unit dimensions of 58.5" x 78",**

**Product 5.—Queen size: 406 to 426 coils, 6 gauge border rods, 13 gauge coil, 5.75" to 6.25" height, unit dimensions of 58.5" x 78", and**

---

<sup>16</sup> Importers reported that Leggett & Platt offers volume rebates and other incentives that are linked to the bundled purchase of innersprings and other bedding components. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 8 and exhibits 10 and 11. In addition, importers reported that Leggett & Platt also offers \*\*\*. Ad-Hoc Innersprings Importers' Coalition's postconference brief, pp. 9-11 and exhibit 9.

<sup>17</sup> In addition, \*\*\* reported that price pressures may lead to \*\*\* in order to maintain business, especially on \*\*\*.

<sup>18</sup> Several responding importers reported that they import innersprings for their own use in manufacturing mattresses and do not resell the imported innersprings, and thus they did not report any selling price data.

<sup>19</sup> According to the International Sleep Products Association (ISPA), in 2006, 36.5 percent of all innerspring mattresses shipped in the United States were queen size, 24.8 percent were twin size, 17.9 percent were full size, and 11.2 percent were king size. Twin XL, full XL, California king, and other sizes represented the remainder of total shipments. ISPA 2006 Mattress Industry, Industry Report of Sales and Trends, figure 8, p. 13.

**Product 6.–Queen size: 406 to 426 coils, 6 gauge border rods, 13 gauge coil, 6.75" to 7.25" height, unit dimensions of 58.5" x 78".**

Four U.S. producers provided usable pricing data for sales of the requested products,<sup>20</sup> and 14 importers from China,<sup>21</sup> one importer from South Africa,<sup>22</sup> and one importer from Vietnam<sup>23</sup> provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters. Pricing data for the six products reported by these firms, shown in tables V-1 to V-6 and figures V-3 to V-8, accounted for \*\*\* percent of U.S. producers' shipments of innersprings,<sup>24</sup> 39.9 percent of U.S. imports from China, \*\*\* percent of U.S. imports from South Africa, and \*\*\* percent of U.S. imports from Vietnam in 2006.<sup>25</sup>

---

<sup>20</sup> Usable data were reported by U.S. producers \*\*\*. \*\*\* reported \*\*\* for its sales of products \*\*\* and reported that the products it sold did not exactly match the price products but were competitive with those price products. \*\*\* did not report price data because it reported that its products did not match the price product descriptions. \*\*\* did not report price data because \*\*\*. \*\*\* reported price data for \*\*\* but did not report quantities and did not respond to staff attempts to collect the data.

<sup>21</sup> Useable price data for imports from China were reported by 14 importers. \*\*\* did not report data for their imports from China, although they were contacted by Commission staff on numerous occasions. \*\*\* reported price data for products 3 and 4 but reported that the imports were for \*\*\* and so did not exactly match the price product descriptions. \*\*\* reported annual data for 2005 and 2006.

<sup>22</sup> \*\*\*. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 35. In addition, \*\*\*, reported price data for products 2, 3, and 4, which are shown in tables V-2 through V-4, but reported that the imports were \*\*\* and so did not exactly match the price product descriptions. Importers reported that the data for \*\*\* should not be used because they are for sales of specifications that are significantly different than the price products. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 35.

<sup>23</sup> \*\*\*.

<sup>24</sup> According to the staff report from the 421 investigation in 2004, reported price data accounted for 9 percent of U.S. producers' shipments of innersprings in 2003. During the questionnaire development stage of this investigation, \*\*\*. Staff telephone interviews with \*\*\*. Respondents reported that the six price products do not cover a large share of the domestic industry's sales and that caution should be used in drawing conclusions from the reported price data. Conference transcript, pp. 142-143 (Mendoza) and pp. 143-144 (Cameron).

<sup>25</sup> The reported price data for imports of innersprings from Vietnam were \*\*\*.

**Table V-1**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 1, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Table V-2**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 2, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Table V-3**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 3, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Table V-4**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 4, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Table V-5**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 5, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Table V-6**

**Innersprings: Weighted-average f.o.b. selling prices and quantities as reported by U.S. producers and importers of product 6, and margins of underselling/(overselling), by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-3**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 1, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-4**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 2, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-5**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 3, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-6**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 4, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-7**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 5, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Figure V-8**

**Innersprings: Weighted-average f.o.b. selling prices per unit as reported by U.S. producers and importers of product 6, by quarters, January 2004-September 2007**

\* \* \* \* \*

**Price Trends**

As described earlier in this section of the report, U.S. producers reported that they were unable to pass along raw material cost increases to their customers during the period of investigation. With the exception of product 6, prices of U.S.-produced innersprings generally increased during 2004 before decreasing through 2005 and part of 2006. Prices of products 1, 2, and 4 then increased slightly in every quarter of 2007. With the exception of products 2 and 6, prices of imports from China were generally

lower in 2007 than they were in 2004. The prices of imports from South Africa for \*\*\* during the period of investigation.<sup>26</sup> The price data reported for imports from Vietnam were \*\*\*.

### Price Comparisons<sup>27</sup>

Product 1 is a twin-size unit with 206 to 226 coils and springs 5 to 5.5 inches in height. In the 15 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 14 quarters, with margins of underselling ranging from 3.3 to 29.4 percent (table V-1). Imports from Vietnam undersold the U.S. product in all 14 quarters where comparisons were possible.

Product 2 is a twin-size unit with 230 to 250 coils and springs 6.75 to 7.25 inches in height. In the 11 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in 8 quarters, with margins of underselling ranging from 2.4 to 29.2 percent (table V-2). In the three quarters where the price for the U.S. product was higher than the price for the product imported from China, the margins ranged from 3.0 to 6.5 percent. Imports from South Africa undersold U.S. product 2 in both quarters where comparisons were possible, and imports from Vietnam undersold the U.S. product in all 11 quarters where comparisons were possible.

Product 3 is a full-size unit with 302 to 322 coils and springs 5.75 to 6.25 inches in height. Imports from China undersold the U.S. product in all 14 quarters where comparisons were possible, with margins of underselling ranging from 9.3 to 44.9 percent (table V-3). Imports from South Africa undersold U.S. product 3 in all 4 quarters where comparisons were possible, and imports from Vietnam undersold the U.S. product in all 13 quarters where comparisons were possible.

Product 4 is a queen-size unit with 380 to 400 coils and springs 5 to 5.5 inches in height. Imports from China undersold the U.S. product in all 15 quarters where comparisons were possible, with margins of underselling ranging from 4.6 to 37.0 percent (table V-4). Imports from South Africa undersold U.S. product 4 in all 15 quarters where comparisons were possible, and imports from Vietnam undersold the U.S. product in all 13 quarters where comparisons were possible.

Product 5 is a queen-size unit with 406 to 426 coils and springs 5.75 to 6.25 inches in height. In the 15 quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in all 15 quarters, with margins of underselling ranging from 6.8 to 28.2 percent (table V-5). Imports from Vietnam undersold the U.S. product in all 13 quarters where comparisons were possible.

Product 6 is a queen-size unit with 406 to 426 coils and springs 6.75 to 7.25 inches in height. In the six quarters where comparisons were possible with sales of innersprings from China, the imported product undersold the U.S.-produced product in three quarters, with margins of underselling ranging from 5.1 to 12.3 percent (table V-6). In the three quarters where the price for the U.S. product was higher than the price for the product imported from China, the margins ranged from 0.7 to 12.2 percent.

---

<sup>26</sup> Importers reported that the data for \*\*\* should not be used because they are for sales of specifications that are significantly different than the price products. Ad-Hoc Innersprings Importers' Coalition's postconference brief, p. 35.

<sup>27</sup> Petitioner and the importers' coalition both conducted their own analyses of the price data that had been reported as of the submission of their postconference briefs. Additional price data have been reported and some have been revised since that time, and so the data and trends may have changed. Petitioner's postconference brief, pp. 19-20 and exhibit 17 and Ad-Hoc Innersprings Importers' Coalition's postconference brief, pp. 38-40 and exhibit 21.

## LOST SALES AND LOST REVENUES

The Commission requested that U.S. producers of innersprings report any instances of lost sales and lost revenues experienced due to competition from imports from China, South Africa, and/or Vietnam since January 1, 2004.<sup>28</sup> All of the lost sales and lost revenue allegations are presented in tables V-7 and V-8 and are discussed in more detail below. There were \*\*\* lost sales allegations<sup>29</sup> totaling over \$\*\*\* and \*\*\* lost revenue allegations totaling \$\*\*\*. Staff attempted to contact all of the listed purchasers to confirm or deny the allegations. Additional information, where relevant, is summarized in the individual responses below.

**Table V-7**  
**U.S. producers' lost sales allegations**

\*       \*       \*       \*       \*       \*       \*

**Table V-8**  
**U.S. producers' lost revenue allegations**

\*       \*       \*       \*       \*       \*       \*

\*\*\*<sup>30 31 32 33 34 35 36</sup>

Purchasers responding to lost sales and lost revenues allegations also were asked whether they shifted their purchases of innersprings from U.S. producers to suppliers of innersprings from China, South Africa, and/or Vietnam. In addition, they were asked whether U.S. producers reduced their prices in order to compete with suppliers of innersprings from China, South Africa, and/or Vietnam. Purchaser responses to these questions are shown in table V-9. All 16 responding purchasers reported that since January 1, 2004, they shifted purchases of innersprings from U.S. producers to subject imports; 12 of these purchasers reported that price was the reason for the shift, and 3 more purchasers reported that price was a factor in the shift but not the only factor. In addition, 10 of 14 purchasers reported that since January 1, 2004, U.S. producers reduced their prices in order to compete with the prices of subject imports.

---

<sup>28</sup> All of the lost sales and lost revenue allegations were made by \*\*\* and involved \*\*\*, \*\*\*, \*\*\*.

<sup>29</sup> Many of the lost sales allegations involved one quote with several different products included in the quote. For example, \*\*\*. In addition, \*\*\*.

<sup>30</sup> \*\*\*.

<sup>31</sup> \*\*\*. Staff telephone interview with \*\*\*.

<sup>32</sup> \*\*\*. Staff telephone interview with \*\*\*.

<sup>33</sup> \*\*\*. Staff telephone interview with \*\*\*.

