

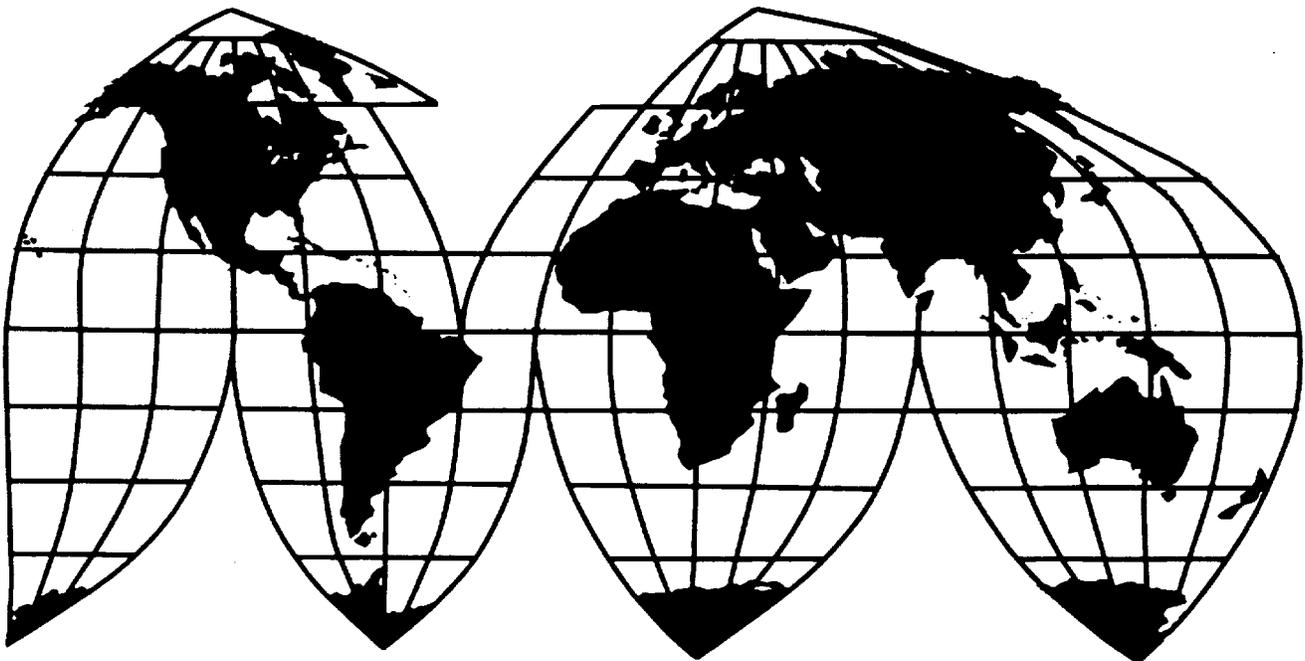
# Artists' Canvas From China

Investigation No. 731-TA-1091 (Preliminary)

Publication 3777

May 2005

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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Note.—Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.

# UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-1091 (Preliminary)

## ARTISTS' CANVAS FROM CHINA

### DETERMINATION

On the basis of the record<sup>1</sup> developed in the subject investigation, 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 of artists' canvas, provided for in subheadings 5901.90.20 and 5901.90.40 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 INVESTIGATION

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigation. 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 an affirmative preliminary determination in the investigation under section 733(b) of the Act, or, if the preliminary determination is negative, upon notice of an affirmative final determination in that investigation under section 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigation need not enter a separate appearance for the final phase of the investigation. 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 investigation.

### BACKGROUND

On April 1, 2005, a petition was filed with the Commission and Commerce by Tara Materials Inc., Lawrenceville, Georgia, alleging that an industry in the United States is materially injured or threatened with material injury by reason of LTFV imports of artists' canvas from China. Accordingly, effective April 1, 2005, the Commission instituted antidumping duty investigation No. 731-TA-1091 (Preliminary).

Notice of the institution of the Commission's investigation 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 April 6, 2005 (70 FR 17467). The conference was held in Washington, DC, on April 22, 2005, and all persons who requested the opportunity were permitted to appear in person or by counsel.

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<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 this preliminary phase investigation, we find that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of artists' canvas from China that are allegedly sold in the United States at less than fair value (LTFV).

The petition was filed on April 1, 2005, by the largest domestic producer of artists' canvas, Tara Materials, Inc. (Tara).<sup>1</sup> Ten importers and three foreign producers/exporters have participated as respondent parties (collectively, Respondents): importers Michaels Stores, Inc., Aaron Brothers, Inc. (Aaron Brothers), MacPherson's, ColArt Americas, Inc., Dick Blick Art Materials, Sbars, Inc., Hobby Lobby Stores, Inc., A.C. Moore, Jerry's Artarama, and Jo-Ann's Stores, Inc.; and Chinese producers/exporters Wuxi Phoenix Artist Materials Co., Ltd., Ningbo Conda Import & Export Co., Ltd., and Ningbo Two Birds Industry Co., Ltd.

### 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 or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.<sup>2</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>3</sup>

### II. DOMESTIC LIKE PRODUCT

#### A. In General

To determine whether 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>4</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

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<sup>1</sup> The deadline for filing a petition with the Commission on any given business day is noon, following which the petition is deemed filed the next business day. Commission Rule 207.10(a), as amended, 70 Fed. Reg. 8510 (Feb. 22, 2005), 19 C.F.R. § 207.10(a) (2005). Petitioner, having missed the noon deadline on March 31, 2005, sought leave to have its petition nevertheless deemed filed with the Commission that day. The request was denied because of the absence of good cause demonstrated. The petition was therefore filed on April 1, 2005.

<sup>2</sup> See 19 U.S.C. § 1673b(a); see also *American Lamb Co. v. United States*, 785 F.2d 994, 1001-04 (Fed Cir. 1986); *Ranchers-Cattlemen Action Legal Found. v. United States*, 74 F. Supp.2d 1353, 1368-69 (Ct. Int'l Trade 1999); *Aristech Chemical Corp. v. United States*, 20 CIT 353, 354-55 (1996). This investigation does not raise the issue whether the establishment of an industry is materially retarded by reason of the allegedly unfairly traded imports.

<sup>3</sup> See *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>4</sup> 19 U.S.C. § 1677(4)(A).

proportion of the total domestic production of the product.”<sup>5</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>6</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>7</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>8</sup> The Commission looks for clear dividing lines among possible like products, and disregards minor variations.<sup>9</sup> Although the Commission must accept the determination of the Department of Commerce (Commerce) as to the scope of the imported merchandise allegedly subsidized or sold at LTFV, the Commission determines what domestic product is like the imported articles that Commerce has identified.<sup>10</sup> The Commission must base its domestic like product determination on the record in the investigation before it. 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>11</sup>

## **B. Product Description**

In its notice of initiation, Commerce defined the imported merchandise within the scope of investigation as –

artist canvases regardless of dimension and/or size, whether assembled or unassembled (*i.e.*, kits that include artist canvas and other items, such as a wood frame), that have been primed/coated, whether or not made from cotton, whether or not archival, whether bleached or unbleached, and whether or not containing an ink receptive top coat. . . . Artist canvases (*i.e.*, pre-stretched

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<sup>5</sup> 19 U.S.C. § 1677(4)(A).

<sup>6</sup> 19 U.S.C. § 1677(10).

<sup>7</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, when appropriate, (6) price. See, e.g., Nippon, 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int’l. Trade 1996).

<sup>8</sup> See, e.g., S. Rep. No. 96-249, at 90-91 (1979).

<sup>9</sup> See, e.g., Nippon, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49; S. Rep. No. 96-249, at 90-91 (Congress has indicated that the domestic 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>10</sup> See, e.g., Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find determination of six domestic like products in investigations where Commerce found five classes or kinds); Torrington, 747 F. Supp. at 748-52 (affirming Commission’s determination of six domestic like products in investigations where Commerce found five classes or kinds).

<sup>11</sup> See Acciai Speciali Terni S.p.A. v. United States, 118 F. Supp.2d 1298, 1304-05 (Ct. Int’l Trade 2000); Nippon Steel Corp. v. United States, 19 CIT 450, 455 (1995); Asociacion Colombiana de Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 n.5 (Ct. Int’l Trade 1998) (particularly addressing like product determination); Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int’l. Trade 1988).

canvases, canvas panels, canvas pads, canvas rolls . . . , printable canvases, floor cloths, and placemats) are tightly woven prepared painting and/or printing surfaces.<sup>12</sup>

Specifically excluded from the scope are “tracing cloths and stretcher strips . . . so long as they are not incorporated into artist canvases or sold as part of an artist canvas kit.”<sup>13</sup>

Subject artists’ canvas is a surface for the graphic presentation of painted or printed images. Made from woven fabric<sup>14</sup> that is primed and coated (“gessoed”) to accept paints or inks, it is sold in a variety of sizes, shapes, textures, and formats.<sup>15</sup>

### C. Analysis

Petitioner argues that all artists’ canvas, regardless of size, shape, texture, fabric, or format, constitutes a single domestic like product.<sup>16</sup> Respondents concur for purposes of this phase of the investigation.<sup>17</sup>

The record warrants finding a single like product for the myriad artists’ canvas products covered by the scope of the investigation. Commonly marketed physical formats of artists’ canvas include pre-stretched canvas (coated canvas that is stretched and affixed to stretcher bars, typically made of wood); canvas panels (coated canvas that is adhered to a chipboard or a cardboard core); archival board (coated canvas of high professional grade that is adhered to hardboard); canvas pads (coated canvas sheets that are bound together in notebook form); canvas rolls or bulk/rolled canvas (coated canvas sold in various widths and lengths); print canvas (coated canvas used to make art reproductions or *giclées* on digital printers); floor cloths and placemats (heavyweight canvas coated on one side for use as decorative floor or table coverings); and canvas kits (artists’ canvas of varying formats sold in an ensemble with additional art supplies, such as paintbrushes or paint).<sup>18</sup>

Kits are included within the investigation’s scope insofar as they incorporate artists’ canvas.<sup>19</sup> The volume of such kits fabricated domestically, if any, is not known, other than the fact that Tara itself does not make them.<sup>20</sup> Because kits are included within the scope, even if there were no domestic production the Commission would still have to find the next “most similar” article to such kits that is

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<sup>12</sup> 70 Fed. Reg. 21996 (April 28, 2005). Imports of artists’ canvas are classifiable (with certain nonsubject merchandise) under two subheadings of the HTS, 5901.90.20.00 and 5901.90.20.00. Imports of artists’ canvas in coated rolls may also be classified under the HTS headings 5903 and 5907. Confidential Staff Report (May 9, 2005) (CR) at I-4, V-1 n.4, Public Staff Report (PR) at I-3, V-1 n.4; CR, PR at Table I-1. For imports from China classified under 5901.90.20.00 and 5901.90.20.00, respectively, normal trade relations tariff rates of 7 percent *ad valorem* and 4.1 percent *ad valorem* apply. CR, PR at Table I-1.

<sup>13</sup> 70 Fed. Reg. at 21996.

<sup>14</sup> The woven fabrics out of which it is made include linen, cotton, polyester, muslin, and jute.

<sup>15</sup> Revised and Corrected Transcript of April 22, 2005, Conference (Tr.) at 22-26 (Paul Straquadine, Vice President of Sales, Tara).

<sup>16</sup> Petitioner’s Postconference Brief at 4-7.

<sup>17</sup> Respondents’ Postconference Brief at 8-9.

<sup>18</sup> Tr. at 24-26, 71-72 (Mr. Straquadine), 75-76 (George Thompson, Petitioner’s counsel, and Peter Delin, Vice President of Marketing, Tara), 101-02 (Mr. Straquadine); CR at I-6, PR at I-5; Petitioner’s Postconference Brief at 3 & Exh. 3.

<sup>19</sup> Tr. at 102 (Mr. Straquadine) (Tara sought their inclusion because of concerns of possible circumvention of any antidumping order).

<sup>20</sup> Respondents’ Postconference Brief at 8-9 (noting that the scope covers products not actually produced by Petitioner, such as kits and bleached canvas).

domestically produced (as it would with respect to bleached canvas, which Respondents contend Tara also does not produce).<sup>21</sup>

Tara does not claim that resort to this form of like product analysis is necessary, however, and Respondents have not challenged a single like product definition that includes canvas kits. Based on the limited information available, the next most similar article to canvas kits (or bleached canvas) would appear to be other artists' canvas products of the same canvas type.<sup>22</sup> Thus, the appropriateness of a single like product is the only domestic like product issue raised in the preliminary phase.<sup>23</sup>

The current record does not establish clear dividing lines among the various artists' canvas products covered by the scope sufficient to warrant a finding of two or more domestic like products. While the record shows that there are numerous grades, textures, shapes, and sizes of canvas, and that the canvas itself may be delivered in various formats or packages as described above, the physical characteristics and uses of artists' canvas products are similar. All artists' canvas is used as a medium for the graphic expression of art, particularly involving paints or inks. It is made of a canvas fabric that, once coated with a specific chemical product, known as gesso or primer, will allow the paint or ink to be applied without penetrating the fabric. Such coated canvas is used exclusively for artists' canvas. The coating provides the artist with the surface upon which to produce a graphic presentation, and the canvas serves as the material that best supports the coated surface.<sup>24</sup> Regardless of the type or form in which it is sold, artists' canvas always serves the same function in the creative process.

Artists use an array of canvas types for the same general purpose, and an artist's show may incorporate multiple types of canvas hanging side by side.<sup>25</sup> Artists' canvas is therefore interchangeable, within limits. Canvas presented on a stretcher strip, for example, may not be used for printing.<sup>26</sup> The costs associated with certain materials may also limit their use for particular applications.<sup>27</sup> The parties generally agree that artists' canvas should be treated as one like product, and the perceptions of importers and producers conveyed in this phase of the investigation do not support drawing definitional distinctions based on differences among the various types.<sup>28</sup>

In terms of channels of distribution, all types of artists' canvas are sold to retailers and to distributors/wholesalers, the two main channels for most domestically-produced product.<sup>29</sup> Thus, all types of artists' canvas products compete for sales in the same channels of distribution in the U.S. market.