<sup>34</sup> \*\*\*.

<sup>35</sup> \*\*\*.

<sup>36</sup> \*\*\*.

**Table V-9  
Innersprings: Purchaser responses**

Purchaser	Shift from U.S. to imports <sup>1</sup>	Imports from country	Was price the reason <sup>2</sup>	If not, list reasons <sup>3</sup>	Did U.S. producers reduce price to compete with imports <sup>4</sup>	Comments
***	Yes	***	Yes	n/a	No	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	( <sup>5</sup> )	Yes	n/a	Yes	***
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	***	No	n/a
***	Yes	( <sup>5</sup> )	Yes/No	***	Yes	***
***	Yes	***	Yes/No	*** <sup>6</sup>	( <sup>5</sup> )	n/a
***	Yes	***	Yes	***	Yes	***
***	Yes	***	Yes	n/a	( <sup>5</sup> )	***
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	Yes	n/a
***	Yes	***	Yes	n/a	No	n/a
***	Yes <sup>7</sup>	***	Yes/No	***	Yes	***
***	Yes	***	No	***	No	n/a

<sup>1</sup> Since January 1, 2004, did your firm switch purchases of innersprings from U.S. producers to suppliers of innersprings imported from China, South Africa, and/or Vietnam?  
<sup>2</sup> If yes, was price the reason for the shift?  
<sup>3</sup> If price was not the reason for the shift, please list the reason(s) for the shift.  
<sup>4</sup> Since January 1, 2004, did U.S. producers reduce their prices of innersprings in order to compete with prices of innersprings imported from China, South Africa and/or Vietnam?  
<sup>5</sup> Did not respond.  
<sup>6</sup> Staff telephone interview with \*\*\*.  
<sup>7</sup> \*\*\*.

Source: Compiled from data submitted in response to Commission questionnaires.



## PART VI: FINANCIAL EXPERIENCE OF THE U.S. PRODUCERS

### BACKGROUND

The financial results presented in this section of the report represent two U.S. producers, Hickory Springs and Leggett & Platt. Hickory Springs reported on a fiscal year basis ending September and Leggett & Platt reported on a calendar-year basis.<sup>1</sup> Both companies reported their financial results using U.S. generally accepted accounting principles (“GAAP”). Although the U.S. innersprings industry includes other U.S. innersprings producers, as discussed in the trade section of this report, only the above-referenced producers provided usable financial results and are therefore presented in this section of the report.<sup>2</sup>

As noted previously, U.S. innersprings producers are divided into two categories: merchant market producers who primarily produce innersprings for sale to downstream mattress producers and maker/users who produce and internally consume the majority of their innersprings production. While Hickory Springs and Leggett & Platt each reported a small volume of internal consumption, the majority of their overall innersprings revenue represents commercial sales. Accordingly, they would generally be characterized as merchant market producers.<sup>3</sup>

Hickory Springs and Leggett & Platt purchase \*\*\*. Pursuant to the Commission’s standard methodology with respect to cost of goods sold (COGS), U.S. producers were instructed to remove profit on related inputs. Leggett & Platt confirmed that \*\*\* was eliminated from COGS.<sup>4</sup> According to Hickory Springs, \*\*\*.<sup>5</sup>

### OPERATIONS ON INNERSPRINGS

Income-and-loss data for operations on innersprings are presented in table VI-1 and on an average unit basis in table VI-2. Table VI-3 presents selected company-specific financial information. As noted below, overall innersprings product mix changed somewhat during the period. Accordingly, a variance analysis of the innersprings financial results is not presented.

Overall sales volume declined during the period with both Hickory Springs and Leggett & Platt following a similar trend. According to narrative information accompanying Leggett & Platt’s SEC filings, declines in volume were attributable in part to a weaker bedding market at the end of the period.<sup>6</sup>

---

<sup>1</sup> Hickory Springs’ most recent fiscal year ended in September 2007. In order to be more consistent with the 2004 through 2006 calendar-year periods reported by Leggett & Platt, Hickory Springs’ FY 2004, FY 2005, and FY 2006 are presented in the financial results.

<sup>2</sup> \*\*\*. Auditor preliminary phase phone and general notes. \*\*\*.

<sup>3</sup> \*\*\*.

<sup>4</sup> Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008.

<sup>5</sup> Letter from Weil, Gotshal & Manges LLP on behalf of Hickory Springs, January 24, 2008. \*\*\*. Auditor preliminary phase phone and general notes.

<sup>6</sup> “Despite generally favorable economic conditions in recent years, demand in some of our markets has been weak. In 2006, a decrease in bedding market demand led to lower volume in our businesses serving that industry.” Leggett & Platt 2006 10-K, p. 26. “In the third quarter of 2007, continued demand weakness in the U.S. home-related, retail and aluminum markets that we serve, led to lower volume in certain of our businesses . . . Several factors are impacting our U.S. markets. Higher energy costs have lessened disposable income, leading to more conservative consumer spending. In addition, a slump in the U.S. housing market and increased competition from other types of consumer goods (such as electronics) have led to lower demand for our products.” Leggett & Platt 2007 3rd quarter 10-Q, p. 18.

**Table VI-1  
Innersprings: Results of U.S. producers' operations, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table VI-2  
Innersprings: Results of U.S. producers' operations (*per unit*), 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table VI-3  
Innersprings: Results of U.S. producers' operations by firm, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

While the volume and corresponding sales of maker/users are not presented here, public information suggests that the trend in their sales volume was somewhat different in the latter part of the period compared to that of the merchant market producers. For example, while acknowledging a weaker bedding market at the end of the period, Sealy's 2007 3<sup>rd</sup> quarter 10-Q indicates that its sales volume increased in interim 2007 compared to interim 2006.<sup>7</sup> In 2006 compared to 2005, Sealy's domestic sales volume decreased marginally.<sup>8</sup> In contrast, Simmons' SEC filings indicate that its domestic volume increased in both 2006 and interim 2007.<sup>9</sup>

---

<sup>7</sup> In its 2007 3<sup>rd</sup> quarter 10-Q, Sealy stated that “[i]n response to the softness of the U.S. bedding industry, our focus has been on driving unit volume. The U.S. net sales increase of \$30.5 million was attributable to a 7.6% increase in unit volume partially offset by a 4.0% decrease in average unit selling price. The increase in unit volume is primarily attributable to the strong performance of our Sealy brand promotional product sales, which were up 23% from the prior year period, as well as our specialty bedding product sales, which increased 70% over the comparable prior year period.” Sealy 2007 3rd quarter 10-Q, p. 34.

<sup>8</sup> Sealy 2006 10-K, p. 32.

<sup>9</sup> With respect to end product bedding sales, Simmons stated in its 2006 10-K that “[d]uring fiscal year 2006 (52-weeks), our U.S. wholesale conventional bedding net sales increased \$111.9 million, or 14.2%, compared to fiscal year 2005 (53-weeks). We believe our sales growth exceeded the industry growth rate for the year since ISPA's survey of the 19 leading U.S. mattress producers (representing approximately 61.0% of the industry wholesale dollar sales in 2005) reported sales growth of 5.3% in 2006. We attribute our growth to the success of our sales force reorganization in December 2005 which improved the effectiveness of our sales efforts combined with the product modifications made to our 2005 product line following the unsuccessful initial rollout of the products in the first quarter of 2005.” Simmons 2006 10-k, p.21. Similarly, Simmons reported in its 2007 3rd quarter 10-Q that domestic conventional bedding unit volume increased 11.9 percent compared to interim 2006. Simmons 2007 3rd quarter 10-Q, p. 28.

As shown in table VI-3, the level and pattern of change in company-specific average sales values were similar from 2005 on. Despite announced price increases of varying effect,<sup>10</sup> Leggett & Platt's average sales value declined consistently throughout the period. According to the company's SEC filings, this pattern was, at least in part, due to a shift in product mix toward lower cost/lower value innersprings which was in turn related directly and indirectly to higher steel costs.<sup>11 12</sup> Similarly, while stating that \*\*\*,<sup>13</sup> While not included in the overall financial results, maker/user Sealy appears to have followed a similar pattern in terms of product mix; e.g., according to Sealy's 2007 3rd quarter 10-Q, "{t}he decrease in average unit selling price {in interim 2007 compared to interim 2006} is primarily due to the higher volume of lower priced mattresses, such as our promotional products."<sup>14</sup>

Table VI-3 shows that the above-referenced general shifts in product mix were accompanied by a consistent erosion in gross profitability. As alternating changes in average COGS negatively offset corresponding changes in average unit sales value, the COGS to sales ratio of both Hickory Springs and Leggett & Platt moved upward and in turn reduced gross profit margins.<sup>15</sup>

Notwithstanding the high level of automation reflected in innersprings production,<sup>16</sup> capacity utilization appears to have a limited role in explaining changes in overall COGS. As shown in table III-2 in the trade section of this report, the industry's overall capacity utilization increased marginally in 2006. This increase corresponds with an Leggett & Platt restructuring program, initiated in the latter part of 2005, which resulted in the closure of three Leggett & Platt innersprings manufacturing facilities located, respectively, in \*\*\*.<sup>17 18</sup> Despite the resulting \*\*\*, e.g., higher capacity utilization generally improves

---

<sup>10</sup> Conference transcript (Salyer), pp. 23-24.

<sup>11</sup> According to Leggett & Platt, "{i}n 2005, higher raw material costs led some of our customers to modify their product designs, changing the quantity and mix of our components in their finished goods. This trend continued in 2006 and into the third quarter of 2007. In some cases, higher cost components were replaced with lower cost components. This has primarily impacted our Residential Furnishings and Industrial Materials product mix and decreased profit margins. This trend could further negatively impact our results of operations." Leggett & Platt 2007 3rd quarter 10-Q, p. 32.

In response to a staff question regarding how the above-referenced trend specifically impacted innersprings operations, Leggett & Platt stated that it has \*\*\*. Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008.

<sup>12</sup> In its 2007 3<sup>rd</sup> quarter 10-Q, Leggett & Platt states that "{i}n recent years, we experienced increased price competition in the U.S. from Chinese bedding component manufacturers. This primarily occurred with lower-end commodity products in geographic markets easily served by major ocean ports. We reacted to this competition in 2006 by selectively adjusting prices, and also by developing new proprietary products that help reduce our customers' total costs." Leggett & Platt 2007 3rd quarter 10-Q, p. 19. At the staff conference, an Leggett & Platt company official also referenced this trend. Conference transcript, p. 24 (Salyer).

<sup>13</sup> \*\*\*. Letter from Weil, Gotshal & Manges LLP on behalf of Hickory Springs, January 22, 2008.

<sup>14</sup> Sealy 2007 3rd quarter 10-Q, p. 34.

<sup>15</sup> \*\*\*.

<sup>16</sup> Conference transcript (Enoch), pp. 133-134.

<sup>17</sup> Leggett & Platt response to question III-11 of U.S. producer questionnaire. Leggett & Platt operated nine innersprings manufacturing plants in 2004. At the end of the period and after the above-referenced restructuring, Leggett & Platt operated six innersprings manufacturing plants. Conference transcript (Davis), pp. 15-16.

<sup>18</sup> The Leggett & Platt restructuring program included operations beyond innersprings. According to Leggett & Platt's 2006 10-K, "{i}n September 2005, the Company announced a significant broad-based restructuring project (Restructuring Plan) to reduce excess capacity and improve performance in a number of our businesses. Our Restructuring Plan resulted in the consolidation, closure or sale of 36 underutilized or underperforming facilities—16 of which were in the Residential Furnishings segment." Leggett & Platt 2006 10-K, p. 4.

(continued...)

fixed cost absorption which, all things being equal, lowers average other factory costs because that cost category, in addition to variable manufacturing overhead, generally reflects fixed manufacturing costs. In response to a question regarding the apparent inconsistency of this pattern, Leggett & Platt stated that \*\*\*.<sup>19</sup>

In addition to the absence of a stronger correlation between capacity utilization and average COGS, Leggett & Platt asserts that the high proportion of variable costs reflected in innersprings COGS also generally explains the industry's decision not to lower prices in order to maintain volume.<sup>20</sup> As noted above, higher steel prices directly and indirectly affected product mix during the period.<sup>21 22</sup>

Given the relatively stable level of selling, general and administrative (SG&A) expenses throughout the period, declines in overall operating income can be attributed primarily to reductions in gross profitability. As shown in table VI-1 and table VI-3, while the ratio of SG&A expenses as a

---

<sup>18</sup> (...continued)

\*\*\*

In 2006, Leggett & Platt announced a second restructuring termed the "new strategic plan." According to SEC filings, Leggett & Platt ". . . will manage its business units as a portfolio with different roles (Grow, Core, Fix or Divest) for each business unit based upon competitive advantages, strategic position and financial health. The Company is implementing a much more rigorous strategic planning process, in part to continually assess each business unit's role in the portfolio. After significant study, the Company intends to eliminate approximately \$1.2 billion of its revenue base. This includes the anticipated divestiture of some operations, the pruning of some business and the closure of certain underperforming plants ("Exit Activities)." Leggett & Platt November 14, 2007 8-K, p. 2.

In response to a follow-up question regarding the prospective impact of this second restructuring plan on Leggett & Platt's innersprings operations, the company stated that \*\*\*. Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008.

<sup>19</sup> Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008. As shown in table VI-2, variable costs such as raw material and direct labor represent the majority of innersprings average COGS. Since other factory costs also include variable items such as energy, it is reasonable to conclude that the share of total variable costs to overall COGS is higher than the above-referenced share reflected by raw material and direct labor alone.

<sup>20</sup> In conjunction with the high proportion of variable costs, an Leggett & Platt company official stated at the staff conference that ". . . when our customers are offered absurdly low prices for imports, it simply makes no sense for us to try to compete for that business. We simply lose that business, as you can see in the sales information provided in our response. That is why the erosion in our operating margins is not even greater." Conference transcript (Salyer), p. 26.

<sup>21</sup> At the staff conference, company officials stated that raw material costs, notably steel, increased in 2004 and have remained at elevated levels. Conference transcript, pp. 24-25 (Salyer) and p. 43 (Bush).

<sup>22</sup> In public SEC filings and with respect to overall operations, Leggett & Platt stated that "{i}n 2004, increased steel prices added more than \$200 million to Leggett's costs over 2003, and we implemented steel-related price increases for many of our products. During 2005 and 2006, steel prices dropped slightly then stabilized." Leggett & Platt 2006 10-K, p. 13. The somewhat different pattern of change in Leggett & Platt's average raw material cost shown in table VI-3 appears to be attributable to differences in segment inventory valuation compared to consolidated inventory valuation. According to Leggett & Platt's 2006 10-K, "{a}ll of our segments use the first-in, first-out (FIFO) method for valuing inventory. In 2004, segment margins generally benefitted under the FIFO method from the effect of rising commodity costs. In 2005, declining steel costs caused margins (mainly in {the} Residential and Industrial {segments}) to decrease under this same method." Leggett & Platt 2006 10-K, p. 35.

percentage of sales, on an overall and company-specific basis, increased marginally throughout the period, it remained within a relatively narrow range.<sup>23</sup>

**CAPITAL EXPENDITURES, RESEARCH AND DEVELOPMENT EXPENSES,  
ASSETS, AND RETURN ON INVESTMENT**

Data on capital expenditures, research and development (“R&D”) expenses, assets, and return on investment are presented in table VI-4.

**Table VI-4  
Innersprings: Capital expenditures, R&D expenses, assets, and return on investment, by firms, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

Overall capital expenditures were consistently lower compared to corresponding depreciation expense (see bottom of table VI-1). As shown in table VI-4, the pattern of company-specific capital expenditures was somewhat different. Hickory Springs’ largest capital expenditure occurred in \*\*\*.<sup>24</sup> While Leggett & Platt’s capital expenditures also \*\*\*.<sup>25</sup> As shown in table VI-4, Leggett & Platt was \*\*\* R&D expenses.<sup>26</sup>

**CAPITAL AND INVESTMENT**

The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of innersprings from China, South Africa, and Vietnam on their firms’ growth, investment, ability to raise capital, existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments. As indicated previously and with respect to the companies identified below, only Hickory Springs and Leggett & Platt reported usable financial results to the Commission.

---

<sup>23</sup> \*\*\*. Narrative statement accompanying table III-11 of Sealy U.S. producer questionnaire response. In contrast, Leggett & Platt’s innersprings level of trade \*\*\*. Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008. Under these circumstance it appears reasonable to expect company-specific differences in SG&A burden.

<sup>24</sup> Auditor preliminary phase general and phone notes.

<sup>25</sup> Letter from White & Case LLP on behalf of Leggett & Platt, January 24, 2008.

<sup>26</sup> With respect to the previously noted shift to a lower-cost/price product mix, an Leggett & Platt company official stated at the 2006 Leggett & Platt Investor Day that “{w}hat we’ve done to respond to the trends that we’ve seen in the last couple of years is we have to develop new components, new products, to bring value back in the volume parts of the business . . . we brought on, and part of our big start of that, is to get hiring of our engineering and technology people to develop new products.” The company official went on to describe two examples of innerspring products (XT Bonnell and Verti-coil) developed by Leggett & Platt to achieve this goal. 2006 Leggett & Platt Investor Day Final Transcript, pp. 16-17.

**Actual Negative Effects**

\* \* \* \* \*

**Anticipated Negative Effects**

\* \* \* \* \*

## **PART VII: THREAT CONSIDERATIONS AND *BRATSK* INFORMATION**

The Commission analyzes a number of factors in making threat determinations (see 19 U.S.C. § 1677(7)(F)(i)). Information on the volume and pricing of imports of the subject merchandise is presented in Parts IV and V; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission in relation to *Bratsk* rulings.

### **THE INDUSTRY IN CHINA**

The petition listed 24 Chinese firms (4 owned by Leggett & Platt) believed to be producing uncovered innerspring units. Foreign producer/exporter questionnaires were sent to the firms via fax and/or e-mail. Eight firms<sup>1</sup> plus the four Leggett & Platt<sup>2</sup> firms provided useable responses and that data are presented in table VII-1. The exports to the United States of these firms were equivalent to 60.0 percent of uncovered innerspring units U.S. imports from China in 2006 reported in \*\*\*. China's share of commercial shipments going to the home market dropped from 43.2 percent in 2004 to 19.4 percent in 2006; while the share of shipments (internal consumption) grew from zero in 2004 to 19.1 percent in 2006. Over the same period, the share of Chinese shipments going to the United States dropped from 42.0 to 31.2 percent while the share of shipments going to all other export markets rose from 14.8 to 30.3 percent. From 2004 to 2006, in absolute terms, shipments to the United States and other export markets grew by 160.2 and 620.0 percent, respectively. Third country markets included Africa, Australia, Canada, Europe, Indonesia, Japan, Korea New Zealand, and Thailand.

---

<sup>1</sup> The firms are: Baoding Yong'an Furniture Material Co., Ltd.; Foshan Jingxin Steel Wire & Spring Co., Ltd.; Hostwell Development Co., Ltd.; Nanjing Dongdai Furniture Co., Ltd.; Wuxi Xihuisheng Trading Co., Ltd.; Xilinmen Group Co. Ltd.; Zhaoyuan Soft Furniture Co.; and, Zouping Shunhe Furniture Co., Ltd.

In its questionnaire, \*\*\*. In its questionnaire, \*\*\*. In its questionnaire, \*\*\*.

<sup>2</sup> \*\*\*.