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<sup>21</sup> See, e.g., Certain Frozen Fish Fillets from Vietnam, Inv. No. 731-TA-1012 (Prelim.), USITC Pub. 3533 (Aug. 2002) at 5-7 (“Where, as here, there is no domestic product that is ‘like’ the subject imports, the statute calls for the Commission to find the domestic product that is ‘most similar’ in characteristics and uses.”); Nepheline Syenite from Canada, Inv. No. 731-TA-525 (Final), USITC Pub. 2502 (Apr. 1992) at 7 (Since nepheline syenite was not produced in the United States, the Commission defined the domestic like product to include two similar products, feldspar and aplite), aff’d, Feldspar Corp. v. United States, 825 F. Supp. 1095 (Ct. Int’l Trade 1993).

<sup>22</sup> We also note that we have no data from manufacturers of product other than artists' canvas.

<sup>23</sup> There is no basis upon which to consider the expansion of the domestic like product definition beyond the scope.

<sup>24</sup> CR at I-5, PR at I-4-I-5.

<sup>25</sup> Tr. at 26 (Mr. Straquadine).

<sup>26</sup> See, e.g., Petition at 29.

<sup>27</sup> Some professional artists also prefer to purchase in bulk and perform their own stretching rather than purchasing pre-stretched canvas. See Tr. at 25 (Mr. Straquadine).

<sup>28</sup> See Respondents' Brief at 9; See also Tr. at 28 (Mr. Straquadine) (“The term artists' canvas is . . . a very specific descriptor for fabric prepared with an artists' coating intended for painting or printing.”)

<sup>29</sup> CR at I-7, II-1, PR at I-6, II-1.

There is also overlap in terms of manufacturing facilities, processes, and employees. The primary material used in the manufacture of artists' canvas is raw canvas. The coatings are mixed using various chemical compounds that make a specialized paint-like material that is receptive to specific artist paints or printing inks. All canvas is generally coated in the same facility, on the same machine coating lines, by the same production employees.<sup>30</sup>

Once the coating process is complete, the canvas is inspected and may be placed on bulk rolls or smaller rolls, or sheeted and cut to size for use in a lithographic printing, pre-stretched artists' canvas or panels, or other artist substrate. There are currently \*\*\* domestic producers, \*\*\*, that manufacture both canvas rolls and pre-stretched canvas;<sup>31</sup> other firms are engaged in the production of pre-stretched canvas from purchased canvas rolls. Pre-stretched canvas requires the construction of a type of frame for stretching, the canvas to be cut to a specific size, and the attachment of cut canvas to the frame.<sup>32</sup> Tara reports that its roll-up, pre-stretch, and panel processing take place in the same facility within 100 yards of its coating machines, and are often performed by the same employees.<sup>33</sup>

Artists' canvas products vary in price depending on such factors as the materials used, size, and physical format. Bulk/rolled canvas, for example, is used in the production of assembled canvas, including pre-stretched canvas. Domestic average unit values (AUVs) in 2004 for artists' canvas in bulk/rolled form were \$\*\*\* per square meter; domestic AUVs in the same period for assembled canvas were \$\*\*\*.<sup>34</sup>

The existence of pricing differences is consistent with an expected price continuum of different types of the same product. Given the overlap among artists' canvas products with respect to physical characteristics and uses, interchangeability, the perceptions of those in the trade, channels of distribution, and manufacturing facilities, processes, and employees, and notwithstanding some differences in terms of post-coating production and interchangeability, we conclude that there is no clear dividing line separating them under the traditional six-factor test. Accordingly, we find one domestic like product – all artists' canvas – co-extensive with the scope of the investigation.<sup>35</sup>

### III. DOMESTIC INDUSTRY

The domestic industry is defined 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>36</sup> Petitioner argues that the relevant domestic industry is all U.S. producers of artists' canvas, including converters that transform bulk/rolled canvas into pre-stretched canvas. Petitioner contends, however, that the \*\*\* amount of toll processing for which \*\*\*

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<sup>30</sup> We note that Tara performs a limited amount of hand priming in its production facility. Tr. at 28 (Mr. Straquadine). Tara also \*\*\*. Petitioner's Postconference Brief at 7-8.

<sup>31</sup> The \*\*\* accounted for \*\*\* of U.S. production of artists' canvas in 2004. See CR/PR at III-1 (\*\*\* accounted for \*\*\* percent).

<sup>32</sup> CR at I-6-I-7, PR at I-5.

<sup>33</sup> Tr. at 29 (Mr. Straquadine).

<sup>34</sup> CR/PR at Table I-3.

<sup>35</sup> We will explore the domestic like product issue further in any final phase investigation, particularly with respect to the treatment of canvas kits, and whether bulk/rolled canvas and assembled canvas should be treated as separate domestic like products.

<sup>36</sup> 19 U.S.C. § 1677(4)(A). 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. See 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). Thus, toll producers that engage in sufficient production-related activity are typically included in the industry.

contracts involves a minor finishing step that does not qualify \*\*\* as a domestic industry member.<sup>37</sup> Respondents do not challenge Petitioner's domestic industry definition for preliminary phase purposes.<sup>38</sup>

Based on our domestic like product definition, we consider whether firms that engage in the production of pre-stretched canvas but do not produce the coated canvas itself (so-called converters) are part of the domestic industry producing artists' canvas.<sup>39 40</sup> There is limited information in the record respecting such firms. It appears that operations to transform the bulk/rolled canvas into pre-stretched canvas require a capital investment that is not minimal. Petitioner has represented that the additional processing involved is "significant."<sup>41</sup> Some technical expertise or training is required, but employees need not be dedicated to performing these operations alone.<sup>42</sup> There also appears to be significant value added to the product from such additional processing.<sup>43</sup> Based on the current record, we include such converters in our definition of the domestic industry, but will explore this issue further in any final phase investigation and will attempt to gather additional information on converters.

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<sup>37</sup> Petitioner's Postconference Brief at 6-8.

<sup>38</sup> Respondents' Postconference Brief at 9 & Exh. 5. Respondents note that the definition may cover Holliston Mills (Holliston), Avondale Mills (Avondale), Seaboard Textile (Seaboard), Snyder Textile (Snyder), and Encad, Inc. (Encad) – firms with coating operations. We note that Holliston, Avondale, Snyder, and Encad did not respond to Commission questionnaires, and that Staff has confirmed that Seaboard purchases but does not produce artists' canvas. CR/PR at Table III-1 nn.1-2.

<sup>39</sup> In assessing the domestic activity associated with a particular operation and whether it constitutes sufficient activity to bring that operation within the meaning of domestic industry for purposes of the Act, the Commission generally considers six factors:

- (1) source and extent of the firm's capital investment;
- (2) technical expertise involved in U.S. production activities;
- (3) value added to the product in the United States;
- (4) employment levels;
- (5) quantity and type of parts sourced in the United States; and
- (6) any other costs and activities in the United States directly leading to production of the like product.

See, e.g., Prestressed Concrete Steel Wire Strand from Brazil, India, Korea, Mexico, and Thailand, Inv. Nos. 701-TA-432 (Final) and 731-TA-1024-1028 (Final), USITC Pub. 3663 (Jan. 2004) at 10-11. No single factor is determinative, and the Commission may consider any other factors it deems relevant in light of the specific facts of any investigation. See, e.g., Aramid Fiber Formed of Poly Para-Phenylene Terephthalamide from the Netherlands, Inv. No. 731-TA-652 (Final), USITC Pub. 2783 (June 1994) at I-8-I-9 & n.34 ("no single factor – including value added – is determinative and ... value added information becomes more meaningful when other production activity indicia are taken into account"), aff'd, Aramide Maatschappij V.O.F. v. United States, 19 CIT 884 (1995).

<sup>40</sup> Whether toll processors warrant inclusion in the domestic industry is a moot issue for preliminary phase purposes. The only available evidence concerns \*\*\*. See Petitioner's Postconference Brief at 7-8; Tr. at 49 (Michael Benator, President and CEO, Tara). The record reflects an important but minor additional processing step in the fabrication of certain \*\*\*. Whether \*\*\* engage in toll processing and, if so, whether such arrangements extend to aspects of the production of other types of artists' canvas are not clear, however. Cf. Tr. at 97 (Mr. Benator). Moreover, the Commission has received no trade, production, or financial data from any firms identified as toll processors. Accordingly, the issue is moot; we will solicit further information on this point in any final phase investigation.

<sup>41</sup> Petitioner's Postconference Brief at 8.

<sup>42</sup> Tr. at 29 (Mr. Straquadine).

<sup>43</sup> CR/PR at Table I-3 (\$\*\*\* per square meter in bulk/rolled form; \$\*\*\* per square meter in assembled form).

For these reasons, we define the domestic industry as all U.S. producers of artists' canvas, including firms that convert bulk/rolled canvas into pre-stretched canvas.<sup>44</sup>

#### **IV. REASONABLE INDICATION OF MATERIAL INJURY BY REASON OF THE SUBJECT IMPORTS<sup>45</sup>**

In the preliminary phase of antidumping or countervailing 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>46</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>47</sup> The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."<sup>48</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>49</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>50</sup>

For the reasons discussed below, we find that there is a reasonable indication that the domestic industry producing artists' canvas is materially injured by reason of subject imports from China.

##### **A. Conditions of Competition**

Several conditions of competition inform our analysis of whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports from China.

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<sup>44</sup> \*\*\*, imported \*\*\* square meters of subject merchandise from China in 2004 and thus \*\*\* as a related party within the purview of 19 U.S.C. § 1677(4)(B), the Act's related party provision. CR/PR at Table IV-1. We decline to exercise our discretion to exclude \*\*\*, which \*\*\* position on the petition, from the domestic industry. \*\*\* produced \*\*\* square meters of artists' canvas in 2004, representing \*\*\* percent of total U.S. production of artists' canvas that year. CR/PR at Table III-1. Its import volume is thus \*\*\* in relation to its domestic production (\*\*\*). Moreover, \*\*\* operating income as a ratio to net sales \*\*\* percentage points during the period examined, from \*\*\* percent in 2002 to \*\*\* percent in 2004. CR/PR at Table VI-4. In light of this information and the insubstantial levels of \*\*\* subject imports from China, we find that \*\*\* operations in the domestic production of artists' canvas do not appear to have benefitted substantially from \*\*\* imports of subject merchandise. Appropriate circumstances therefore do not exist to exclude \*\*\* from the domestic industry.

<sup>45</sup> Negligibility is not an issue in this investigation. Subject imports from China are not negligible under 19 U.S.C. § 1677(24) because they accounted for more than three percent of the volume of all subject artists' canvas imported into the United States in the most recent twelve-month period for which data are available preceding the filing of the petition. CR/PR at Table IV-2 (40 percent or more measured by quantity or value in 2004).

<sup>46</sup> 19 U.S.C. §§ 1671b(a), 1673b(a).

<sup>47</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 . . . [a]nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B). See also Angus Chemical Co. v. United States, 140 F.3d 1478 (Fed. Cir. 1998).

<sup>48</sup> 19 U.S.C. § 1677(7)(A).

<sup>49</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>50</sup> 19 U.S.C. § 1677(7)(C)(iii).

Demand for artists' canvas is driven by the ultimate consumer that uses the product for graphic presentation of painted or printed images. The demand tends to be seasonal, peaking in the spring and summer months as retailers stock up for back-to-school promotions.<sup>51</sup>

U.S. producers and most importers reported that demand for artists' canvas increased since the beginning of the period (January 2002).<sup>52</sup> Petitioner attributes the growth in demand to new product offerings by the domestic industry, citing as examples print canvas used for art reproduction or *giclées*, as well as its own patented water color canvas.<sup>53</sup> Respondents, on the other hand, contend that growth is the result of innovative marketing and display techniques utilized by suppliers such as MacPherson's and Aaron Brothers, as well as by the offering of Chinese product at lower prices. In their view, demand increases reflect new consumption created by Chinese product that would not otherwise have taken place in the U.S. market.<sup>54</sup>

Data on the record show that, overall, apparent U.S. consumption has increased \*\*\* for artists' canvas during the period. Apparent consumption increased \*\*\* percent between 2002 and 2004, and was \*\*\* percent higher in interim 2005 than in interim 2004.<sup>55</sup> According to questionnaire responses, the increase in demand for pre-stretched canvas was most commonly attributed to the rapid growth of the home decor and scrapbook markets.<sup>56</sup> Growth in computer art and digital printing on canvas was cited as the reason behind increased demand for bulk/rolled canvas.<sup>57</sup>

The U.S. market for artists' canvas is supplied by domestic production as well as by subject and nonsubject imports. The domestic industry supplied a declining majority of the U.S. market by quantity during the period. At the start of the period (2002), the domestic industry's share of apparent consumption was \*\*\* percent; as of interim 2005, its share was \*\*\* percent. As a share of apparent consumption by value, the declines were \*\*\*: the domestic industry's share was \*\*\* percent in 2002 and, as of interim 2005, \*\*\* percent.<sup>58</sup>

Four firms accounted for \*\*\* U.S. production in 2004, with Tara accounting for \*\*\* percent of U.S. production.<sup>59</sup> Overall, the industry's capacity increased \*\*\* percent between 2002 and 2004, and was \*\*\* percent higher in interim 2005 than in interim 2004.<sup>60</sup> Capacity utilization rates increased \*\*\* percentage points between 2002 and 2004, and decreased by \*\*\* percentage points in comparing interim 2004 and interim 2005.<sup>61</sup>

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<sup>51</sup> CR/PR at II-1.

<sup>52</sup> CR at II-4, PR at II-3.

<sup>53</sup> See, e.g., Petitioner's Postconference Brief at 10-11.

<sup>54</sup> See, e.g., Respondents' Postconference Brief at 22-23.

<sup>55</sup> Memorandum INV-CC-065 (May 12, 2005) (Mem. INV-CC-065) at Table C-1 (apparent U.S. consumption increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2004, and was \*\*\* square meters in interim 2004 as compared to \*\*\* square meters in interim 2005).

<sup>56</sup> CR at II-4, PR at II-3.

<sup>57</sup> CR at II-5, PR at II-3. We intend to collect additional information on demand conditions for artists' canvas, including in bulk/rolled versus assembled formats, in any final phase investigation.

<sup>58</sup> Mem. INV-CC-065 at Table C-1.

<sup>59</sup> CR/PR at III-1.

<sup>60</sup> Mem. INV-CC-065 at Table C-1. The increase in reported capacity is attributable to \*\*\*. CR at III-3, PR at III-2.

<sup>61</sup> The decrease may be attributable to higher than normal capacity utilization rates in interim 2004. Mem. INV-CC-065 at Table C-1; CR at III-3, PR at III-2.