**Table VII-1**  
**Uncovered innerspring units: China's production capacity, production, shipments, and inventories, 2004-06, January-September 2006, January-September 2007, and projected 2007-08**

Item	Actual experience					Projections	
	2004	2005	2006	January-September		2007	2008
				2006	2007		
<b>Quantity (1,000 units)</b>							
Capacity	1,085	2,816	3,482	2,571	2,920	3,896	4,149
Production	945	2,594	3,306	2,410	2,704	3,407	3,760
End of period inventories	59	63	53	52	50	50	38
Shipments:							
Internal consumption	0	391	635	460	517	706	739
Home market	410	515	647	494	635	810	946
Exports to--							
The United States	399	923	1,038	772	788	953	942
All other markets	140	762	1,008	703	778	956	1,173
Total exports	539	1,685	2,046	1,475	1,566	1,909	2,115
Total shipments	949	2,591	3,328	2,429	2,718	3,425	3,800
<b>Ratios and shares (percent)</b>							
Capacity utilization	87.1	92.1	94.9	93.7	92.6	87.4	90.6
Inventories to production	6.2	2.4	1.6	1.6	1.4	1.5	1.0
Inventories to total shipments	6.2	2.4	1.6	1.6	1.4	1.5	1.0
Share of total quantity of shipments:							
Internal consumption	0.0	15.1	19.1	18.9	19.0	20.6	19.4
Home market	43.2	19.9	19.4	20.3	23.4	23.6	24.9
Exports to--							
The United States	42.0	35.6	31.2	31.8	29.0	27.8	24.8
All other markets	14.8	29.4	30.3	28.9	28.6	27.9	30.9
All export markets	56.8	65.0	61.5	60.7	57.6	55.7	55.7
Note.--Because of rounding, figures may not add to the totals shown.							
Source: Compiled from data submitted in response to Commission questionnaires.							

## THE INDUSTRY IN SOUTH AFRICA

The petition listed four South African firms believed to be producing uncovered innerspring units. Two of the firms (\*\*\*) provided useable responses and these data are presented in table VII-2. The exports to the United States of these firms were equivalent to 92.8 percent of uncovered innerspring units U.S. imports from South Africa in 2006 reported in importer questionnaires. In the aggregate, South Africa's share of shipments to the home market increased irregularly from \*\*\* percent in 2004 to \*\*\* percent in 2006, while its shipment share to the United States dropped irregularly from \*\*\* percent in 2004 to \*\*\* percent in 2006. \*\*\*<sup>3</sup> <sup>4</sup>.

**Table VII-2**

**Uncovered innerspring units: South Africa's production capacity, production, shipments, and inventories, 2004-06, January-September 2006, January-September 2007, and projected 2007-08**

\* \* \* \* \*

## THE INDUSTRY IN VIETNAM

The petition listed eight Vietnamese firms believed to be producing uncovered innerspring units. Only one firm, \*\*\*, provided a useable response and these data are presented in table VII-3.<sup>5</sup> The exports to the United States of that firm were equivalent to \*\*\* percent of uncovered innerspring units U.S. imports from Vietnam in 2006 reported in importer questionnaires. \*\*\*.

**Table VII-3**

**Uncovered innerspring units: Vietnam's production capacity, production, shipments, and inventories, 2004-06, January-September 2006, January-September 2007, and projected 2007-08**

\* \* \* \* \*

## U.S. IMPORTERS' INVENTORIES

Inventories of uncovered innerspring units as reported by U.S. importers are presented in table VII-4.

**Table VII-4**

**Uncovered innerspring units: U.S. importers' end-of-period inventories of imports, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

---

<sup>3</sup> In its questionnaire response, \*\*\*

<sup>4</sup> In its questionnaire response, \*\*\*

<sup>5</sup> One other firm, \*\*\*, responded that it did not produce or export uncovered innerspring units.

## IMPORTS SUBSEQUENT TO SEPTEMBER 30, 2007

Importer questionnaire respondents reported there were more than \*\*\* of Chinese, South African, and Vietnamese uncovered innerspring units, respectively, scheduled for delivery after September 30, 2007.

## ANTIDUMPING DUTY ORDERS IN THIRD-COUNTRY MARKETS

None of the parties to these investigations is aware of any dumping findings or antidumping remedies imposed on uncovered innerspring units in third-country markets.

## INFORMATION ON NONSUBJECT SOURCES

### “Bratsk” Considerations

As a result of the Court of Appeals for the Federal Circuit (“CAFC”) decision in *Bratsk Aluminum Smelter v. United States* (“Bratsk”), the Commission is directed to:

*undertake an “additional causation inquiry” whenever certain triggering factors are met: “whenever the antidumping investigation is centered on a commodity product, and price competitive non-subject imports are a significant factor in the market.” The additional inquiry required by the Court, which we refer to as the Bratsk replacement / benefit test, is “whether non-subject imports would have replaced the subject imports without any beneficial effect on domestic producers.”*<sup>6</sup>

With respect to nonsubject imports, petitioner noted that subject imports account for over 99 percent of imports and, consequently, “imports from nonsubject countries are immaterial.”<sup>7</sup> In its postconference submission, counsel for U.S. producer, Hickory, stated “because nonsubject imports are not a factor in the U.S. innersprings market, *Bratsk* issues are not implicated.”<sup>8</sup> Counsel for the Ad Hoc Innersprings Importers’ Coalition offer the following concerning *Bratsk*:

“For purposes of this preliminary determination, we are not arguing that there is sufficient information in the record to support a finding that *Bratsk* replacement/benefits test criteria are satisfied in this case. For the reasons set forth in *infra* in the post-hearing brief, we believe that there are adequate grounds for reaching a negative preliminary determination without reaching the *Bratsk* issue.”<sup>9</sup>

---

<sup>6</sup> *Silicon Metal from Russia, Inv. No. 731-TA-991 (Second Remand)*, USITC Publication 3910, March 2007, p. 2; citing *Bratsk Aluminum Smelter v. United States*, 444 F.3d at 1375.

<sup>7</sup> Petition, p. 32.

<sup>8</sup> Hickory postconference brief, p. 7, fn. 8. See also, conference transcript, p. 55 and \*\*\*.

<sup>9</sup> Ad Hoc Innersprings Importers’ Coalition’s postconference brief, app. A, p. 6.

**APPENDIX A**

***FEDERAL REGISTER* NOTICES**



phase antidumping duty investigations Nos. 731-TA-1140-1142 (Preliminary) under section 733(a) (19 U.S.C. 1673b(a)) to determine whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from China, South Africa, and Vietnam of uncovered innerspring units provided for in statistical reporting number statistical reporting number 9404.29.9010 of the Harmonized Tariff Schedule of the United States, that are alleged to be sold in the United States at less than fair value. Unless the Department of Commerce extends the time for initiation pursuant to section 732(c)(1)(B) of the Act (19 U.S.C. 1673a(c)(1)(B)), the Commission must reach preliminary determinations in antidumping duty investigations in 45 days, or in this case by February 14, 2008. The Commission's views are due at Commerce within five business days thereafter, or by February 22, 2008.

For further information concerning the conduct of these investigations and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and B (19 CFR part 207).

**EFFECTIVE DATE:** December 31, 2007.

**FOR FURTHER INFORMATION CONTACT:** Jim McClure (202-205-3191), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

**SUPPLEMENTARY INFORMATION:**

*Background.*—These investigations are being instituted in response to a petition filed on December 31, 2007, by Leggett & Platt Inc., Carthage, MO.

*Participation in the investigations and public service list.*—Persons (other than petitioners) wishing to participate in the investigations as parties must file an entry of appearance with the Secretary to the Commission, as provided in sections 201.11 and 207.10 of the

**INTERNATIONAL TRADE  
COMMISSION**

[Investigation Nos. 731-TA-1140-1142  
(Preliminary)]

**Uncovered Innerspring Units From  
China, South Africa, and Vietnam**

**AGENCY:** United States International  
Trade Commission.

**ACTION:** Institution of antidumping duty  
investigations and scheduling of  
preliminary phase investigations.

**SUMMARY:** The Commission hereby gives  
notice of the institution of investigations  
and commencement of preliminary

Commission's rules, not later than seven days after publication of this notice in the **Federal Register**. Industrial users and (if the merchandise under investigation is sold at the retail level) representative consumer organizations have the right to appear as parties in Commission antidumping duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to these investigations upon the expiration of the period for filing entries of appearance.

*Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list.*—Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in these investigations available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigations under the APO issued in the investigations, provided that the application is made not later than seven days after the publication of this notice in the **Federal Register**. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

*Conference.*—The Commission's Director of Operations has scheduled a conference in connection with these investigations for 9:30 a.m. on January 22, 2008, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Jim McClure (202-205-3191) not later than January 18, 2007, to arrange for their appearance. Parties in support of the imposition of antidumping duties in these investigations and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

*Written submissions.*—As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before January 25, 2008, a written brief containing information and arguments pertinent to the subject matter of the investigations. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the

requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 Fed. Reg. 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II(C) of the Commission's Handbook on Electronic Filing Procedures, 67 Fed. Reg. 68168, 68173 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

**Authority:** These investigations are being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

By order of the Commission.

Issued: January 2, 2008.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. E8-7 Filed 1-4-08; 8:45 am]

**BILLING CODE 7020-02-P**

**DEPARTMENT OF COMMERCE****International Trade Administration****[A-570-928, A-791-821, A-552-803]****Uncovered Innerspring Units From the People's Republic of China, South Africa, and the Socialist Republic of Vietnam: Initiation of Antidumping Duty Investigations****AGENCY:** Import Administration, International Trade Administration, Department of Commerce.**EFFECTIVE DATE:** January 28, 2008.**FOR FURTHER INFORMATION CONTACT:** Erin Begnal at (202) 482-1442 or Scot Fullerton at (202) 482-1386 (People's Republic of China), AD/CVD Operations, Office 9; Dmitry Vladimirov at (202) 482-0665 or Minoo Hatten at (202) 482-1690 (South Africa), AD/CVD Operations, Office 5; Eugene Degnan at (202) 482-0414 or Robert Bolling at (202) 482-3434 (Socialist Republic of Vietnam), AD/CVD Operations, Office 8, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230.**SUPPLEMENTARY INFORMATION:****The Petitions**

On December 31, 2007, the Department of Commerce (the Department) received petitions concerning imports of uncovered innerspring units from the People's Republic of China (the PRC), South Africa, and the Socialist Republic of Vietnam (Vietnam) (collectively, the Petitions) filed in proper form by Leggett and Platt, Incorporated (the petitioner). See Petitions on Uncovered Innerspring Units from China, South Africa, and Vietnam (December 31, 2007). On January 7, 2008, the Department issued a request for additional information and clarification of certain areas in the Petitions. Based on the Department's requests, the petitioner filed additional information on January 11, 2008 (four distinct submissions on general issues, PRC-specific material (PRC Supplement to the Petition), Vietnam-specific material (Vietnam Supplement to the Petition), and South Africa-specific material (South Africa Supplement to the Petition)), and on January 16, 2008 (two distinct submissions on PRC-specific material (PRC Second Supplement to the Petition) and Vietnam-specific material (Vietnam Second Supplement to the Petition)).

In accordance with section 732(b) of the Tariff Act of 1930, as amended (the

Act), the petitioner alleges that imports of uncovered innerspring units from the PRC, South Africa, and Vietnam are being, or are likely to be, sold in the United States at less than fair value, within the meaning of section 731 of the Act, and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that the petitioner filed these Petitions on behalf of the domestic industry because the petitioner is an interested party as defined in section 771(9)(C) of the Act and has demonstrated sufficient industry support with respect to the initiation of the antidumping duty investigations that the petitioner is requesting. See the "Determination of Industry Support for the Petitions" section below.

**Period of Investigation**

Because the Petitions were filed on December 31, 2007, the anticipated period of investigation (POI) for the PRC and Vietnam is April 1, 2007, through September 30, 2007. The anticipated POI for South Africa is October 1, 2006, through September 30, 2007. See 19 CFR 351.204(b)(1).

**Scope of Investigations**

The merchandise covered by each of these investigations is uncovered innerspring units composed of a series of individual metal springs joined together in sizes corresponding to the sizes of adult mattresses (e.g., twin, twin long, full, full long, queen, California king, and king) and units used in smaller constructions, such as crib and youth mattresses. All uncovered innerspring units are included in this scope regardless of width and length. Included within this definition are innersprings typically ranging from 30.5 inches to 76 inches in width and 68 inches to 84 inches in length. Innersprings for crib mattresses typically range from 25 inches to 27 inches in width and 50 inches to 52 inches in length.

Uncovered innerspring units are suitable for use as the innerspring component in the manufacture of innerspring mattresses, including mattresses that incorporate a foam encasement around the innerspring.

Pocketed and non-pocketed innerspring units are included in this definition. Non-pocketed innersprings are typically joined together with helical wire and border rods. Non-pocketed innersprings are included in this definition regardless of whether they have border rods attached to the perimeter of the innerspring. Pocketed

innersprings are individual coils covered by a “pocket” or “sock” of a nonwoven synthetic material or woven material and then glued together in a linear fashion.

Uncovered innersprings are classified under subheading 9404.29.9010 and have also been classified under subheadings 9404.10.0000, 7326.20.00.70, 7320.20.5010, or 7320.90.5010 of the Harmonized Tariff Schedule of the United States (HTSUS). The HTSUS subheadings are provided for convenience and customs purposes only; the written description of the scope of these investigations is dispositive.

#### Comments on Scope of Investigations

During our review of the Petitions, we discussed the scope with the petitioner to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the regulations (*Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department encourages all interested parties to submit such comments within 20 calendar days of signature of this notice. Comments should be addressed to Import Administration's Central Records Unit (CRU), Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determinations.

#### Comments on Product Characteristics for Antidumping Duty Questionnaires

We are requesting comments from interested parties regarding the appropriate physical characteristics of uncovered innerspring units to be reported in response to our antidumping duty questionnaires. This information will be used to identify the key physical characteristics of the subject merchandise in order for the respondents to report the relevant factors and costs of production accurately, as well as to develop appropriate product-comparison criteria.

Interested parties may provide any information or comments that they feel are relevant to the development of an accurate list of physical characteristics. Specifically, they may provide comments as to which characteristics are appropriate to use as the general

product characteristics and the product-comparison criteria. It is not always appropriate to use all product characteristics as product-comparison criteria. We base product-comparison criteria on meaningful commercial differences among products. In other words, while there may be some physical product characteristics which manufacturers use to describe uncovered innerspring units, it may be that only select few product characteristics take into account commercially meaningful physical characteristics. In addition, interested parties may comment on the order in which the physical characteristics should be used in matching products. The Department attempts to rank the most important physical characteristics first and the least important characteristics last.

In order to consider the suggestions of interested parties in developing and issuing the antidumping duty questionnaires, we must receive comments at the above-referenced address by February 11, 2008. Additionally, rebuttal comments must be received by February 21, 2008.

#### Determination of Industry Support for the Petitions

Section 732(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 732(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for (i) at least 25 percent of the total production of the domestic like product and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 732(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall (i) poll the industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A), or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the “industry” as the producers as a whole of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The International Trade Commission (ITC), which is responsible for determining whether

“the domestic industry” has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department's determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. See *USEC, Inc. v. United States*, 132 F. Supp. 2d 1, 8 (CIT 2001), citing *Algoma Steel Corp. Ltd. v. United States*, 688 F. Supp. 639, 644 (1988), aff'd 865 F.2d 240 (CAFC 1989), cert. denied 492 U.S. 919 (1989).

Section 771(10) of the Act defines the domestic like product as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this subtitle.” Thus, the reference point from which the analysis of the domestic like product begins is “the article subject to an investigation” (*i.e.*, the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition).

With regard to the domestic like product, the petitioner does not offer a definition of domestic like product distinct from the scope of the investigation. Based on our analysis of the information submitted on the record, we have determined that uncovered innerspring units constitute a single domestic like product and we have analyzed industry support in terms of that domestic like product. For a discussion of the domestic-like-product analysis in this case, see the following documents, on file in the Central Records Unit, Room 1117 of the main Department of Commerce building: Antidumping Investigation Initiation Checklist: Uncovered Innerspring Units from the People's Republic of China (PRC Initiation Checklist), Industry Support at Attachment II; the Antidumping Investigation Initiation Checklist: Uncovered Innerspring Units from South Africa (South Africa Initiation Checklist), Industry Support at Attachment II; and the Antidumping Investigation Initiation Checklist: Uncovered Innerspring Units from the Socialist Republic of Vietnam (Vietnam Initiation Checklist), Industry Support at Attachment II.

The Department's review of the data provided in the Petitions, supplemental submissions, and other information

readily available to the Department indicates that the petitioner has established industry support. First, the Petitions established support from domestic producers (or workers) accounting for more than 50 percent of the total production of the domestic like product and, as such, the Department is not required to take further action in order to evaluate industry support. See, e.g., section 732(c)(4)(D) of the Act. Second, the domestic producers have met the statutory criteria for industry support under section 732(c)(4)(A)(i) of the Act because the domestic producers (or workers) who support the Petitions account for at least 25 percent of the total production of the domestic like product. Finally, the domestic producers have met the statutory criteria for industry support under section 732(c)(4)(A)(ii) of the Act because the domestic producers (or workers) who support the Petitions account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the Petitions. Accordingly, the Department determines that the Petitions were filed on behalf of the domestic industry within the meaning of section 732(b)(1) of the Act. See PRC Initiation Checklist at Attachment II (Industry Support), South Africa Initiation Checklist at Attachment II (Industry Support), and Vietnam Initiation Checklist at Attachment II (Industry Support).

The Department finds that the petitioner filed the Petitions on behalf of the domestic industry because it is an interested party as defined in section 771(9)(C) of the Act and it has demonstrated sufficient industry support with respect to the initiation of the antidumping investigations that it is requesting. See *id.*

#### **Allegations and Evidence of Material Injury and Causation**

The petitioner alleges that the U.S. industry producing the domestic like product is being materially injured, or is threatened with material injury, by reason of the imports of the subject merchandise sold at less than normal value. The petitioner contends that the industry's injured condition is illustrated by the following circumstances: reduced market share; lost sales; reduced production capacity and capacity-utilization rate; reduced shipments; underselling and price depressing and suppressing effects; lost revenue; reduced employment; decline in financial performance; an increase in import penetration. We have assessed the allegations and supporting evidence regarding material injury and causation,

and we have determined that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. See PRC Initiation Checklist at Attachment III (Injury), South Africa Initiation Checklist at Attachment III (Injury), and Vietnam Initiation Checklist at Attachment III (Injury).

#### **Allegations of Sales at Less Than Fair Value**

The following is a description of the allegations of sales at less than fair value upon which the Department based its decision to initiate these investigations of imports of uncovered innerspring units from the PRC, South Africa, and Vietnam. The sources of data for the deductions and adjustments relating to the U.S. prices, a home-market price (for South Africa), and the factors of production (for the PRC and Vietnam) are also discussed in the country-specific initiation checklists. See PRC Initiation Checklist, South Africa Initiation Checklist, and Vietnam Initiation Checklist. Should the need arise to use any of this information as facts available under section 776 of the Act in our preliminary or final determinations, we will reexamine the information and revise the margin calculations, if appropriate.

#### **PRC**

##### *Export Price*

For U.S. price, the petitioner relied on price quotes for three specific models of Chinese-manufactured uncovered innerspring units that were offered for sale during the POL. See Petitions, Volume II at 1 and Exhibit PRC-1, and the PRC Supplement to the Petition at 1 and Exhibit 2. The petitioner deducted from the starting price the costs associated with exporting and delivering the product, including a distributor markup fee, ocean freight and insurance charges, U.S. duty, port and wharfage fees, domestic inland freight, and domestic brokerage and handling charges. See Petitions, Volume II at 2-4 and Exhibit PRC-2, and the PRC Supplement to the Petition at Exhibit 8.

##### *Normal Value*

The petitioner asserts that the Department considers the PRC to be a non-market-economy country (NME) and, therefore, constructed normal value based on the factors-of-production methodology pursuant to section 773(c) of the Act. Recently, the Department examined the PRC's market status and determined that NME status should continue for the PRC. See *Memorandum*

*from the Office of Policy to David M. Spooner, Assistant Secretary for Import Administration, Regarding the People's Republic of China Status as a Non-Market Economy*, dated May 15, 2006. (This document is available online at <http://ia.ita.doc.gov/download/prc-nme-status/prc-nme-status-memo.pdf>.) In addition, in two recent investigations, the Department treated the PRC as an NME country. See *Final Determination of Sales at Less Than Fair Value: Certain Activated Carbon from the People's Republic of China*, 72 FR 9508 (March 2, 2007), and *Final Determination of Sales at Less Than Fair Value and Partial Affirmative Determination of Critical Circumstances: Certain Polyester Staple Fiber from the People's Republic of China*, 72 FR 19690 (April 19, 2007). In accordance with section 771(18)(C)(i) of the Act, the NME status remains in effect until revoked by the Department. The NME status of the PRC has not been revoked by the Department and, therefore, remains in effect for purposes of the initiation of this investigation. Accordingly, the normal value of the product is appropriately based on factors of production valued in a surrogate market-economy country in accordance with section 773(c) of the Act. In the course of this investigation, all parties will have the opportunity to provide relevant information related to the issues of the PRC's NME status and the granting of separate rates to individual exporters.