Tara moved a large portion of its U.S. production of pre-stretched canvas during the period to a *maquiladora* facility<sup>62</sup> in Tijuana, Mexico, Decoracion Colonel.<sup>63</sup> Tara had acquired the Mexican manufacturing facility's corporate parent, the California firm Hy-Jo Manufacturing (subsequently renamed to Tara Picture Frames), in September 1990.<sup>64</sup> Tara claims that this production shift to its Mexican affiliate, whose operations had been devoted to the manufacture of picture frames, reflected an effort on Tara's part to lower costs as a direct consequence of the lower-priced merchandise imported from China.<sup>65</sup> Respondents counter that Tara actually made the decision to shift some artists' canvas production to Mexico before 2002 and before China was a significant factor in the U.S. market.<sup>66</sup>

Imports from China supplied an increasing share of the U.S. market in quantity during the period examined, rising from \*\*\* percent in 2002 to \*\*\* percent in 2004, and were \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2003.<sup>67</sup> With assembled canvas constituting the vast majority of artists' canvas imports from China,<sup>68</sup> China's market share by value increased from \*\*\* percent in 2002 to \*\*\* percent in 2004, and was \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2004.<sup>69</sup> The market share for nonsubject imports, of which Mexico constituted the largest source, declined in quantity overall between 2002 and 2004 (from \*\*\* percent in 2002 to \*\*\* percent in 2004) but increased in value (from \*\*\* percent to \*\*\* percent), and was higher in interim 2005 than in interim 2004.<sup>70</sup> Tara accounts for most of the imports from Mexico.<sup>71</sup>

The majority of domestically produced artists' canvas was shipped to retailers. In 2004, \*\*\* percent of U.S. producers' U.S. shipments were to retailers, \*\*\* percent to distributors, and \*\*\* percent to end users. However, the share of domestic shipments to retailers declined by \*\*\* percentage points between 2002 and 2004, as shipments to distributors rose from \*\*\* percent in 2002 to \*\*\* percent in 2004.<sup>72</sup> Most U.S. shipments of imports from China during the period examined were also to retailers (\*\*\* percent (in 2004) or more during the period examined), with the remainder shipped to distributors

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<sup>62</sup> *Maquila* operations involve the importation of foreign merchandise into Mexico on a temporary basis, where it is assembled, manufactured, or repaired, and then exported either to the country of origin or a third country. CR/PR at Table IV-1 n.3.

<sup>63</sup> The production operations performed in Mexico are described in the Staff Report, CR at III-11, PR at III-5. Data regarding Tara's imports of artists' canvas from Mexico are presented in the tabulation in Mem. INV-CC-065 at III-11 (showing that Tara's imports from Mexico as a ratio to production were \*\*\* percent in 2002, \*\*\* percent in 2003, and \*\*\* percent in 2004).

<sup>64</sup> CR/PR at Table IV-1 n.3.

<sup>65</sup> See, e.g., CR at III-11, PR at III-5.

<sup>66</sup> See, e.g., Respondents' Postconference Brief at 32-33.

<sup>67</sup> Mem. INV-CC-065 at C-1. These data are based on import statistics for China and Mexico that are derived from responses to Commission questionnaires rather than official statistics, which proved unreliable. See Mem. INV-CC-065 at 1 (citing example of February 2005 artists' canvas imports into the Customs district of Columbia-Snake, Oregon: 5.8 million square meters at \$0.01 per square meter). The coverage of questionnaire data with respect to imports from China and Mexico is approximately 95-100 percent. We understand that Customs is reviewing the official import statistics for possible future revision.

<sup>68</sup> Bulk/rolled canvas represented \*\*\* percent of reported subject imports from China in 2004. CR/PR at Table I-3 n.2.

<sup>69</sup> Mem. INV-CC-065 at Table C-1.

<sup>70</sup> Mem. INV-CC-065 at Table C-1.

<sup>71</sup> For example, according to proprietary Customs data, \*\*\* percent of imports from Mexico in 2003 and \*\*\* percent in 2004. Staff Worksheets, EDIS documents 231345, 231347.

<sup>72</sup> CR/PR at Table I-2.

and end users. Shipments of subject imports to end users increased from \*\*\* percent in 2002 to \*\*\* percent in 2004.<sup>73</sup>

As noted above, a myriad of products of artists' canvas are covered by the scope of this investigation. Certain types of U.S.-produced artists' canvas, such as print canvas and canvas in the bulk/rolled format, are not imported from China in any significant volumes; and there appears to be no U.S. production of canvas of bleached cotton, which is imported from China. The record indicates at least moderate substitutability between the U.S. product and subject imports. We intend to examine further product mix differences between U.S.-produced and Chinese produced artists' canvas in any final phase investigation. The evidence in the preliminary phase also indicates that factors such as quality, service, and supply play a role in artists' canvas purchasing decisions, with producer responses suggesting the superiority of the domestic product and importer responses showing no clear consensus.<sup>74</sup> The majority of U.S. producers that compared domestic and Chinese product noted that differences other than price are "sometimes" significant; the majority of importers making the same comparison noted that such differences are "frequently" significant.<sup>75</sup>

## **B. 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>76</sup>

Subject import volume increased sharply throughout the period examined, rising from 206,000 square meters in 2002 to 633,000 square meters in 2003, and further to 1.5 million square meters in 2004 – an increase overall of 628.6 percent. Subject import volume was 109.8 percent higher during the first three months of 2005 (535,000 square meters) than the first three months of 2004 (255,000 square meters), already approaching the full year total for 2003.<sup>77</sup>

Subject imports' share of apparent U.S. consumption by quantity also rose sharply, increasing \*\*\* percentage points between 2002 and 2004 (from \*\*\* percent to \*\*\* percent in 2004), and was \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2003.<sup>78</sup> Subject imports' share by value increased almost \*\*\* percentage points (to \*\*\* percent in 2004), and was \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2004.<sup>79</sup>

The increase in subject imports' share of apparent consumption came largely at the expense of the share held by the domestic industry, particularly during the three full years of the period. The domestic industry's share of apparent consumption decreased \*\*\* percentage points between 2002 and 2004 (from \*\*\* percent to \*\*\* percent in 2004). In interim 2005, the domestic industry's share of apparent consumption was \*\*\* percent, down from \*\*\* percent in interim 2004. As a share of apparent consumption by value, the domestic industry experienced declines of \*\*\* percentage points between 2002 and 2004 (to \*\*\* percent in 2004); by interim 2005, the share of apparent U.S. consumption held

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<sup>73</sup> CR/PR at Table I-2.

<sup>74</sup> See, e.g., CR at II-6-II-7, PR at II-5 (noting various responses).

<sup>75</sup> CR/PR at Table II-2.

<sup>76</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>77</sup> Mem. INV-CC-065 at Table IV-2.

<sup>78</sup> Mem. INV-CC-065 at Table C-1.

<sup>79</sup> Mem. INV-CC-065 at Table C-1.

by the domestic industry was \*\*\* percent, as compared to \*\*\* percent in interim 2004.<sup>80</sup> The share of apparent consumption for nonsubject imports declined \*\*\* percentage points overall through 2004, and was \*\*\* percentage points higher in interim 2005 than in interim 2004.<sup>81</sup> The domestic industry's share of consumption was therefore displaced primarily by subject imports and, late in the period and to a lesser degree, by nonsubject imports.

Subject import volume relative to production in the United States also increased throughout the period, rising from \*\*\* percent in 2002 to \*\*\* percent in 2003, and further to \*\*\* percent in 2004. The same ratio was \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2004.<sup>82</sup>

The volume of subject imports thus increased substantially over the period examined, and market share gains came at the expense of U.S. producers. We find that subject import volume, and the increase in that volume, were significant during the period examined, both in absolute terms and relative to domestic consumption and production.

### C. Price Effects of 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>83</sup>

Based on the current record, we find that domestically produced canvas and subject imports from China are generally substitutable. The majority of U.S. producers reported that the two are “always” interchangeable, and the majority of importers reported that they are “frequently” interchangeable.<sup>84</sup> In the competition for sales of artists' canvas, price is an important factor. Producers have identified it as the most significant factor,<sup>85</sup> while importers also noted the importance of factors other than price, such as quality and service.<sup>86</sup>

The Commission collected quarterly pricing information from U.S. producers and importers with respect to four artists' canvas products, three of pre-stretched canvas of different styles and dimensions and a fourth of canvas panel of a particular dimension.<sup>87</sup> The reported pricing data only accounted for approximately 2.7 percent of U.S. producers' U.S. shipments during the period examined, and 6.5 percent of U.S. imports of subject imports from China during the same period, and encompassed arms-

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<sup>80</sup> Mem. INV-CC-065 at Table C-1. The larger declines on a value basis appear to reflect the domestic industry's increasing shipments of lower-margin bulk/rolled canvas during the period examined.

<sup>81</sup> In terms of value, the share of apparent consumption of nonsubject imports increased from \*\*\* percent in 2002 to \*\*\* percent in 2004, and was \*\*\* percent in interim 2005 as compared to \*\*\* percent in interim 2004. Mem. INV-CC-065 at Table C-1.

<sup>82</sup> Mem. INV-CC-065 at Table IV-2.

<sup>83</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>84</sup> CR/PR at Table II-1.

<sup>85</sup> See, e.g., Tr. at 12-13 (Mr. Delin).

<sup>86</sup> See, e.g., Tr. at 131-32 (Harvey Kanter, President, Aaron Brothers).

<sup>87</sup> We note that the pricing products encompassed all of the varying grades of canvas (e.g., linen, cotton, or polyester) that otherwise met the definition. U.S. producers manufacture all grades of canvas, while subject imports were primarily of cotton. CR at II-6, PR at II-4. Reported U.S. prices thus may include higher grades of canvas, which would correspond to higher prices.

length sales of product to the first unrelated purchaser in the U.S. market.<sup>88</sup> The data collected from U.S. producers thus included sales to both distributors and retailers, while that for importers generally included sales to retailers. Sales by direct importers, that is, large retailers that conduct their own importing for their own retail sales, were not included in the price comparisons.<sup>89</sup> In any final phase investigation, we will also solicit data respecting the purchase prices of direct importers, as well as the sales prices of U.S. producers identified by specific purchaser channel (i.e., distributor or retailer).

The data in the preliminary phase show that the prices of imports from China were lower than those of the domestic product in 39 of 46 possible quarterly comparisons. The margins of underselling in these quarters ranged from 13.3 percent to 45.2 percent. The domestic product undersold subject imports from China in 7 quarterly comparisons, with margins ranging from 7.6 percent to 27.8 percent.<sup>90</sup>

Based on the record evidence, we find significant underselling by subject imports from China during the period examined. During this period, however, domestic prices trended upward, while subject import prices trended downward.<sup>91</sup> There were no overall price declines experienced by the domestic industry with respect to three of the four pricing products, and the overall decline of \*\*\* percent noted with respect to the fourth product was accompanied by the underselling of subject imports by the domestic product.<sup>92</sup> Nor do the cost data clearly indicate significant price suppression experienced by the domestic industry.<sup>93</sup> However, the value and unit value of domestic producers' sales declined over the period and, as their expenses rose, profitability declined.<sup>94</sup>

The domestic industry also reported \*\*\* allegations of lost sales in the amount of at least \$\*\*\*, and \*\*\* lost revenue \*\*\* in the amount of \$\*\*\*. Staff was able to confirm three lost sales allegations that, to the extent specified, accounted for \$\*\*\* in yearly sales.<sup>95</sup>

The preliminary phase record thus shows evidence of significant underselling by the subject imports and some evidence of lost sales, but is unclear as to the extent to which the increasing volume of subject imports accounted for the decline in the values and unit values of domestic producers' sales over the period. We intend to explore this issue more fully in any final phase investigation.

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<sup>88</sup> CR at V-4, PR at V-3.

<sup>89</sup> CR at V-4 n.7, PR at V-3 n.7.

<sup>90</sup> CR/PR at Tables V-1-V-4 & V-5-V-6. The seven quarters for which overselling was demonstrated involved product 4, for which import volume was minuscule. CR/PR at Table V-4.

<sup>91</sup> CR/PR at Figures V-1-V-4.

<sup>92</sup> CR at V-5, PR at IV-4-IV-5. Insofar as the specific product pricing shows increasing prices while average unit values declined, the data appear anomalous. See CR/PR at Table VI-1. This may reflect the limited coverage for pricing data, product mix issues, or the movement of the domestic industry to producing more higher-valued assembled canvas in Mexico. We intend to examine this issue further in any final phase investigation.

<sup>93</sup> See Mem. INV-CC-065 at Table C-1 (COGS/sales decreased from \*\*\* percent in 2002 to \*\*\* percent in 2003, and then increased to \*\*\* percent in 2004; this ratio was \*\*\* percent in interim 2004 compared to \*\*\* percent in interim 2005). Overall, per-square meter COGS and total cost (which includes SG&A expenses) decreased continuously from 2002 to 2004, and decreased slightly in comparing interim 2004 and interim 2005. CR/PR at Table VI-5. However, due to differences in bulk/rolled versus assembled canvas, product mix may have a significant impact on the average unit cost (and sales value) calculations. CR at VI-8, PR at VI-2.

<sup>94</sup> Mem. INV-CC-065 at Table C-1.

<sup>95</sup> CR/PR at Tables V-7, V-8; CR at V-13-V-15, PR at V-5-V-7.

#### D. Impact of Subject Imports<sup>96</sup>

Section 771(7)(C)(iii) 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>97</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.”<sup>98</sup>

As the U.S. market for artists’ canvas grew over the period, the domestic industry increased its capacity and production. The industry’s capacity increased between 2002 and 2004 (from \*\*\* square meters in 2002 to \*\*\* square meters in 2004), and was \*\*\* square meters in interim 2005 compared to \*\*\* square meters in interim 2004.<sup>99</sup> Domestic output also increased between 2002 and 2004 (from \*\*\* square meters in 2002 to \*\*\* square meters in 2004), but was \*\*\* percent lower in interim 2005 than in interim 2004 (declining from \*\*\* square meters in interim 2004 to \*\*\* square meters in interim 2005). Capacity utilization increased between 2002 and 2004 (from \*\*\* percent in 2002 to \*\*\* percent in 2004), before declining \*\*\* percentage points in interim period 2005 relative to interim period 2004 (from \*\*\* percent in interim 2004 to \*\*\* percent in interim 2005).<sup>100</sup>

However, notwithstanding a steadily growing U.S. market for artists’ canvas, the domestic industry’s condition worsened over the period with respect to a number of measures. The domestic industry lost market share, from \*\*\* percent in 2002 to \*\*\* percent in 2004, to an even lower \*\*\* percent in interim 2005.<sup>101</sup> U.S. shipment volumes declined from 2002 to 2003 but increased \*\*\* overall between 2002 and 2004.<sup>102</sup> Shipment volumes declined \*\*\* percent in interim 2005 relative to interim 2004.<sup>103</sup> In terms of value, U.S. shipments decreased by \*\*\* percent between 2002 and 2003, by \*\*\* percent between 2003 and 2004, and by \*\*\* percent in interim 2005 relative to interim 2004.<sup>104</sup> The unit values of U.S. producers’ shipments and sales also fell over the period.<sup>105</sup> While the quantity and value

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<sup>96</sup> In its preliminary affirmative determination for subject artists’ canvas from China, Commerce found estimated dumping margins ranging from 242.09 percent *ad valorem* to 264.09 percent *ad valorem*. 70 Fed. Reg. at 21998.

<sup>97</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>98</sup> See 19 U.S.C. § 1677(7)(C)(iii); see also SAA at 851, 885; Live Cattle from Canada and Mexico, Inv. Nos. 701-TA-386 (Preliminary) and 731-TA-812-813 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25 n.148.

<sup>99</sup> Mem. INV-CC-065 at Table C-1.

<sup>100</sup> As noted above, the decrease may be attributable to higher than normal capacity utilization rates in interim 2004.

<sup>101</sup> Mem. INV-CC-065 at Table C-1.

<sup>102</sup> Mem. INV-CC-065 at Table C-1 (\*\*\* square meters in 2002, \*\*\* square meters in 2003, and \*\*\* square meters in 2004).

<sup>103</sup> Mem. INV-CC-065 at Table C-1 (\*\*\* square meters in interim 2004 to \*\*\* square meters in interim 2005).

<sup>104</sup> CR/PR at Table III-5.

<sup>105</sup> Overall, average unit sales values (AUVs) declined from \$\*\*\* in 2002 to \$\*\*\* in 2003, and further to \$\*\*\* in 2004, but increased \*\*\* in interim 2005 relative to interim 2004 (\$\*\*\* compared to \$\*\*\*). CR/PR at Table VI-1. The shift in U.S. shipments from \*\*\* assembled canvas to \*\*\* bulk/rolled canvas is perhaps reflected in this AUV data, although other product mix issues might be present. As noted above, the shift in assembly of canvas to Mexico will be further examined. We note further that, based on available information, AUVs and total costs in connection with bulk/rolled canvas and assembled canvas were quite different, and the financial results for sales of each also differed. CR/PR at VI-1-VI-2; CR/PR at Tables VI-2-VI-3.

of U.S. shipments of bulk/rolled canvas increased between 2002 and 2004,<sup>106</sup> the quantity and value of assembled artists' canvas decreased over the same period.<sup>107</sup>

In April 2003, Tara laid off 39 employees; additional lay offs continued throughout the year as Tara moved a large share of its stretching operation to Mexico, as discussed above.<sup>108</sup> The total number of workers in the domestic industry declined from \*\*\* in 2002, to \*\*\* in 2003, to \*\*\* in 2004, and was \*\*\* in interim 2005 relative to \*\*\* in interim 2004.<sup>109</sup> Total wages paid similarly declined (\*\*% percent between 2002 and 2004, and \*\*% percent in interim 2005 relative to interim 2004).<sup>110</sup> Productivity increased and unit labor costs decreased as the number of workers shrank.<sup>111</sup> Inventories declined \*\*% percent from 2002 to 2004 and were \*\*% percent lower in interim 2005 than in interim 2004.<sup>112</sup>

The domestic industry's financial indicators worsened over the period. The domestic industry saw its profitability decline overall, as operating income of \$\*\*\* (\*\*% percent operating margin) in 2002 fell to \$\*\*\* (\*\*% operating margin) in 2004.<sup>113</sup> Operating income showed some recovery from interim 2004 to interim 2005, from \$\*\*\* (\*\*% percent operating margin) to \$\*\*\* (\*\*% percent operating margin).<sup>114</sup> \*\*\* firms reported net operating losses in 2004.<sup>115</sup>

Capital expenditures from 2002 to 2004 increased, but then decreased significantly in interim 2005 relative to interim 2004.<sup>116</sup> In addition, \*\*\*, reported research and development expenses.<sup>117</sup> Finally, the domestic industry's return on investment (ROI) increased from \*\*% percent in 2002 to \*\*% percent in 2003, before declining to \*\*% percent in 2004.<sup>118</sup>

In a market that has grown approximately \*\*% percent from 2002 to 2004, and further increased in the interim periods, the domestic industry's condition worsened as measured by several indicia of performance. These declines occurred as a significant volume of subject imports gained market share at the expense of U.S. producers, consistently undersold the domestic product, and took sales from U.S. producers. For purposes of this preliminary determination, we therefore find that the subject imports have had a negative impact on the condition of the domestic industry during the period examined.

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<sup>106</sup> CR/PR at Table III-5. The quantity of U.S. shipments of bulk/rolled canvas increased by \*\*% percent from 2002 to 2003, and by \*\*% percent between 2003 and 2004, before decreasing by \*\*% percent in interim 2005 relative to interim 2004.

<sup>107</sup> CR/PR at Table III-5. The quantity of U.S. shipments of assembled artists' canvas decreased by \*\*% percent from 2002 to 2003, by \*\*% percent from 2003 to 2004, and increased by \*\*% percent in interim 2005 relative to interim 2004.

<sup>108</sup> We will explore further in any final phase investigation Tara's decision to shift some production to Mexico and the effect on its business of its imports of finished product from Mexico.

<sup>109</sup> CR at III-10, PR at III-4; CR/PR at Table III-7.

<sup>110</sup> Mem. INV-CC-065 at Table C-1. Average hourly wages increased \*\*% percent between 2002 and 2004, and were \*\*% percent higher in interim 2005 relative to interim 2004. Mem. INV-CC-065 at Table C-1.

<sup>111</sup> Mem. INV-CC-065 at Table C-1.

<sup>112</sup> Mem. INV-CC-065 at Table C-1. \*\*\* inventories represent \*\*% percent of total reported inventories during the period examined. Tara has reported that shortages of supply are common given the large variety of sizes and types of product and that, to prevent future shortages, it increased the size of one of its warehouses and will continue to work on improvements to forecasting consumer demand. CR at III-8-III-9, PR at III-4.

<sup>113</sup> Respondents have argued that industry operating profitability is distorted by an inexplicable \*\*% in 2004. We will explore this issue further in any final phase investigation.

<sup>114</sup> CR/PR at Table VI-1.

<sup>115</sup> CR/PR at Table VI-3.

<sup>116</sup> CR/PR at Table VI-7.

<sup>117</sup> CR at VI-10, PR at VI-2; CR/PR at Table VI-7.

<sup>118</sup> CR/PR at Table VI-9.

## **CONCLUSION**

For the reasons stated above, we find a reasonable indication that the domestic industry producing artists' canvas is materially injured by reason of subject imports from China that are allegedly sold in the United States at less than fair value.



## PART I: INTRODUCTION

### BACKGROUND

This investigation results from a petition filed by Tara Materials, Inc. (“Tara”), Lawrenceville, Georgia, on April 1, 2005, 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 artists’ canvas<sup>1</sup> from China. Information relating to the background of the investigation is provided below.

Date	Action	Federal Register notice <sup>1</sup>
April 1, 2005	Petition filed with the Commerce and the Commission; <sup>2</sup> institution of Commission investigation	70 FR 17467, April 6, 2005
April 21, 2005	Commerce’s initiation	70 FR 21996, April 28, 2005
April 22, 2005	Commission’s conference <sup>2</sup>	
May 16, 2005	Commission’s vote and determination to Commerce	
May 23, 2005	Commission’s views to Commerce	

<sup>1</sup> Federal Register notices cited in the tabulation are presented in app. A.  
<sup>2</sup> A list of witnesses appearing at the conference is presented in app. B.

### U.S. MARKET SUMMARY

Tara, the largest domestic producer of artists’ canvas, accounted for over \*\*\* of U.S. production in 2004. The second largest producer, Duro Art Ind. Inc. (“Duro”), produced \*\*\* percent of artists’ canvas in 2004. The remaining six producers accounted for \*\*\* percent of the industry.

The three largest importers, \*\*\*, accounted for approximately \*\*\* percent of subject imports from China in 2004. Mexico is the largest nonsubject exporter of artists’ canvas. During 2004, \*\*\* accounted for \*\*\* percent of imports of artists’ canvas from Mexico.

### PREVIOUS INVESTIGATIONS

The Commission has not previously conducted import injury investigations concerning artists’ canvas.

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<sup>1</sup> A complete description of the imported products subject to investigation is presented in *The Subject Product* section of this part of the report.

## ORGANIZATION OF REPORT

Section 771(7)(B) of the Tariff Act of 1930 (the “Act”) (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission—

*shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and. . . may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.*

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--

*In evaluating the volume of imports of merchandise, 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.*

. . .

*In evaluating the effect of imports of such merchandise on prices, 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.*

. . .

*In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to . . . (I) actual and potential decline in output, sales, market share, profits, productivity, return on investments, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and (V) in \*\*\*, the magnitude of the margin of dumping.*

Information on the subject merchandise, margins of dumping, and domestic like product is presented in *Part I*. Information on conditions of competition and other relevant economic factors is presented in *Part II*. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. The volume and pricing of imports of the subject merchandise are presented in *Parts IV and V*, respectively. *Part VI* presents information on the financial experience of U.S. producers. The statutory requirements and information obtained for use in the Commission’s consideration of the question of threat of material injury are presented in *Part VII*.

## NATURE AND EXTENT OF ALLEGED SALES AT LTFV

Commerce has initiated an antidumping investigation based on petitioner's allegations of LTFV sales. The estimated dumping margins (in percent *ad valorem*) as alleged by petitioner and revised by Commerce are 242.09 to 264.09 percent.<sup>3</sup>

### SUMMARY DATA

A summary of data collected in the investigation is presented in appendix C, table C-1. Except as noted, U.S. industry data are based on questionnaire responses of four firms that accounted for approximately \*\*\* percent of U.S. production of artists' canvas during 2004. U.S. imports are based on responses to the Commission's questionnaires and official Commerce statistics.

### THE SUBJECT PRODUCT

Commerce has defined the scope of the imported product subject to this investigation as:

*...artist canvases regardless of dimension and/or size, whether assembled or unassembled (i.e., kits that include artist canvas and other items, such as a wood frame), that have been primed/coated, whether or not made from cotton, whether or not archival, whether bleached or unbleached, and whether or not containing an ink receptive top coat. Priming/coating includes the application of a solution, designed to promote the adherence of artist materials, such as paint or ink, to the fabric. Artist canvases (i.e., pre-stretched canvases, canvas panels, canvas pads, canvas rolls (including bulk rolls that have been primed), printable canvases, floor cloths, and placemats) are tightly woven prepared painting and/or printing surfaces.*<sup>4</sup>

Artists' canvas is provided for in subheadings 5901.90.20 and 5901.90.40 of the Harmonized Tariff Schedule of the United States ("HTS"), and imports of coated canvas in rolls may be covered under headings 5903 and 5907. A normal trade relations tariff rate of 7 percent *ad valorem* under subheading 5901.90.20 and 4.1 percent *ad valorem* under subheading 5901.90.40 are applicable to imports from China. Table I-1 presents current tariff rates for artists' canvas.

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<sup>3</sup> 70 FR 21996, April 28, 2005.

<sup>4</sup> Ibid.

**Table I-1  
Artists' canvas: Tariff rates, 2005**

		General <sup>1</sup>	Special <sup>2</sup>	Column 2 <sup>3</sup>
HTS provision	Article description	Rates ( <i>percent ad valorem</i> )		
5901	Textile fabrics coated with gum or amylaceous substances, of a kind used for the outer covers of books or the like; tracing cloth; prepared painting canvas; buckram and similar stiffened textiles of a kind used for hat foundations.			
5901.90	Other			
5901.90.20	Of man-made fibers	7%	( <sup>2</sup> )	74.5%
5901.90.40	Other	4.1%	( <sup>2</sup> )	35%

<sup>1</sup> Normal trade relations, formerly known as the most-favored-nation duty rate, applicable to imports from China.  
<sup>2</sup> Special rates apply to imports of artists' canvas from certain trading partners to the United States. The notes to the HTS indicate that duty-free entry is available to products under U.S. free-trade agreements with Canada, Mexico, Australia, Chile, Israel, Jordan, Singapore and (for 5901.90.40 only) under the Caribbean Basin Economic Recovery Act.  
<sup>3</sup> Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.

Source: Harmonized Tariff Schedule of the United States (2005).

## THE DOMESTIC LIKE PRODUCT

The Commission's determination regarding the appropriate domestic products that are "like" the subject imported product is based on a number of factors, including (1) physical characteristics and uses; (2) common manufacturing facilities and production employees; (3) interchangeability; (4) customer and producer perceptions; (5) channels of distribution; and, where appropriate, (6) price.

The petitioner contends there is one domestic like product.<sup>5</sup> The respondents do not challenge the petitioner's definition of the domestic like product.<sup>6</sup>

### Physical Characteristics and Uses

The petitioner asserts that all artists' canvas has the same physical characteristics and uses.<sup>7</sup> Artists' canvas is used as a medium for the graphic expression of art, particularly involving paints, inks or another graphic medium. Artists' canvas is made of a canvas fabric that, once coated with a specific chemical product, known as gesso or primer, will allow paint<sup>8</sup> to be placed upon it without penetrating the original

<sup>5</sup> "There is a single domestic product that is like the imported artist canvas. That like product consists of all artist canvas regardless of size, quality, and whether or not it is sold in pre-stretched, panel, board, pad or roll form. The like product definition is identical to the scope of the subject merchandise as defined in the petition." Petition, p. 28.

<sup>6</sup> However, respondents note that "the Petitioner's definition is very broad and includes some product not produced by Petitioner (i.e., kits, bleached canvas)." Respondents' postconference brief, p. 9.

<sup>7</sup> Petitioner stated that all artists canvas is characterized by the use of treated canvas, a woven textile product, and its sole use is for graphic presentation by painters or printers. Petition, p. 28.

<sup>8</sup> Oil paint, acrylic paint, alkyd paint, tempera paints, pen or ink, water colors, casein paints, inks, and pigments.

fabric.<sup>9</sup> The coating provides the artist with the surface upon which to produce a graphic presentation, while the canvas provides the material which best supports the coated surface.