The petitioner asserts that India is the appropriate surrogate country for valuing the factors of production for the PRC because India is (1) a significant producer of identical merchandise and (2) at a level of economic development comparable to that of the PRC. See Petitions, Volume II at 5-6 and Exhibit PRC-6. Because the information provided in the Petitions satisfies the elements for selecting a surrogate country, we believe that the petitioner's use of India as a surrogate country is appropriate for purposes of initiating this investigation. After the initiation of the investigation, we will solicit comments regarding selection of a surrogate country. Also, pursuant to 19 CFR 351.301(c)(3)(i), interested parties will be provided with an opportunity to submit publicly available information to value the factors of production within 40 days of the date of publication of the preliminary determination.

The petitioner provided dumping-margin calculations using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C) and 19 CFR 351.408. The petitioner calculated normal value for the U.S.

prices discussed above based on its own experience for producing uncovered innerspring units, which it states is consistent with the standard methodology for the production of uncovered innerspring units. The petitioner also states that Chinese producers use substantially the same material inputs and production processes as U.S. producers. See Petitions, Volume II at 6–12 and Exhibit PRC–7. The petitioner states that the primary material used to produce both “pocketed” and “non-pocketed” uncovered innerspring units is carbon steel wire. See Petitions, Volume II at pages 9 and Exhibit PRC–7.

For the normal-value calculations, pursuant to section 773(c)(4) of the Act, the petitioner used surrogate values from a variety of sources, including Indian import statistics from the *World Trade Atlas*, the International Energy Agency’s (IEA) *Energy Prices & Taxes 2003* edition, the Department’s NME Wage Rate for the PRC, the American Chemistry Council, and publicly available financial statements, to value the factors of production. See Petitions, Volume II at 6–13 and Exhibits PRC 8–16, the PRC Supplement to the Petition at Exhibits 9 and 10, and the PRC Second Supplement to the Petition at Exhibit 2. The petitioner converted the inputs valued in Indian rupees to U.S. dollars based on the average rupee/U.S. dollar exchange rate for the POI, as reported on the Department’s Web site at <http://ia.ita.doc.gov/exchange/index.html>.

The petitioner identifies steel wire, steel clips, fabric, and industrial glue as raw materials in the production of uncovered innerspring units. For steel wire, the main raw material in the production of uncovered innerspring units, the petitioner provided a surrogate value based on Indian imports from November 2006 through April 2007, inflated to the POI using a Wholesale Price Index (WPI) inflator. See Petitions, Volume II at 9–10 and Exhibit PRC–9, and the PRC Supplement to the Petition at Exhibit 10. For steel clips, the petitioner has provided a surrogate value based on Indian imports from June 2005 through May 2006 used previously by the Department, inflated to the POI using a WPI inflator. *Id.* For fabric, the petitioner has provided a surrogate value based on Indian imports from November 2006 through April 2007, inflated to the POI using a WPI inflator. *Id.* For labor, the petitioner submitted a labor-usage rate which was valued using the Department’s NME Wage Rate for the PRC. See Petitions, Volume II at 11 and Exhibits PRC–7 and PRC–10, and

the PRC Supplement to the Petition at 6 and Exhibits 9 and 10. The petitioner has submitted two surrogate values for energy inputs, *i.e.*, electricity and natural gas. With regard to electricity, the petitioner provided a surrogate value using the IEA’s *Energy Prices & Taxes 2003* edition, which petitioner inflated to the POI, as the electricity value is based on the price paid by industrial users in India in 2000. See Petitions, Volume II at 11–12 and Exhibit PRC–11. With regard to natural gas, the petitioner provided a surrogate value from the American Chemistry Council, which the Department has used in a previous investigation. See Petitions, Volume II at 11–12 and Exhibit PRC–12, and the PRC Supplement to the Petition at 7 and Exhibit 10. The petitioner valued six packing inputs: plastic wrap, paper, labels, steel straps, pallets, and ladders/crates. For each packing input, the petitioner used Indian import statistics obtained through the *World Trade Atlas* and excluded data pertaining to NME and subsidy countries. See Petitions, Volume II at 10–11 and Exhibits PRC–1, PRC–8 and PRC–13, and the PRC Supplement to the Petition at 7–8 and Exhibit 10.

For the normal-value calculations, the petitioner submitted the figures for factory overhead, selling, general, and administrative expenses, and profit from the financial ratios of an Indian producer of fabricated wire products, Lakshmi Precision Screws Limited. The Department used these ratios to initiate two other recent investigations and the financial statements covered the period of April 2005 to March 2006. See Petitions, Volume II at 3 and Exhibit PRC–15. We did not make any adjustments to the normal value as calculated by the petitioner because we determined that the petitioner used adequate sources and has calculated normal value accurately using those sources.

#### **Vietnam**

##### *Export Price*

The petitioner based its U.S. price calculation on a price quote for a specific model of uncovered innerspring units produced in Vietnam that were offered for sale before the POI. The petitioner states that this price quote remained in effect during the POI. See the Vietnam Second Supplement to the Petition, at Exhibit 1. The petitioner calculated an average net U.S. Price by subtracting an estimate for U.S. distributor markup, ocean freight, marine insurance, U.S. port charges, foreign inland freight, and brokerage

and handling costs from the gross unit price reflected in the price quote of imports for the POI. See *id.* at Exhibit 2.

##### *Normal Value*

Because the Department considers Vietnam to be an NME country, the petitioner constructed normal value based on the factors-of-production methodology pursuant to section 773(c) of the Act. The Department has examined Vietnam’s market status and determined that Vietnam should be treated as an NME. See *Memorandum from the Office of Policy to Faryar Shirzad, Assistant Secretary for Import Administration, Antidumping Duty Investigation of Certain Frozen Fish Fillets from the Socialist Republic of Vietnam—Determination of Market Economy Status*, November 8, 2002 (this document is available online at <http://ia.ita.doc.gov/download/vietnam-nme-status/vietnam-market-status-determination.pdf>). In addition, in two recent administrative reviews, the Department treated Vietnam as an NME country. See *Certain Frozen Fish Fillets From the Socialist Republic of Vietnam: Final Results of the Second Administrative Review*, 72 FR 13242 (March 21, 2007), and *Certain Frozen Warmwater Shrimp From the Socialist Republic of Vietnam: Final Results of the First Antidumping Duty Administrative Review and First New Shipper Review*, 72 FR 52052 (September 12, 2007). In accordance with section 771(18)(C)(i) of the Act, the NME status remains in effect until revoked by the Department. The presumption of the NME status of Vietnam has not been revoked by the Department and, therefore, remains in effect for purposes of the initiation of this investigation. Accordingly, the normal value of the product is based on factors of production valued in a surrogate market-economy country in accordance with section 773(c) of the Act. During the course of this investigation, all parties will have the opportunity to provide relevant information related to the issues of Vietnam’s NME status and the granting of separate rates to individual exporters. The petitioner asserts that India is the most appropriate surrogate country for Vietnam because India is a significant producer of comparable merchandise and at a level of economic development comparable to Vietnam. See Petitions, Volume IV at 5–7. Because the information provided in the Petitions satisfies the elements for selecting a surrogate country, we believe that the petitioner’s use of India as a surrogate country is appropriate for purposes of

initiating this investigation. After the initiation of the investigation, we will solicit comments regarding surrogate-country selection. Also, pursuant to 19 CFR 351.301(c)(3)(i), interested parties will be provided with an opportunity to submit publicly available information to value the factors of production within 40 calendar days after the date of publication of the preliminary determination.

The petitioner provided dumping-margin calculations using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C) and 19 CFR 351.408. The petitioner calculated normal value based on its own consumption rates of raw materials, labor, and energy inputs used in 2007. The petitioner asserts that, to the best of its knowledge, these consumption amounts should be similar to those used by Vietnamese producers, except for the use of natural gas, which is discussed below. See Petitions, Volume IV at 8.

Pursuant to section 773(c)(4) of the Act, the petitioner used surrogate values derived from publicly available sources to value the factors of production. For direct materials and packing materials, the petitioner calculated weighted-average surrogate values using Indian import statistics from the *World Trade Atlas* or values calculated by the Department in previous cases using Indian import statistics from the *World Trade Atlas*. See Petitions, Volume IV at Exhibit V-9 and V-13. Consistent with the Department's practice, the petitioner excluded from its weighted-average calculation imports from NME countries and countries that may provide broadly available non-industry-specific export subsidies. Finally, the petitioner added a value to the material inputs to account for freight charges. The petitioner calculated the freight charge based on the estimated distance from several of the Vietnamese producers to the nearest port in Ho Chi Minh City. See Petitions, Volume IV at Exhibit V-16, and the Vietnam Supplement to the Petition, at 1 and Exhibits 1 and 8.

The petitioner valued labor using the expected wage rate for Vietnam provided by the Department on its website. See Petitions, Volume IV at Exhibit V-10. For electricity, the petitioner provided a surrogate value from the *International Energy Agency's Key World Energy Statistics 2003*, as cited in the Memorandum to the File, entitled "Antidumping Duty Administrative Review of Glycine from the People's Republic of China: Surrogate Values for the Preliminary Results," April 2, 2007. See Petitions, Volume IV at Exhibit V-11.

The petitioner asserts that, although it no longer uses natural gas-heated ovens to temper its coils, it believes that the Vietnamese producers still use this process. The petitioner asserts that, therefore, it is using its own past experience of using natural gas-heated ovens to temper the coils as the best available estimate of the Vietnamese production process. To value natural gas, the petitioner provided a surrogate value from the *American Chemistry Council*, which the Department has used in a previous investigation of steel wire garment hangers from the People's Republic of China. See Petitions, Volume IV at Exhibit V-12. The petitioner converted the inputs valued in Indian rupees to U.S. dollars based on the average rupee/U.S. dollar exchange rate for the POI, as reported on the Department's Web site at <http://ia.ita.doc.gov/exchange/index.html>. When the surrogate values were not contemporaneous with the POI, the petitioner adjusted the values using the wholesale price index in India as published in the *International Financial Statistics* of the International Monetary Fund. See Petitions, Volume IV at Exhibits V-9 through V-14.