Variations within the range of materials woven into canvas that may be used to produce artists' canvas include cotton, linen (from flax), muslin, jute, and polyester. Such canvas is the primary material used to produce artists' canvas.<sup>10</sup> The raw uncoated canvas may be used in such applications as sails for sailboats, tents, awnings, book covers, and various industrial products, although once coated it is used exclusively for artists' canvas.<sup>11</sup>

Once coated, artists' canvas can be sold in a variety of physical formats: assembled canvas, in which the coated canvas is wrapped and stapled to either the edge or back of wooden frames, or bulk/rolled, in which the canvas is coated and sold in various widths and lengths. Other commonly marketed physical formats of artists' canvas include: panels (canvas glued to a chipboard surface), printing canvases (coated canvas with an additional ink receptive coating for use in inkjet printers), canvas pads (loose coated canvas sheets bound together), archival boards (coated canvas adhered to a hard board), floor cloths (heavy-weight artists' canvas coated on one side to used as decorative floor covering), and placemats (canvas cut in oval or rectangular shapes and coated on both sides).

### **Manufacturing Facilities and Production Employees**

Petitioner states that all artists' canvas is produced in the same manufacturing facilities, using the same production processes and production employees, and that no other products are or can be manufactured using the production process or production equipment for the artists' canvas.<sup>12</sup>

Most producers of artists' canvas purchase the raw woven canvas material upon which they apply a coating material. The coatings are mixed using various chemical compounds to make a specialized latex paint that is receptive to specific artist paints or printing inks. The production process is known as the printing line, and multiple passes of the canvas through this process may be required. Once the canvas is coated, it is inspected and may be placed on bulk rolls or smaller rolls, or sheeted and cut to size for use in a lithographic printing, pre-stretched artist canvas and artist panels, or other artist substrate. If designated for use as a pre-stretched canvas, the cut material is stretched over a frame of four wooden stretcher strips and stapled on the edge or the back. Canvas designated for use in artist panels is attached to a fiber board backing with adhesive.<sup>13</sup>

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

Petitioner argues that all artists' canvas is interchangeable, regardless of size, shape, or format and that customers consider different styles of artists' canvas to be interchangeable.<sup>14 15</sup> The majority of

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<sup>9</sup> Petition, p. 5.

<sup>10</sup> Ibid.

<sup>11</sup> Conference transcript, p. 23 (Straquadine).

<sup>12</sup> Petition, p. 31.

<sup>13</sup> Petition, pp. 8-9.

<sup>14</sup> "While a canvas presented on a stretcher strip could not be used for (for example) printing, they are all used for the same purpose of graphic presentation and, accordingly, are interchangeable under the Commission's like product analysis." Petition, p. 29.

<sup>15</sup> "Substitute products are very limited. There is nothing like the real thing when it comes to an artist's painting. There are papers, and there are paperboards that are used, and some are gaining popularity, which are either gessoed boards or papers intended to imitate canvas. They are a very small part of the industry, and they are certainly not part of the scope that we've focused upon." Conference transcript, p. 83 (Straquadine). "Stretch canvas, there's a little romance to it. It looks like you're an artist. You know, you're kind of feeling like there's something special about that. If you really just took it down to the raw thing, you know, what is the cheapest possible product that you  
(continued...)

producers reported that the domestic and Chinese artists' canvas are always comparable. The majority of importers reported that they are frequently comparable.

### Channels of Distribution

All types of artists' canvas are sold to art specialty stores, retailers, wholesalers, and mail order or internet suppliers.<sup>16</sup> Data on the share of quantity according to channels of distribution are presented in table I-2.

The majority of U.S.-produced products were shipped to retailers; during 2004, \*\*\* percent of U.S.-produced shipments were sold to distributors, \*\*\* percent to end users and \*\*\* percent to retailers. However, the share of U.S.-produced artists' canvas shipped to retailers decreased by \*\*\* percentage points between 2002 and 2004, as shipments to distributors rose from \*\*\* percent in 2002 to \*\*\* percent in 2004. Over the period of investigation, the majority of imports from China were sold to retailers, although the share shipped directly to end users increased from \*\*\* percent of total U.S. shipments in 2002 to \*\*\* percent in 2004.

**Table I-2**  
**Artists' canvas: Shares of U.S. producers' and U.S. importers' U.S. shipments of artists' canvas, by channels of distribution, 2002-04, January-March 2004, and January-March 2005**

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

### Price

As stated in the aforementioned text, once the canvas is coated, it can be packaged in bulk/rolled form, sheeted, and cut to size for use in a lithographic printing, or assembled onto a wooden frame. The transformation of coated bulk/rolled artists' canvas into assembled artists' canvas requires construction of a frame,<sup>17</sup> canvas to be cut to a specified size, and the attachment of cut canvas to the frame.

As bulk canvas is used in the production of assembled canvas, U.S. producers and importers were asked to provide U.S. commercial shipment data and the cost of production of both forms of artists' canvas. In 2004, U.S. producers' U.S. commercial shipments of bulk/rolled artists' canvas averaged \$\*\*\* per square meter, compared with \$\*\*\* per square meter for assembled artists' canvas. In contrast, imports from China of bulk/rolled canvas averaged \$\*\*\* per square meter and assembled artists' canvas averaged \$\*\*\* per square meter. A summary of average unit values for bulk/rolled and assembled canvas is presented in table I-3.

**Table I-3**  
**Artists' canvas: Average unit values per square meter, U.S.-produced, imports from China, and imports from all other sources, by type, 2004**

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

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<sup>15</sup>(...continued)

could buy that performs well, look at Leonardo. He painted on hardwood.” Conference transcript, p. 203 (Stapelton).

<sup>16</sup> Petition, p. 29; Petitioner's postconference brief, p. 6.

<sup>17</sup> Construction of a wooden frame involves cutting and sizing lumber, tenoning wood to form “stretcher strips” (wood panels with 45 degree angles cut in their ends), and assembling stretcher strips into frames. Petitioner's postconference brief, exh. 1.

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

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

Artists' canvas is sold in four principal forms: pre-stretched canvas (and stapled either on the side or on the back), canvas panels, canvas pads, and canvas rolls. The product is used for graphic presentation of painted or printed images.<sup>1</sup> The demand for artists' canvas tends to be seasonal, peaking in the spring and summer months as retailers stock up for back-to-school promotions.<sup>2</sup>

Practically all sales of artists' canvas go to retailers and distributors/wholesalers. In 2004, approximately \*\*\* percent of sales went to distributors and \*\*\* percent went to retailers. Among retailers, large arts and crafts chains account for roughly \*\*\* the amount of sales when compared to independent fine art stores.<sup>3</sup> A smaller portion of sales of artists' canvas goes to converters that specialize in coating.<sup>4</sup> Some of these transactions with converters may involve tolling, but the extent to which this occurs is unclear.<sup>5</sup>

When firms were asked to list market areas in the United States where they sell artists' canvas, the responses showed that the market areas tended to be nationwide. Among the four U.S. producers, three reported that they sell nationally while the other reported that it sells specifically in the Southeast and Southwest. Among importers of artists' canvas from China, three reported that they sold nationally. The three others listed specific geographic regions, including the Southeast, Northeast, Mid-Atlantic, Midwest, and Southwest.

U.S. inland shipping distances for U.S.-produced artists' canvas were compared with those for imports from China. For U.S. producers, \*\*\* percent of their U.S. sales occur within 100 miles of their storage or production facility, \*\*\* percent were within distances of 101 to 1,000 miles, and \*\*\* percent were at distances of over 1,000 miles from their facilities. For imports from the subject country, \*\*\* percent of sales occurred within 100 miles of importers' storage facilities, \*\*\* percent were within 101 to 1,000 miles, and \*\*\* percent were over 1,000 miles.

Lead times for delivery of artists' canvas ranged widely for both producers and importers. For producers they ranged from three days to as much as eight weeks. For importers they ranged from one day to as much as 150 days.

### **SUPPLY AND DEMAND CONSIDERATIONS**

#### **U.S. Supply**

##### **Domestic Production**

The supply response of domestic artists' canvas producers to changes in price depends on such factors as the level of excess capacity, the availability of alternate markets for U.S.-produced artists' canvas, inventory levels, and the ability to shift to the manufacture of other products. The evidence

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<sup>1</sup> Petition, p. 5.

<sup>2</sup> Conference transcript, p. 193 (Gallas, Stapleton).

<sup>3</sup> Petitioner's postconference brief, exhibit 1, p. 5.

<sup>4</sup> Petitioner reports there are three primary coaters in the United States that specialize in gesso coating for artists' canvas. Conference transcript, pp. 49-50 (Benator, Straquadine). There are other coaters in the United States that specialize in inkjet receptive coats for canvases used in digital printing. Conference transcript, p. 49 (Benator).

<sup>5</sup> Conference transcript, p. 97 (Benator).

indicates that the U.S. supply is likely to be fairly elastic, due primarily to the availability of unused capacity, the existence of alternative markets, and considerable inventory levels.

### ***Industry capacity***

U.S. producers' annual capacity utilization rates ranged from a low of \*\*\* percent in 2002 to a high of \*\*\* percent in 2004. This level of capacity utilization indicates that U.S. producers have unused capacity with which they could increase production of artists' canvas in the event of a price change.

### ***Alternative markets***

Total exports by U.S. producers, as a share of total shipments, increased from \*\*\* percent in 2002 to \*\*\* percent in 2003 and increased further to \*\*\* percent in 2004. These data indicate that U.S. producers have the ability to divert some shipments to or from alternative markets in response to changes in the price of artists' canvas.

### ***Inventory levels***

The ratio of end-of-period inventories to U.S. shipments decreased from \*\*\* percent in 2002 to \*\*\* percent in 2004. These data indicate that U.S. producers have the ability to use inventories as a means of increasing shipments of artists' canvas to the U.S. market.

### ***Production alternatives***

None of the firms reported using the actual machinery and equipment used to make artists' canvas in the production of other products. However, one producer reported that it uses the workers that produce artists' canvas in the production of other products at its facilities.

### **Subject Imports**

The responsiveness of supply of imports from China to changes in price in the U.S. market is affected by such factors as capacity utilization rates and the availability of home markets and other export markets. Based on available information, producers in China are likely to respond to changes in demand with slight changes in the quantity of shipments of artists' canvas to the U.S. market. The main contributing factor to the slight degree of responsiveness of supply is the lack of unused capacity in conjunction with the availability of alternate markets.

### ***Industry capacity***

During the period of investigation, the capacity utilization rate for Chinese producers of artists' canvas was \*\*\* percent; it is projected to fall to \*\*\* percent in 2005.

### ***Alternative markets***

Available data indicate that foreign producers in China have the ability to divert shipments to or from alternative markets in response to changes in the price of artists' canvas. Shipments of artists' canvas from China to the United States increased from approximately \*\*\* percent of total shipments in 2002 and 2003 to \*\*\* percent in 2004. The share of China's shipments to export markets other than the United States decreased from about \*\*\* percent in 2002 and 2003 to \*\*\* percent in 2004 with the remainder going to its home market, including internal consumption.

### ***Inventory levels***

Chinese producers' inventories, as a share of total shipments, decreased from \*\*\* percent in 2002 to \*\*\* percent in 2003 and decreased further to \*\*\* percent in 2004. These data indicate that foreign producers have a limited ability to use inventories as a means of increasing shipments of artists' canvas to the U.S. market.

### **Nonsubject Imports**

Based on responses to Commission questionnaires, U.S. imports of artists' canvas from nonsubject sources accounted for \*\*\* percent of the quantity of total U.S. imports in 2004.

## **U.S. Demand**

### **Demand Characteristics**

The availability of substitutes for artists' canvas discussed below indicates that the demand for this product is likely to be relatively price elastic. When asked how the overall demand for artists' canvas has changed since January 2002, all the U.S. producers and all but three of the importers stated that the demand had increased. The increase in demand for pre-stretched artists' canvas was most commonly attributed to the rapid growth of the home decor and scrapbook markets.<sup>6</sup> One importer and four retailers also reported that consumer demand had increased due to the increasing availability of low-priced artists' canvas.<sup>7</sup> One importer also attributed the increased demand to better marketing strategies of retailers.<sup>8</sup> Growth in computer art and digital printing on canvas was cited as the reason behind increased demand for artists' canvas in bulk.

### **Substitute Products**

When asked whether there are substitutes for artists' canvas, all U.S. producers and most responding importers cited one or more alternative materials. One producer named particle board panel, which reportedly has a similar texture to pre-stretched artists' canvas. One importer named masonite panel as a possible substitute. Other materials such as fine-art papers, scrapbook paper, wood panels, and plastic panels, once treated and primed, were also named. However, one importer maintained that there are no perfect substitutes for artists' canvas, as there is an unparalleled sense of romance attached to

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<sup>6</sup> Respondents credited shows like "Trading Spaces" for contributing to the trend in non-traditional uses for artists' canvas, especially in home decor. Conference transcript, p. 134 (Urnes).

<sup>7</sup> Respondents stated that the increasing availability of low-priced artists' canvas furthers the growth of the entire art industry, proposing that hobbyists who are introduced to low-priced canvas eventually cross over to higher grades and various shapes and sizes, which leads to an increase in overall demand for artists' canvas. Conference transcript, pp. 153-154 (Stapleton). On the other hand, the petitioner stated that low-priced imports do not expand the artists' canvas market as they are merely cheap imitations of the higher-quality domestic product and only serve to displace the domestic product. Conference transcript, pp. 25 and 100 (Straquadine).

<sup>8</sup> Respondents stated that the introduction of "faced-out" marketing, in which artists' canvas is displayed prominently on store shelves, has attracted the attention of consumers who otherwise would not typically purchase artists' canvas. Conference transcript, p. 116 (Stapleton).

painting on an authentic artists' canvas set on an easel.<sup>9</sup> This importer also reported that demand for the substitute products has increased alongside increasing demand for artists' canvas due to the growth in the craft and home decor markets.<sup>10</sup> None of the producers or importers said that changes in the prices of these substitutes would affect the price of artists' canvas. However, one importer said that low-priced artists' canvas is increasingly attracting students and young artists away from other economical alternatives such as paper and particle board.

### SUBSTITUTABILITY ISSUES

The extent of substitutability between domestic products and subject and nonsubject imports and between subject and nonsubject imports is examined in this section. The discussion is based upon the results of questionnaire responses from producers and importers.