For the normal-value calculations, the petitioner derived the figures for factory overhead, selling, general, and administrative expenses, and profit from the financial statements of Lakshmi Precision Screw, an Indian producer of fabricated wire products. The financial statement that the petitioner provided covered the period of April 2005 to March 2006. We did not make any adjustments to the normal value as calculated by the petitioner because we determined that the petitioner used adequate sources and has calculated normal value accurately using those sources.

#### **South Africa**

##### *Export Price*

The petitioner calculated export price based on pricing information during the POI obtained from its U.S. customer of South African-produced uncovered innerspring units sold, or offered for sale, by U.S. importers of the subject merchandise. See Petitions, Volume III at 1-2 and Exhibits SA-1 and SA-2, and the South Africa Supplement to the Petition at page 1. The petitioner made adjustments to the starting price, where applicable, for foreign inland freight, ocean freight, marine insurance, and U.S. customs and port fees. The petitioner calculated foreign inland freight based on the petitioner's South African subsidiary's transportation experience and the related shipping

costs it incurs. The petitioner calculated ocean freight and marine insurance based on price quotes obtained from a freight forwarder and an insurance provider. U.S. customs and port fees (*i.e.*, harbor maintenance and processing fees) were based on standard U.S. government percentages, as applied to the petitioner's estimate of entered value.

##### *Normal Value*

The petitioner was able to estimate domestic South African prices for uncovered innerspring units using market intelligence gathered by its South African subsidiary on pricing information related to its competitor, a major manufacturer of the foreign like product. The petitioner also provided its South African subsidiary's actual price to an unaffiliated customer in South Africa for uncovered innerspring units it sold during the POI. See Petitions, Volume III at 4 and Exhibits SA-4 and SA-10, and the South Africa Supplement to the Petition at 2. Because the petitioner's South African subsidiary's actual price to an unaffiliated customer was sufficient to use in calculating normal value, we did not need to use the petitioner's estimate of a competitor's price offered for the foreign like product during the POI. See Petitions, Volume III at Exhibit SA-10.

To arrive at normal value, the petitioner made adjustments to the starting price, where applicable, for home-market and U.S. credit expenses and U.S. packing costs. The petitioner did not make an adjustment to home-market price for foreign inland freight costs because it claims such costs are minimal due to the South African manufacturer's proximity to its customer. To calculate home-market credit expenses, the petitioner used the payment terms its South African subsidiary extends to its customer. The petitioner did not make an adjustment for home-market packing expenses because its South African subsidiary does not pack foreign like product for shipment to its customer. The petitioner calculated U.S. packing costs based on the experience of its South African subsidiary and the packing type it uses for export shipments. To calculate U.S. credit expenses, the petitioner used the payment terms associated with the pricing information of a U.S. sale, discussed above.

##### *Fair-Value Comparisons*

Based on the data provided by the petitioner, there is reason to believe that imports of uncovered innerspring units from the PRC, South Africa, and Vietnam are being, or are likely to be,

sold in the United States at less than fair value. Based on comparisons of export price to normal value, calculated in accordance with section 773(c) of the Act, the estimated dumping margins for uncovered innerspring units from the PRC range from 55.95 percent to 234.51 percent and the estimated dumping margin for uncovered innerspring units from Vietnam is 116.31. See PRC Initiation Checklist and Vietnam Initiation Checklist, respectively. Based on a comparison of export price to normal value, calculated in accordance with section 773(a)(1) of the Act, the revised estimated dumping margin for uncovered innerspring units from South Africa is 121.39 percent. See South Africa Initiation Checklist.

#### *Initiation of Antidumping Investigations*

Based upon the examination of the Petitions on uncovered innerspring units from the PRC, South Africa, and Vietnam, the Department finds that the Petitions meet the requirements of section 732 of the Act. Therefore, we are initiating antidumping duty investigations to determine whether imports of uncovered innerspring units from the PRC, South Africa, and Vietnam are being, or are likely to be, sold in the United States at less than fair value. In accordance with section 733(b)(1)(A) of the Act, unless postponed, we will make our preliminary determinations no later than 140 days after the date of this initiation.

#### *Separate Rates*

In order to obtain separate-rate status in NME investigations, exporters and producers must submit a separate-rate status application. See, e.g., Policy Bulletin 05.1: Separate-Rates Practice and Application of Combination Rates in Antidumping Investigations Involving Non-Market Economy Countries (April 5, 2005) (Separate Rates and Combination Rates Bulletin), available on the Department's Web site at <http://ia.ita.doc.gov/policy/bull05-1.pdf>. Based on our experience in processing the separate-rate applications in previous NME antidumping duty investigations, we have modified the application for the NME investigations to make it more administrable and easier for applicants to complete. See, e.g., *Initiation of Antidumping Duty Investigation: Certain New Pneumatic Off-the-Road Tires From the People's Republic of China*, 72 FR 43591, 43594-95 (August 6, 2007). The specific requirements for submitting the separate-rate application in the NME investigations are outlined in detail in the application itself, which will be

available on the Department's Web site at <http://ia.ita.doc.gov/ia-highlights-and-news.html> on the date of publication of this initiation notice in the **Federal Register**. The separate-rate application will be due 60 days after publication of this initiation notice.

#### *Selection of Respondents*

For these investigations, the Department intends to select respondents based on U.S. Customs and Border Protection (CBP) data for U.S. imports during the POI. We intend to make our decisions regarding respondent selection within 20 days of publication of this **Federal Register** notice. The Department invites comments regarding the CBP data and the selection of respondents within seven days of publication of this **Federal Register** notice.

#### *Use of Combination Rates in an NME Investigation*

The Department will calculate combination rates for certain respondents that are eligible for a separate rate in the NME investigations. For example, the Separate Rates and Combination Rates Bulletin, at page 6, states:

{w}hile continuing the practice of assigning separate rates only to exporters, all separate rates that the Department will now assign in its NME investigations will be specific to those producers that supplied the exporter during the period of investigation. Note, however, that one rate is calculated for the exporter and all of the producers which supplied subject merchandise to it during the period of investigation. This practice applies both to mandatory respondents receiving an individually calculated separate rate as well as the pool of non-investigated firms receiving the weighted-average of the individually calculated rates. This practice is referred to as the application of "combination rates" because such rates apply to specific combinations of exporters and one or more producers. The cash-deposit rate assigned to an exporter will apply only to merchandise both exported by the firm in question and produced by a firm that supplied the exporter during the period of investigation. (Emphasis added.)

#### *Distribution of Copies of the Petitions*

In accordance with section 732(b)(3)(A) of the Act and 19 CFR 351.202(f), copies of the public versions of the Petitions have been provided to the representatives of the Governments of the PRC, South Africa, and Vietnam. We will attempt to provide a copy of the public version of the Petitions to the foreign producers/exporters, consistent with 19 CFR 351.203(c)(2).

#### *International Trade Commission Notification*

We have notified the ITC of our initiations, as required by section 732(d) of the Act.

#### *Preliminary Determinations by the International Trade Commission*

The ITC will preliminarily determine, no later than February 14, 2008, whether there is a reasonable indication that imports of uncovered innerspring units from the PRC, South Africa, and Vietnam are materially injuring, or threatening material injury to, a U.S. industry. A negative ITC determination with respect to any country will result in the investigation being terminated for that country; otherwise, these investigations will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: January 22, 2008.

**David M. Spooner,**

*Assistant Secretary for Import Administration.*

[FR Doc. E8-1438 Filed 1-25-08; 8:45 am]

**BILLING CODE 3510-DS-P**

**APPENDIX B**  
**CONFERENCE WITNESSES**



**CALENDAR OF PUBLIC CONFERENCE**

Those listed below appeared as witnesses at the United States International Trade Commission’s conference:

**Subject:** Uncovered Innerspring Units from China, South Africa, and Vietnam  
**Inv. Nos.:** 731-TA-1140-1142 (Preliminary)  
**Date and Time:** January 22, 2008 - 9:30 a.m.

The conference in connection with these investigations was held in the Main Hearing Room (room 101), 500 E Street, SW, Washington, D.C.

**In Support of the Imposition of Antidumping Duties:**

White & Case, LLP  
Washington, D.C.  
on behalf of

Leggett & Platt, Inc.

Perry Davis, Vice President, President-Bedding Group, Leggett & Platt, Inc.  
Leigh Salyer, Group Vice President, Demand Management, Bedding Group,  
Leggett & Platt, Inc.  
Wendy Watson, Associate Special Counsel, Leggett & Platt, Inc.

Christopher Corr            )  
Yohai Baisburd            ) OF COUNSEL

Weil, Gotshal, & Manges, LLP  
Washington, D.C.  
on behalf of

James Bush, Executive Vice President, Wire Products Group, Hickory Springs  
Manufacturing Co.

John Ryan                    )  
Seth Bayles                 ) OF COUNSEL

**In Opposition to the Imposition of Antidumping Duties:**

Grunfeld, Desiderio, Lebowitz, Silverman, & Klestadt, LLP  
Washington, D.C.

on behalf of

Baoding Yong'an Furniture Material Co., Ltd.  
Nanjing Dongdai Furniture Co., Ltd.  
Xilinmen Group Co., Ltd.  
Hostwell Development Co., Ltd.  
Foshan Jingxin Steel Wire & Spring Co., Ltd.  
Wuxi Xihuisheng Trading Co., Ltd.  
Nanjing Taihi Furniture Co., Ltd.  
Nanjing Jinbang Qilin Mattress Co., Ltd.  
Jiangsu Huihong Co., Ltd.  
High Hope International Group Jiangsu Native Produce Import and Export Corp., Ltd.  
China Chamber of Commerce for Import and Export of Light Industrial Products  
and Arts-Crafts

Paul Figueroa    )  
Ned Marshak     ) – OF COUNSEL

Troutman Sanders, LLP  
Washington, D.C.

on behalf of

Ad Hoc Innersprings Importers Coalition

Richard G. Diamonstein, Executive Vice President, Paramount Industrial Companies  
Robert W. Enoch, Direction, China Logistic Partner Network Co., Ltd.  
Brian J. Piper, President, Pacific Spring Manufacturing  
Kerry Tramel, President, Lady Americana  
Martin Wolfson, President, Texas Pocket Springs

Donald Cameron        )  
Julie Mendoza         ) – OF COUNSEL  
Jeffrey Grimson        )

Mattress Makers, Inc.  
Tacoma, WA.

Ray Burgess, President, Mattress Makers Inc.

**APPENDIX C**  
**SUMMARY DATA**



Table C-1

Innersprings: Summary data concerning the U.S. market, 2004-06, January-September 2006, and January-September 2007

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	2004	2005	2006	January-September		2004-06	2004-05	2005-06	Jan.-Sept. 2006-07
				2006	2007				
U.S. consumption quantity:									
Amount	20,699	20,788	19,689	15,220	14,512	-4.9	0.4	-5.3	-4.7
Producers' share (1)	93.7	89.8	87.8	88.5	89.1	-5.9	-4.0	-2.0	0.5
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
South Africa	***	***	***	***	***	***	***	***	***
Vietnam	***	***	***	***	***	***	***	***	***
Subtotal	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	6.3	10.2	12.2	11.5	10.9	5.9	4.0	2.0	-0.5
U.S. consumption value:									
Amount	571,300	593,148	533,871	417,454	385,719	-6.6	3.8	-10.0	-7.6
Producers' share (1)	96.1	93.8	92.3	92.4	93.5	-3.7	-2.3	-1.4	1.1
Importers' share (1):									
China	***	***	***	***	***	***	***	***	***
South Africa	***	***	***	***	***	***	***	***	***
Vietnam	***	***	***	***	***	***	***	***	***
Subtotal	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	3.9	6.2	7.7	7.6	6.5	3.7	2.3	1.4	-1.1
U.S. shipments of imports from:									
China:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
South Africa:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Vietnam:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Subtotal:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All other sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	1,294	2,128	2,401	1,743	1,584	85.5	64.5	12.8	-9.1
Value	22,515	36,915	40,874	31,635	24,975	81.5	64.0	10.7	-21.1
Unit value	\$17.40	\$17.35	\$17.02	\$18.15	\$15.77	-2.2	-0.3	-1.9	-13.1
Ending inventory quantity	***	***	***	***	***	***	***	***	***

Table continued on next page.

Table C-1--Continued

Innersprings: Summary data concerning the U.S. market, 2004-06, January-September 2006, and January-September 2007

(Quantity=1,000 units, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per unit; period changes=percent, except where noted)

Item	Reported data					Period changes			
	2004	2005	2006	January-September		2004-06	2004-05	2005-06	Jan.-Sept.
				2006	2007				2006-07
U.S. producers':									
Average capacity quantity . . .	24,540	24,793	22,211	16,674	17,133	-9.5	1.0	-10.4	2.8
Production quantity . . . . .	20,093	19,549	18,042	14,042	13,456	-10.2	-2.7	-7.7	-4.2
Capacity utilization (1) . . . . .	81.9	78.8	81.2	84.2	78.5	-0.6	-3.0	2.4	-5.7
U.S. shipments:									
Quantity . . . . .	19,405	18,660	17,288	13,477	12,928	-10.9	-3.8	-7.4	-4.1
Value . . . . .	548,785	556,233	492,997	385,819	360,744	-10.2	1.4	-11.4	-6.5
Unit value . . . . .	\$28.28	\$29.81	\$28.52	\$28.63	\$27.90	0.8	5.4	-4.3	-2.5
Export shipments:									
Quantity . . . . .	***	***	***	***	***	***	***	***	***
Value . . . . .	***	***	***	***	***	***	***	***	***
Unit value . . . . .	***	***	***	***	***	***	***	***	***
Ending inventory quantity . . .	2,140	2,170	2,103	2,120	1,914	-1.7	1.4	-3.1	-9.7
Inventories/total shipments (1)	***	***	***	***	***	***	***	***	***
Production workers . . . . .	2,248	2,151	2,021	2,017	1,822	-10.1	-4.3	-6.0	-9.7
Hours worked (1,000s) . . . . .	4,627	4,402	4,077	3,054	2,738	-11.9	-4.9	-7.4	-10.3
Wages paid (\$1,000s) . . . . .	62,778	59,877	56,003	43,074	39,984	-10.8	-4.6	-6.5	-7.2
Hourly wages . . . . .	\$13.57	\$13.60	\$13.74	\$14.10	\$14.60	1.2	0.3	1.0	3.5
Productivity (units per hour) . .	4.3	4.4	4.4	4.6	4.9	1.9	2.3	-0.4	6.9
Unit labor costs . . . . .	\$3.12	\$3.06	\$3.10	\$3.07	\$2.97	-0.7	-2.0	1.3	-3.1
Net sales:									
Quantity . . . . .	***	***	***	***	***	***	***	***	***
Value . . . . .	***	***	***	***	***	***	***	***	***
Unit value . . . . .	***	***	***	***	***	***	***	***	***
Cost of goods sold (COGS) . . .	***	***	***	***	***	***	***	***	***
Gross profit or (loss) . . . . .	***	***	***	***	***	***	***	***	***
SG&A expenses . . . . .	***	***	***	***	***	***	***	***	***
Operating income or (loss) . . .	***	***	***	***	***	***	***	***	***
Capital expenditures . . . . .	***	***	***	***	***	***	***	***	***
Unit COGS . . . . .	***	***	***	***	***	***	***	***	***
Unit SG&A expenses . . . . .	***	***	***	***	***	***	***	***	***
Unit operating income or (loss)	***	***	***	***	***	***	***	***	***
COGS/sales (1) . . . . .	***	***	***	***	***	***	***	***	***
Operating income or (loss)/	***	***	***	***	***	***	***	***	***
sales (1) . . . . .	***	***	***	***	***	***	***	***	***

(1) "Reported data" are in percent and "period changes" are in percentage points.

(2) Not applicable.

Note.--Financial data are reported on a fiscal year basis and may not necessarily be comparable to data reported on a calendar year basis. Because of rounding, figures may not add to the totals shown. Unit values and shares are calculated from the unrounded figures.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table C-2**

**Innersprings: Summary data concerning the U.S. open market, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*



**APPENDIX D**

**U.S. PRODUCER AND IMPORTER SHIPMENTS OF  
UNCOVERED INNERSPRING UNITS, BY SIZE AND TYPE**



**Table D-1**

**Uncovered innerspring units: U.S. producers' U.S. shipments, by size and type, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table D-2**

**Uncovered innerspring units: Shipments of imports from China, by size and type, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table D-3**

**Uncovered innerspring units: Shipments of imports from South Africa, by size and type, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*

**Table D-4**

**Uncovered innerspring units: Shipments of imports from Vietnam, by size and type, 2004-06, January-September 2006, and January-September 2007**

\* \* \* \* \*



**APPENDIX E**

**IMPORT DATA COMPILED FROM OFFICIAL COMMERCE STATISTICS**



**Table E-1**  
**Uncovered innerspring units: Imports (HTS 9404.29.9010), by sources, 2004-06, January-September 2006,**  
**and January-September 2007**

Source	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Quantity (1,000 units)</b>					
China	694	1,536	1,322	1,149	778
South Africa	0	154	442	335	148
Vietnam	0	35	171	123	87
Subtotal, subject sources	694	1,725	1,935	1,607	1,014
Nonsubject sources	138	57	42	35	11
Total	832	1,782	1,977	1,643	1,024
<b>Value (1,000 dollars)<sup>1</sup></b>					
China	10,014	23,162	20,980	18,192	12,538
South Africa	0	3,443	7,175	5,674	2,405
Vietnam	0	565	2,048	1,508	772
Subtotal, subject sources	10,014	27,171	30,203	25,375	15,716
Nonsubject sources	3,051	1,552	812	662	470
Total	13,065	28,723	31,015	26,037	16,186
<b>Unit value (per unit)<sup>1</sup></b>					
China	\$14.44	\$15.08	\$15.87	\$15.83	\$16.11
South Africa	-	22.34	16.24	16.92	16.20
Vietnam	-	16.06	11.98	12.31	8.87
Subtotal, subject sources	14.44	15.75	15.61	15.79	15.50
Nonsubject sources	22.05	27.33	19.54	18.76	44.21
Average	15.71	16.12	15.69	15.85	15.80
<sup>1</sup> Landed, duty-paid. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from official Commerce statistics (HTS 9404.29.9010).					

**Table E-2**  
**Uncovered innerspring units: Imports (HTS 9404.29.9010, 9404.10.000, 7320.20.5010, and 7320.90.5010 combined), by sources, 2004-06, January-September 2006, and January-September 2007**

Source	Calendar year			January-September	
	2004	2005	2006	2006	2007
<b>Quantity (1,000 units)</b>					
China	1,149	2,195	2,606	2,061	1,921
South Africa	16	157	442	335	158
Vietnam	44	102	179	130	87
Subtotal, subject sources	1,210	2,454	3,227	2,527	2,166
Nonsubject sources	515	399	364	280	248
Total	1,725	2,853	3,592	2,807	2,415
<b>Value (1,000 dollars)<sup>1</sup></b>					
China	17,159	32,922	40,646	32,559	31,657
South Africa	364	4,033	7,175	5,674	2,553
Vietnam	631	1,589	2,202	1,651	772
Subtotal, subject sources	18,154	38,544	50,023	39,885	34,982
Nonsubject sources	22,941	21,638	20,260	15,240	12,134
Total	41,095	60,182	70,283	55,125	47,117
<b>Unit value (per unit)<sup>1</sup></b>					
China	\$14.93	\$15.00	\$15.60	\$15.80	\$16.48
South Africa	22.28	25.71	16.24	16.92	16.11
Vietnam	14.22	15.54	12.29	12.67	8.87
Subtotal, subject sources	15.01	15.70	15.50	15.78	16.15
Nonsubject sources	44.52	54.29	55.59	54.33	48.87
Average	23.82	21.10	19.57	19.64	19.51
<sup>1</sup> Landed, duty-paid. Note.—Because of rounding, figures may not add to the totals shown. Source: Compiled from official Commerce statistics (HTS 9404.29.9010, 9404.10.0000, 7320.20.5010, and 7320.90.5010).					