#### Comparison of Domestic Product and Subject Imports

In order to determine whether U.S.-produced artists' canvas can generally be used in the same applications as imports from China, producers and importers were asked whether the products can "always," "frequently," "sometimes," or "never" be used interchangeably. The majority of producers that compared China with the United States reported that they are always comparable, as shown in table II-1. The majority of importers that compared China with the United States reported that they are frequently comparable, as shown in table II-1. One factor limiting interchangeability is the fact that artists' canvas imported from China is primarily made from cotton, either bleached or unbleached, which is generally considered to be of slightly lower quality than linen canvas.<sup>11</sup> Two retailers reported serious quality problems with the domestic product from \*\*\*, while one potential importer said that the Chinese product did not meet its quality standards.<sup>12</sup> Nearly all grades and varieties of artists' canvases are available from all producers, with the exception of a patented watercolor-grade canvas, which is only available from U.S. producer Tara.

**Table II-1**  
**Artists' canvas: Perceived degree of interchangeability of product produced in the United States and in other countries**

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
U.S. vs. China	2	0	1	0	1	5	2	1
U.S. vs. Nonsubject	2	0	1	0	0	2	3	0
China vs. Nonsubject	2	0	1	0	0	2	4	0

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

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

<sup>9</sup> Conference transcript, p. 195 (Stapleton).

<sup>10</sup> Ibid.

<sup>11</sup> Conference transcript, pp. 82-83 (Straquadine) and pp. 90-91 (Benator).

<sup>12</sup> Conference transcript, pp. 40-41 (Cicherski).

As indicated in table II-2, the majority of U.S. producers that compared the United States with China said that differences other than price are sometimes significant. One producer said that among professional artists who value high quality, the U.S. product has the advantage over the product from China. Another producer reported that the domestic industry has better availability and product range than the Chinese producers.

**Table II-2**  
**Artists' canvas: Differences other than price between products from different sources<sup>1</sup>**

Country comparison	U.S. producers				U.S. importers			
	A	F	S	N	A	F	S	N
U.S. vs. China	0	0	2	1	0	3	1	0
U.S. vs. Nonsubject	0	0	2	1	0	0	0	0
China vs. Nonsubject	0	0	2	1	0	0	0	0

<sup>1</sup> Producers and importers were asked if differences other than price between artists' canvas produced in the United States and in other countries are a significant factor in their firms' sales of artists' canvas.

Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.

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

The majority of importers that compared the United States with China said that the differences are frequently significant (see table II-2); however, there was no clear consensus on which product was superior in these comparisons. Among importers, one firm reported that the delivery time of the Chinese product is superior to that of the United States. Another importer said that Chinese producers offer more styles and sizes than U.S. producers. Another importer reported that Chinese producers are more flexible in their supply, especially in the availability of non-traditional shapes and sizes.<sup>13</sup> Another importer stated, however, that its imports from China are limited by the fact that U.S. producers offer a wider product range than Chinese producers, including heavier-weight cotton canvas, linen canvas, and specialty canvases such as convex and oval shapes.

### Other Country Comparisons

In addition to comparisons between the U.S. product and imports from the subject country, U.S. producer and importer comparisons between the United States and imports from nonsubject countries and between subject imports and nonsubject imports are also shown in tables II-1 and II-2. One producer reported that European canvases are mostly interchangeable with the U.S. product in terms of quality and product range and that artists' canvas from India tends to be of lower quality and lower price relative to the U.S. product. One importer also reported that artists' canvas from India is of lower quality than both the domestic and Chinese product and that the Indian producers do not offer all the varieties of artists' canvas. This importer also noted that artists' canvas from Italy is of higher quality and higher price than both domestic and Chinese artists' canvas.

<sup>13</sup> Conference transcript, p. 190 (Dowers).



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

### U.S. PRODUCERS

Four firms accounted for \*\*\* percent of U.S. production of artists' canvas during 2004. The largest domestic producer of artists' canvas, \*\*\*, accounted for \*\*\* percent of U.S. production. The second largest producer, \*\*\*, manufactured \*\*\* percent of domestically produced artists' canvas in 2004. The remaining two reporting firms, \*\*\* and \*\*\*, are both small manufacturers that focus on high end users and together account for \*\*\* percent of domestic production.<sup>1</sup> Domestic producers' plant locations, positions on the petition, and individual shares of U.S. production are presented in table III-1.

**Table III-1**

**Artists' canvas: U.S. producers, U.S. production locations, shares of U.S. production of artists' canvas in 2004, and positions on the petition**

Firm	Production locations	Production ( <i>thousand square meters</i> )	Share of production ( <i>percent</i> )	Position on the petition
Responding producers:				
Tara	Lawrenceville, GA	***	***	Petitioner
Duro	Chicago, IL	***	***	Support
Masterpiece	San Francisco, CA	***	***	***
Stretch Art	Gardena, CA	***	***	***
Subtotal responding producers		***	***	
Subtotal nonresponding producers <sup>1</sup> :		*** <sup>2</sup>	***	
Total		***	100.0	
<p><sup>1</sup> In addition to producers identified in the petition and through staff research, on April 8, 2005, respondents' counsel identified three additional potential producers: ***. Questionnaires were sent to the three firms on April 8, 2005. *** reported that they are ***. *** did not respond to the Commission's questionnaire. At the conference on April 22, 2005, petitioners identified three firms they believed produced printing canvas: Holliston Mills, Seaboard Textile, and Snyder Textile. Staff had previously confirmed Seaboard Textile, *** of artists' canvas. Holliston Mills and Snyder Textiles have not responded to staff's request for information.</p> <p><sup>2</sup> The production quantity in 2004 for nonresponding producers was estimated based on the following: ***.</p>				
Source: Compiled from data submitted in response to Commission questionnaires.				

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<sup>1</sup> \*\*\*'s producer questionnaire response, section I-3, "\*\*\*\*." \*\*\*'s producer questionnaire response, section I-3, "\*\*\*\*."

## U.S. PRODUCERS' CAPACITY, PRODUCTION, AND CAPACITY UTILIZATION

The U.S. industry's production, capacity, and capacity utilization data for artists' canvas are presented in table III-2. U.S. producers' capacity increased by \*\*\* percent from \*\*\* million square meters in 2002 to \*\*\* million square meters in 2004. The increase in reported capacity is attributable to \*\*\*.<sup>2</sup>

Total U.S. production rose \*\*\* percent between 2002 and 2003 and \*\*\* percent between 2003 and 2004, while decreasing \*\*\* percent between first quarter 2004 and 2005. \*\*\*'s production level increased by \*\*\* percent between 2003 and 2004, while \*\*\*'s increased \*\*\* percent and \*\*\*'s increased \*\*\* percent.<sup>3</sup>

Capacity utilization increased from \*\*\* percent in 2002 to \*\*\* percent in 2003, and to \*\*\* percent in 2004. Capacity utilization rates decreased by \*\*\* percentage points from first quarter 2004 to first quarter 2005; however, this decrease can be attributed to higher than normal capacity utilization rates in first quarter 2004. Increased production levels by \*\*\* and \*\*\* in 2004 led to both firms operating above their normal capacity rate in first quarter 2004, \*\*\* respectively, thus raising the capacity utilization rate to \*\*\* percent in the first quarter of 2004 compared to the annual rate for 2004 of \*\*\* percent.

**Table III-2**

**Artists' canvas: U.S. producers' capacity, production, and capacity utilization, 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

All four producers reported production of \*\*\*. However, only \*\*\* produced both bulk/rolled and assembled artists' canvas. The U.S. producers' costs of production for assembled and bulk/rolled artists' canvas in 2004 are provided in table III-3.

**Table III-3**

**Artists' canvas: U.S. producers' cost of production for bulk/rolled form and assembled product, 2004 (average unit values in dollars per square meter, except as noted)**

\* \* \* \* \*

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<sup>2</sup> \*\*\*. Although \*\*\*. Staff interview with \*\*\*.

<sup>3</sup> \*\*\* is partially attributable to the transfer of a portion of MacPherson's business from Tara to Masterpiece. "When Tara fired us in 2003, our canvas purchases from them were nearly a million and a half dollars....After Tara dropped us, we significantly increased our selection and purchases from U.S. producer Masterpiece Artist Canvas. " Conference transcript, pp. 126-127 (Stapleton).

**U.S. PRODUCERS' U.S. SHIPMENTS AND EXPORT SHIPMENTS**

Table III-4 provides U.S. producers' shipment data for all artists' canvas. Producers reported no internal consumption or company transfers. Throughout the period of investigation, U.S. producers' U.S. shipments accounted for \*\*\* percent of total shipments. The quantity of U.S. shipments decreased by \*\*\* percent between 2002 and 2003, increased by \*\*\* percent between 2003 and 2004, and decreased by \*\*\* percent between the first quarters of 2004 and 2005. The increase in volume may be attributed to increased consumer demand for new products such as printing canvas.<sup>4</sup>

Over the period of investigation, the value of U.S. shipments decreased by \*\*\* percent between 2002 and 2003, by \*\*\* percent between 2003 and 2004, and by \*\*\* percent from first quarter 2004 to first quarter 2005.<sup>5</sup> The unit value per square meter fell by \*\*\* percent from \$\*\*\* in 2002 to \$\*\*\* in 2004.

Table III-5 presents U.S. producers' U.S. shipments data for artists' canvas in bulk/rolled form and assembled. From January 2002 to March 2005, bulk/rolled artists' canvas constituted \*\*\* percent of the total U.S. producers' commercial shipments of artists' canvas. While the quantity and value of commercial shipments of bulk/rolled artists' canvas increased from 2002 to 2004,<sup>6</sup> the quantity and value of assembled artists' canvas shipments decreased over the same period. The quantity of assembled artists' canvas commercial shipments decreased by \*\*\* percent from 2002 to 2003, by \*\*\* percent between 2003 and 2004, and then increased by \*\*\* percent between first quarter 2004 and first quarter 2005. The value of assembled artists' canvas decreased by \*\*\* percent between 2002 and 2003, by \*\*\* percent from 2003 to 2004, and increased by \*\*\* percent between first quarter 2004 and first quarter 2005. The average unit value of assembled canvas decreased by \*\*\* percent from \$\*\*\* in 2002 to \$\*\*\* in 2004 and remained unchanged between first quarter 2004 and first quarter 2005.

**Table III-4**  
**Artists' canvas: U.S. producers' shipments, by types, 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**Table III-5**  
**Artists' canvas: U.S. producers' U.S. commercial shipments of artists' canvas in bulk/rolled form and assembled, 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**U.S. PRODUCERS' INVENTORIES**

Data regarding U.S. producers' end-of-period inventories are presented in table III-6. U.S. producers' end-of-period inventories decreased from 2002 to 2003 by \*\*\* percent, by \*\*\* percent from 2003 to 2004, and by \*\*\* percent between the first quarters of 2004 and 2005. Respondents note "the

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<sup>4</sup> Respondents' postconference brief, p. 15. Petitioner's postconference brief, p. 11.

<sup>5</sup> Decreasing value accompanying increasing quantity is consistent with petitioner's argument that \*\*\*. Petitioner's postconference brief, p. 18.

<sup>6</sup> The quantity of bulk/rolled commercial shipments increased by \*\*\* percent from 2002 to 2003 and \*\*\* percent from 2003 to 2004, before decreasing by \*\*\* percent between first quarter 2004 and first quarter 2005.

\*\*\* in inventories during the period of investigation, almost \*\*\*, occurred in 2004 when subject imports were \*\*\*.”<sup>7</sup>

\*\*\*’s inventories represent \*\*\* percent of total reported inventories over the period of investigation.<sup>8</sup> Tara reported brief periods of inventory shortages in 2002 and 2003, indicating that in the artists’ canvas industry temporary shortages are common given the large variety of sizes and types of materials.<sup>9</sup> To prevent future shortages Tara indicated that in addition to working on improving forecasting methods for consumer demand they increased the size of one of their warehouses.<sup>10</sup>

**Table III-6**

**Artists’ canvas: U.S. producers’ end-of-period inventories, 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY**

Data provided by U.S. producers on the number of production and related workers (“PRWs”) engaged in the production of artists’ canvas, the total hours worked by such workers, and wages paid to such PRWs from 2002 through 2004 and the first quarters of 2004 and 2005 are presented in table III-7.

In April 2003, Tara closed Precision Manufacturing and laid off 39 employees; additional layoffs continued throughout the year as Tara moved some of its canvas stretching operations to Decoracion Colonel in Mexico.<sup>11</sup>

Average hourly wages increased \*\*\* percent from \$\*\*\* in 2002 to \$\*\*\* in 2004, and rose from \$\*\*\* in first quarter 2004 to \$\*\*\* in first quarter 2005. Productivity increased \*\*\* percent from \*\*\* square meters per hour in 2002 to \*\*\* square meters per hour in 2003, and again by \*\*\* percent to \*\*\* square meters per hour in 2004. Productivity also increased by \*\*\* percent between first quarter 2004 and first quarter 2005.

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<sup>7</sup> Respondents’ postconference brief, p. 19.

<sup>8</sup> \*\*\*.

<sup>9</sup> “In 2003, we experienced an anomaly, one that is common in this specific industry, or in the art materials industry, and that’s when some of our largest coalition members, without the normal notice, hit us with very, very large orders, above-and-beyond orders, quite often private-label orders that are manufactured specifically in their house brand, and that caused a delay and a back order of product and depleted our shelves of both our branded and our house-brand products, private-label products. That’s happened in 2003. We went through a brief period in 2002 where a similar thing happened.” Conference transcript, p. 66 (Straquadine).

<sup>10</sup> “I also would like to say that we have done quite a bit of work on improving our forecasting method. That’s something very difficult in our niche artists’ canvas industry where we’ve got a lot of sizes, a lot of depths of material, and so one blip of certain sizes will cause a temporary shortage. And what we have done, two major things that we have done, one is we’ve established, through quite a bit of work and correspondence with key customers, a minimum stocking volume in two warehouses. So we are building towards minimum levels, both in our San Diego warehouse and in our Lawrenceville, Georgia, warehouse. In addition to that, our San Diego warehouse, we increased from a 20,000-square-foot facility that was only one story to a 60,000-foot, 28-foot-high.” Conference transcript, p. 68 (Benator).

<sup>11</sup> Conference transcript, p. 36, (Benator).

**Table III-7**

**Artists' canvas: Average number of production and related workers producing assembled artists' canvas, hours worked, wages paid to such employees, and hourly wages, productivity, and unit labor costs, 2002-04, January-March 2004-05**

\* \* \* \* \*

**U.S. PRODUCERS' IMPORTS AND PURCHASES**

\*\*\* U.S. producer reported imports of assembled artists' canvas from China,<sup>12</sup> and \*\*\* U.S. producers reported imports of bulk artists' canvas from China. \*\*\* reported that it imported artists' canvas from China “\*\*\*.”<sup>13</sup>

The only producer to import from nonsubject countries, Tara, indicated it moved a large portion of its U.S. production to Mexico, to lower its cost as a direct consequence of the lower-priced merchandise imported from China.<sup>14</sup> Tara described the production operations performed in Mexico as follows.<sup>15</sup> Tara \*\*\* in the United States and ships it to Decoracion Colonel. The \*\*\*. Four stretcher strips of appropriate lengths are assembled \*\*\*. The completed frame is then ready for the application of canvas stretched over the frame. Raw canvas \*\*\* to Decoracion Colonel. \*\*\*, and then stretched over a wood frame and attached. Labels are attached to the assembled product and then processed through a shrink wrap machine and packed in boxes. The packaged assembled units are then exported to Tara's facilities in the United States. Data regarding Tara's imports of artists' canvas from its related firm in Mexico are presented in the following tabulation:

\* \* \* \* \*

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<sup>12</sup> \*\*\* square meters of artists' canvas from China in 2004, which amounted to \*\*\* percent of its U.S. production during that period.

<sup>13</sup> \*\*\*'s importer questionnaire response, section II-4.

<sup>14</sup> Conference transcript, p. 7 (Thompson).

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



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

The Commission sent importer questionnaires to 20 firms believed to be importers of artists' canvas from China; in addition, each of the nine domestic producers received an importer questionnaire.<sup>1</sup> Questionnaire responses were received from 14 companies accounting for nearly 100 percent of U.S. imports from China in 2004.<sup>2</sup> Because of the unreliability of quantity data from official Commerce statistics, import data rely on questionnaire responses for China and Mexico, and official import statistics for all other sources.

### U.S. IMPORTS

Questionnaire data on U.S. imports in 2004, by firm are provided in table IV-1. During 2004, the three largest reporting importers of artists' canvas from China, by quantity, were: \*\*\*.<sup>3</sup>

In addition to China, importers identified foreign producers in Belgium, India, Italy, Latvia, Mexico, and Switzerland. During 2004, reported imports from China totaled \*\*\* thousand square meters and imports of artists' canvas from nonsubject countries totaled \*\*\* thousand square meters, or \*\*\* percent of total imports.

**Table IV-1**

**Artists' canvas: Importers, imports from China, share of total reported imports from China, and nonsubject imports, 2004**

\* \* \* \* \*

Data on U.S. imports by source are provided in table IV-2. The volume of imports from China increased 207.3 percent between 2002 and 2003, by 137.1 percent between 2003 and 2004, and over 109.8 percent between the first quarters of 2004 and 2005. Over the same period, the volume of imports from Mexico increased by \*\*\* percent between 2002 and 2003 and decreased by \*\*\* percent between 2003 and 2004, but rose \*\*\* percent between first quarter 2004 and first quarter 2005.

Unit values of imports from China fluctuated, decreasing from \$6.21 per square meter in 2002 to \$5.43 in 2003, before rising to \$6.53 in 2004. The unit value fell from \$5.96 in first quarter 2004 to \$5.05 in first quarter 2005. The unit values of imports from Mexico also decreased, from \$\*\*\* in 2002 to \$\*\*\* in 2003 down to \$\*\*\* in 2004 and were comparable in the first quarters of 2004 and 2005. China's share of imports by quantity rose from \*\*\* percent in 2002 to \*\*\* percent in 2003, to \*\*\* percent in 2004 and \*\*\* percent during the first quarters of 2004 and 2005. China's share of imports by value has risen from \*\*\* in 2002 to \*\*\* percent in 2003, \*\*\* percent in 2004, and declined by \*\*\* percent in the first quarters of 2004 and 2005.

---

<sup>1</sup> The Commission sent questionnaires to those firms identified in the petition and proprietary Customs data as importers of artists' canvas between 2002 and 2004.

<sup>2</sup> While it seems all importing firms have responded to the Commission's questionnaire, the reported data are not consistent with official statistics. Importer questionnaire respondents reported \$\*\*\* million of imports from China in 2004, or \*\*\* percent of the total value as reported by official Commerce statistics. However, importers reported \*\*\* million square meters of subject product in 2004, or \*\*\* percent of total quantity as reported by official Commerce statistics.

<sup>3</sup> According to data submitted in response to Commission questionnaires.

Table IV-2

Artists' canvas: U.S. imports, by source, 2002-04, January-March 2004, and January-March 2005

Item	Calendar year			January-March	
	2002	2003	2004	2004	2005
<b>Quantity (1,000 square meters)</b>					
China	206	633	1,501	255	535
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***
<b>Value (\$1,000)<sup>1</sup></b>					
China	1,278	3,438	9,795	1,518	2,700
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***
<b>Unit value (per square meter)</b>					
China	\$6.21	\$5.43	\$6.53	\$5.96	\$5.05
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Average nonsubject	***	***	***	***	***
Average	***	***	***	***	***
<b>Share of quantity (percent)</b>					
China	***	***	***	***	***
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***
Table continued on next page.					

**Table IV-2--Continued**

**Artists' canvases: U.S. imports, by source, 2002-04, January-March 2004, and January-March 2005**

Item	Calendar year			January-March	
	2002	2003	2004	2004	2005
<b>Share of value (percent)</b>					
China	***	***	***	***	***
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***
<b>Ratio of imports to U.S. production (percent)</b>					
China	***	***	***	***	***
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total	***	***	***	***	***
<sup>1</sup> Landed, duty-paid. Source: Data compiled from official Commerce statistics.					

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

Data on apparent U.S. consumption are presented in table IV-3. Apparent U.S. consumption by quantity increased by \*\*\* percent between 2002 and 2004 and by \*\*\* percent between first quarter 2004 and first quarter 2005. The value of U.S. consumption rose \*\*\* percent between 2002 and 2003 and \*\*\* percent between 2003 and 2004 and increased by \*\*\* percent between the first quarters of 2004 and 2005.

The ratio of imports from China to U.S. production increased from \*\*\* percent in 2002 to \*\*\* percent in 2004, and increased from \*\*\* percent in first quarter 2004 to \*\*\* percent in first quarter 2005. The ratio of imports from Mexico to U.S. production increased from \*\*\* percent in 2002 to \*\*\* percent in 2003 before decreasing to \*\*\* percent in 2004 and rising from \*\*\* percent in first quarter 2004 to \*\*\* percent in first quarter 2005.

Table IV-3

Artists' canvas: U.S. shipments of domestic product, U.S. imports, apparent U.S. consumption, and market shares, by source, 2002-04, January-March 2004, and January-March 2005

Item	Calendar year			January-March	
	2002	2003	2004	2004	2005
<b>Quantity (1,000 square meters)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from--					
China	159	494	1,317	278	519
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total imports	***	***	***	***	***
Apparent consumption	***	***	***	***	***
<b>Value (\$1,000)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from--					
China	1,283	4,777	10,429	2,252	3,591
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total imports	***	***	***	***	***
Apparent consumption	***	***	***	***	***
<b>Share of quantity (percent)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from--					
China	***	***	***	***	***
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total imports	***	***	***	***	***

**Table IV-3--Continued**

**Artists' canvas: U.S. shipments of domestic product, U.S. imports, apparent U.S. consumption, and market shares, by source, 2002-04, January-March 2004, and January-March 2005**

Item	Calendar year			January-March	
	2002	2003	2004	2004	2005
<b>Share of value (percent)</b>					
U.S. producers' U.S. shipments	***	***	***	***	***
U.S. shipments of imports from--					
China	***	***	***	***	***
Mexico	***	***	***	***	***
All other sources	***	***	***	***	***
Subtotal nonsubject	***	***	***	***	***
Total imports	***	***	***	***	***
Source: Data compiled from responses to Commission questionnaires and official Commerce statistics.					



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

### **FACTORS AFFECTING PRICES**

#### **Raw Material Costs**

Two principal raw materials, raw canvas and lumber, together account for approximately \*\*\* percent of the cost of producing artists' canvas.<sup>1</sup> Other raw materials may include staples; dyes and tannins; additives; shrink film or other packaging materials; and labels.<sup>2</sup> The cost of raw materials per square meter of artists' canvas as reported by U.S. producers has fallen \*\*\* percent from January 2002 to December 2004.<sup>3</sup> Additionally, there are four principal processing steps in the production of artists' canvas. These steps include coating, sheeting/cutting, stretching, and framing/trimming. Other steps may include milling and packaging.

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

Transportation costs for artists' canvas shipped from China to the United States averaged 26.5 percent of the customs value during 2004. This estimate is derived from official import data.<sup>4</sup>

#### **U.S. Inland Transportation Costs**

Transportation costs on U.S. inland shipments of artists' canvas generally account for a small to moderate share of the delivered price of these products. For the four U.S. producers, reported costs ranged from 5 to 10 percent of the delivered price. For importers from China, the costs ranged from 5 percent to as much as 20 percent of the delivered price.

#### **Exchange Rate**

The currency of China is fixed relative to the U.S. dollar. Quarterly data reported by the International Monetary Fund indicate that the nominal value of the Chinese yuan remained stable relative to the U.S. dollar from January 2002 to March 2005. A real value is unavailable.

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<sup>1</sup> Canvas may be made of cotton, linen, polyester, or a cotton and polyester blend. Lumber used by the petitioner is typically eastern pine. Petition, p. 9. Of these two inputs, lumber accounts for a larger share of the total material cost of assembled artists' canvas (\*\*\*) percent. Petitioner's postconference brief, exhibit 1-C.

<sup>2</sup> Dyes and tannins include \*\*\*, \*\*\*, titanium dioxide, and Lamp Black. Petition, pp. 19-20. Additives include calcium carbonate, \*\*\*, \*\*\*, and \*\*\*. Petition, pp. 21-22.

<sup>3</sup> There is some evidence that prices of raw materials may have begun to rise in 2005. However, data are only available for the first quarter of 2005 and staff has made no conclusions regarding the price change of future periods.

<sup>4</sup> The estimated cost was obtained by subtracting the customs value from the c.i.f. value of the imports for 2004 and then dividing by the customs value. This calculation used import data on HTS subheadings 5901.90.20 and 5901.90.40 that also include tracing paper and buckram and similar stiffened textile fabrics used in hat foundations, both of natural and man-made fibers.

## PRICING PRACTICES

### Pricing Methods

When questionnaire respondents were asked how they determined the prices that they charge for artists' canvas, responses were varied. Among U.S. producers, customer-by-customer negotiations, or transaction-by-transaction negotiations, were cited by some firms. Two producers and three importers reported the use of price lists. In other cases, the responses focused upon competitive conditions.

Prices of artists' canvas are most commonly quoted on an f.o.b. basis rather than a delivered basis. One producer offers \*\*\* on orders above \$\*\*\*. Another producer offers a freight program in which its customers will never pay more than \*\*\* percent of transportation costs on orders over \$\*\*\* and in which freight is \*\*\* on orders above \$\*\*\*. Most of the responding importers quote on an f.o.b. basis.

### Sales Terms and Discounts

U.S. producers and importers of artists' canvas from China were asked what share of their sales were on a (1) long-term contract basis (multiple deliveries for more than 12 months), (2) short-term contract basis, and (3) spot sales basis (for a single delivery) during 2004. Among producers, two firms reported that they sell nearly entirely on a spot basis and the other two producers reported a mixture of both long and short-term contracts. Among the seven importers that reported sales of imports from the subject country, five reported that they sell exclusively on a spot basis, one sells exclusively on a longer-term basis, and one reported a mixture of spot sales and both long and short contracts. For U.S. producers selling on a contract basis, provisions varied from company to company. Long-term contracts are typically for periods of three years, while short-term contracts are for periods of two months. For long-term contracts, neither price nor quantity are fixed while for short-term contracts, both quantities and prices are fixed during the contract period. These producer contracts usually have a meet-or-release provision. In the case of importers, short-term contracts are typically for periods of one year, with prices typically fixed during the contract period. For long-term contracts, the period is typically indefinite with prices sometimes fixed and quantities not fixed. These importer contracts typically do not contain meet-or-release provisions.

Discount policies on sales of artists' canvas vary widely. All four producers reported that they offer discounts. These discounts are based on early payment, volumes, or dollar values of the order and vary by type of customer (i.e., retailer or distributor). One producer also reported the use of temporary promotional discounts in the range of \*\*\* percent and more aggressive discounts in cases where it must compete head-to-head with Chinese imports. Among importers, three importers reported the use of discounts. These discounts are mostly temporary promotional discounts ranging from \*\*\* percent. Three retailers reported the use of temporary promotional discounts which tend to occur as schools resume session, typically beginning in August and running through mid-October.<sup>5</sup> Some retailers may also offer a promotional discount for the winter school term in January.<sup>6</sup>

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<sup>5</sup> Conference transcript, pp. 193 and 197 (Stapleton).

<sup>6</sup> Conference transcript, p. 196 (Kanter).

## PRICE DATA

The Commission requested U.S. producers and importers of artists' canvas to provide quarterly data for the total quantity and value of selected products that were shipped to unrelated customers in the U.S. market.<sup>7</sup> Data were requested for the period January 2002-March 2005. The products for which pricing data were requested are as follows:

**Product 1.--16x20 traditional style with spline or stapled on back.**

**Product 2.--18x24 traditional style with spline or stapled on back.**

**Product 3.--30x40 gallery style with spline.**

**Product 4.--16x20 canvas panel with chipboard core.**

Three U.S. producers and seven importers provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters. Pricing data reported by these firms accounted for approximately 2.7 percent of U.S. producers' shipments of artists' canvas during January 2002-March 2005 and 6.5 percent of U.S. imports from China over the same period.

### Price Trends

Weighted-average prices reported for U.S. producers and importers are presented in tables V-1 through V-4 and in figures V-1 through V-4 on a quarterly basis during January 2002-March 2005. Domestic prices trended upwards over the period of investigation and prices of the product imported from China trended downwards.

#### Table V-1

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 1 and margins of underselling/(overselling), by quarters, January 2002-March 2005**

\* \* \* \* \*

#### Table V-2

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 2 and margins of underselling/(overselling), by quarters, January 2002-March 2005**

\* \* \* \* \*

#### Table V-3

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 3 and margins of underselling/(overselling), by quarters, January 2002-March 2005**

\* \* \* \* \*

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<sup>7</sup> The pricing data presented here exclude retail sales prices of direct importers. The pricing data therefore only include data as reported by \*\*\*.

**Table V-4**

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 4 and margins of underselling/(overselling), by quarters, January 2002-March 2005**

\* \* \* \* \*

**Figure V-1**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 1, by quarters, January 2002-March 2005**

\* \* \* \* \*

**Figure V-2**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 2, by quarters, January 2002-March 2005**

\* \* \* \* \*

**Figure V-3**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 3, by quarters, January 2002-March 2005**

\* \* \* \* \*

**Figure V-4**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 4, by quarters, January 2002-March 2005**

\* \* \* \* \*

The weighted-average sales price of U.S.-produced product 1 increased \*\*\* percent from the first quarter of 2002 to the first quarter of 2005. The weighted-average sales price of product 1 imported from China decreased \*\*\* percent over the same period.<sup>8</sup>

The weighted-average sales price of U.S.-produced product 2 increased \*\*\* percent from the first quarter of 2002 to the first quarter of 2005. The weighted-average sales price of product 2 imported from China decreased \*\*\* percent over the same period.<sup>9</sup>

The weighted-average sales price of U.S.-produced product 3 increased \*\*\* percent from the first quarter of 2002 to the first quarter of 2005. The weighted-average sales price of product 3 imported from China decreased \*\*\* percent over the same period.<sup>10</sup>

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<sup>8</sup> One price on imported product 1 as reported by \*\*\* was excluded as it was deemed to be an outlier. Annual pricing data for imported product 1 reported by \*\*\* and \*\*\* were converted into quarterly figures.

<sup>9</sup> Annual pricing data for imported product 2 reported by \*\*\* and \*\*\* were converted into quarterly figures.

<sup>10</sup> One price reported by \*\*\* on a product similar to product 3 was excluded as the product did not match the definition of product 3.

The weighted-average sales price of U.S.-produced product 4 decreased \*\*\* percent from the first quarter of 2002 to the first quarter of 2005. The weighted-average sales price of product 4 imported from China decreased \*\*\* percent from the first quarter of 2003 to the first quarter of 2005.

### Price Comparisons

Margins of underselling and overselling for the period are presented by product category in tables V-5 and V-6 below. The data show that prices of imports from China were lower than the U.S. producer prices in all 39 quarterly comparisons of products 1-3, by margins of 13.3 percent to 45.2 percent. In all seven comparisons related to product 4, the imported product was priced above the comparable domestic product; margins of overselling ranged from 7.6 percent to 27.8 percent.

**Table V-5**  
**Artists' canvas: Margins of underselling/(overselling) by product, quarterly, January 2002-March 2005**

\* \* \* \* \*

**Table V-6**  
**Artists' canvas: Instances of underselling/overselling and the range and average of margins for products 1-4, January 2002-March 2005**

Item	Underselling			Overselling		
	Number of instances	Range (percent)	Average margin (percent)	Number of instances	Range (percent)	Average margin (percent)
Product 1	13	14.7 to 40.3	27.7	0	(1)	(1)
Product 2	13	13.3 to 45.2	28.3	0	(1)	(1)
Product 3	13	20.2 to 35.4	25.4	0	(1)	(1)
Product 4	0	(1)	(1)	7	7.6 to 27.8	14.6
<b>Total<sup>2</sup></b>	<b>39</b>	<b>13.3 to 45.2</b>	<b>27.2</b>	<b>7</b>	<b>7.6 to 27.8</b>	<b>14.6</b>

<sup>1</sup> Not applicable.  
<sup>2</sup> Total number of instances for all cited products, range of margins for all cited products, and average margin for all cited products.

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

### LOST SALES AND LOST REVENUES

The Commission requested U.S. producers of artists' canvas to report any instances of lost sales or revenues they experienced due to competition from imports of artists' canvas from China from January 2002 to March 2005. \*\*\* U.S. producers reported that they had to either reduce prices or roll back announced price increases and they provided \*\*\* lost sales allegations and \*\*\* lost revenue \*\*\*. \*\*\* U.S. producer made a general comment that distributors of artists' canvas have an incentive to purchase low-priced Chinese imports in order to maximize profit margins. \*\*\* U.S. producer commented that it cannot get new business from distributors because it cannot meet the Chinese prices. The \*\*\* lost sales allegations totaled at least \$\*\*\* and the \*\*\* lost revenue \*\*\* totaled \$\*\*\*. Staff contacted the \*\*\* purchasers cited in the allegations; \*\*\* responded. The results are summarized in tables V-7 and V-8 and are discussed below.

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

\* \* \* \* \*

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

\* \* \* \* \*

\*\*\* was named in a lost sale allegation involving artists' canvas valued at \$\*\*\* allegedly occurring in \*\*\*. It disagreed with the allegation, stating that it switched only a portion of its purchases (\*\*% percent) to a Chinese source and that the decision was based on a combination of price and quality.

\*\*\* was cited in a lost sale allegation and agreed that, since January 2002, it has switched purchases of artists' canvas from U.S. producers to Chinese imports due to the lower price of the imports. It stated, however, that it also continues to buy some U.S.-produced artists' canvas. While \*\*\* stated that it generally considers the Chinese product to be inferior to the domestic product, art students opt to buy the cheaper product. No specific quantities or values were cited in this allegation.

\*\*\* was cited in a lost sale allegation and agreed that since January 2002 it has switched purchases of artists' canvas from U.S. producers to Chinese imports due to the lower price of the imports. No specific quantities or values were cited in this allegation.

\*\*\* was named in \*\*\* lost sale allegations involving pre-stretched artists' canvas and canvas panels valued at \$\*\*\*. \*\*\* disagreed with the allegations, stating that it did not receive any price quotes from U.S. producers at the time of these purchases. It further stated that the product it imported from China was a "wrapped" canvas that was not offered by its U.S. supplier at the time.

\*\*\* was named in a lost sale allegation involving artists' canvas valued at \$\*\*\*. It agreed that it did switch purchases of artists' canvas from U.S. producers to Chinese imports, but disagreed with the alleged value of the transaction, stating that it was only \$\*\*\*.

\*\*\* was named in a lost sale allegation, but no specific quantities or values were cited. It disagreed with the allegation.

\*\*\* was named in a lost sale allegation involving artists' canvas valued at \$\*\*\* allegedly occurring in \*\*\*. It disagreed with the allegation, stating that it switched purchases of artists' canvas from domestic producer \*\*\* to both a different domestic source and a Chinese source. \*\*\* stated that price was only one of many factors that resulted in its decision. \*\*\* reported that it had experienced many quality problems with \*\*\* over a long period of time, that \*\*\* had reneged on an agreement for a \*\*\* percent damage allowance, that \*\*\* did not upgrade its quality or offer innovative styles, and that \*\*\* did not have a proactive marketing strategy.

MacPherson's was cited in a lost revenue allegation valued at \$\*\*\* allegedly occurring in 2002. Tara alleged that in 2002, MacPherson's began replacing its product with Chinese imports and misled customers to believe that the Chinese imports were being made by Tara and were identical in quality to Tara's product. Tara also alleged that MacPherson's began excluding Tara from its marketing programs and sales meetings and engaged in minimal promotion of its products while aggressively promoting the product imported from China.<sup>11</sup> MacPherson's denied these allegations, stating that its \*\*\* purchases from Tara appeared lower than its \*\*\* purchases because it placed an extremely large order at the end of \*\*\* in order to qualify for Tara's \*\*\* percent growth rebate for the year. Moreover, MacPherson's stated that in December 2003 Tara cancelled its business relationship with MacPherson's against MacPherson's

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<sup>11</sup> Conference transcript, pp. 86-87 (Straquadine).

wishes. MacPherson's said that as a result of this cancellation, in \*\*\* it shifted the business that had been supplied by Tara to another U.S. producer, Masterpiece, as well as a Chinese source. MacPherson's maintained that its marketing strategy is to continue purchasing its high-end and specialty canvases from U.S. suppliers.<sup>12</sup> Moreover, it stated that prior to the cancellation by Tara, MacPherson's had been commended by Tara in 2002 and 2003 for faithfully promoting Tara's products.

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<sup>12</sup> Conference transcript, pp.118-119 (Stapleton).



## PART VI: FINANCIAL CONDITION OF U.S. PRODUCERS

### BACKGROUND

Four producers<sup>1</sup> provided financial results for their operations on artists' canvas. \*\*\* were \*\*\* producers which reported on operations for both bulk/rolled and assembled canvas.

### OPERATIONS ON ARTISTS' CANVAS

Results of operations of the U.S. producers on their artists' canvas operations (both bulk/rolled and assembled/finished) are presented in table VI-1 which includes data on a per-square meter basis as well as operating income (loss) to net sales ratio. Aggregate income-and-loss data for producers on their bulk/rolled canvas operations are presented in table VI-2, while those data on assembled canvas are separately shown in table VI-3.

**Table VI-1**

**Artists' canvas: Results of operations of U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**Table VI-2**

**Artists' canvas—bulk/rolled: Results of operations of U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**Table VI-3**

**Artists' canvas—assembled: Results of operations of U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

The financial results of the producers fluctuated from 2002 to 2004. While the quantity sold increased continuously between 2002 and 2004, net sales value decreased continuously for the same period. Operating income actually increased from 2002 to 2003, due mainly to the decrease of total costs/expenses, and decreased substantially from 2003 to 2004, which resulted from a substantial decrease in the average unit selling price (from \$\*\*\* to \$\*\*\* per square meter). Even though sales quantity and value both decreased slightly from interim 2004 to interim 2005, operating income increased somewhat between two interim periods, due primarily to an increase in the average unit sales value (from \$\*\*\* to \$\*\*\* per square meter) as well as a small decrease in the average unit total cost (from \$\*\*\* to \$\*\*\*).

The financial results and trends of bulk/rolled sales were different from those for assembled canvas sales. \*\*\* reported sales of both bulk/rolled and assembled canvas. Average unit sales values and total costs between bulk/rolled and assembled canvas were quite different, for instance, \$\*\*\* vs. \$\*\*\* for sales values and \$\*\*\* vs. \$\*\*\* for total costs, respectively, in 2004. While the average unit selling prices and total costs for assembled canvas were naturally consistently higher compared to those for bulk/rolled canvas for all periods, average unit operating income for assembled canvas decreased to a much greater

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<sup>1</sup> The producer with a fiscal year ending other than December 31 is \*\*\*.

degree than was the case for bulk/rolled canvas in 2004. Therefore, separate unit value data for each producer for combined products and each product group are also presented in table VI-4.

Selected financial data, by firm, are presented in table VI-4. While \*\*\* showed an improved profitability (in terms of operating margin ratio) over the period, the remaining three producers showed mixed operations results. Average operating income margins increased from 2002 to 2003 and decreased in 2004, but increased from interim 2004 to interim 2005.

**Table VI-4**  
**Artists' canvas: Results of operations of U.S. producers, by firm, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

Selected aggregate per-square-meter cost data of the producers on their operations, i.e., cost of goods sold (COGS) and selling, general, and administrative (SG&A) expenses, are presented in table VI-5. Overall per-square-meter COGS and total cost (which includes SG&A expenses) decreased continuously from 2002 to 2004, and decreased slightly from interim 2004 to interim 2005. However, due to the two different types of product, bulk/rolled and assembled canvas, product mix may have a significant impact on the average unit sales values and costs.

**Table VI-5**  
**Artists' canvas: Average unit costs of U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

A variance analysis showing the effects of prices and volume on the producers' sales of artists' canvas, and of costs and volume on their total cost, is shown in table VI-6. The analysis is summarized at the bottom of the table. The analysis indicates that the decrease in operating income (\$\*\*\* million) between 2002 and 2004 was attributable mainly to the negative effect of decreased price (\$\*\*\* million) which was offset by the positive effects of decreased costs/expenses (\$\*\*\* million) and increased sales volume (\$\*\*\* million).

**Table VI-6**  
**Artists' canvas: Variance analysis of operations of U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

## CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

The responding firms' aggregate data on capital expenditures and research and development "(R&D)" expenses are presented in table VI-7. \*\*\* that reported substantial amounts of capital expenditures during the period examined, in addition to \*\*\*, which spent some amounts on capital expenditures. \*\*\* reported R&D expenses. Capital expenditures, by firm, are presented in table VI-8. Capital expenditures increased during FY 2002-04, but decreased significantly from interim 2004 to interim 2005.

**Table VI-7**

**Artists' canvas: Capital expenditures and R&D expenses by U.S. producers, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

**Table VI-8**

**Artists' canvas: Capital expenditures by U.S. producers, by firms, fiscal years 2002-04, January-March 2004, and January-March 2005**

\* \* \* \* \*

### **ASSETS AND RETURN ON INVESTMENT**

U.S. producers were requested to provide data on their assets used in the production and sales of artists' canvas during the period for which data were collected to assess their return on investment ("ROI"). Although ROI can be computed in different ways, a commonly used method is income earned during the period divided by the total assets utilized for the operations. Therefore, staff calculated ROI as operating income divided by total assets used in the production and sales of artists' canvas. Data on the U.S. producers' total assets and their ROI are presented in table VI-9.

The value of total assets remained at relatively the same level between 2002 to 2004 while the return on investment increased somewhat from 2002 to 2003, then decreased substantially from 2003 to 2004. The trend of ROI over the period was the same as the trend of the operating income margin shown in table VI-1.

**Table VI-9**

**Artists' canvas: Value of assets and return on investment of U.S. producers, fiscal years 2002-04**

\* \* \* \* \*

### **CAPITAL AND INVESTMENT**

The Commission requested U.S. producers to describe any actual negative effects on their return on investment, or their growth, investment, ability to raise capital, existing development and production efforts, or the scale of capital investments as a result of imports of artists' canvas from China. The producers' comments are presented in appendix D.



## PART VII: THREAT CONSIDERATIONS

### THE INDUSTRY IN CHINA

Three firms responded to the Commission's foreign producer questionnaire, Ningbo CONDA Import Export Co., Ltd. ("Conda");<sup>1</sup> Wuxi Phoenix Artist Materials Co. Ltd. ("Phoenix Artist"); and \*\*\*. Phoenix is believed to be the largest manufacturer of artists' canvas in China.<sup>2</sup> Over the period of investigation, Phoenix Artist accounted for \*\*\* percent of reported production. Furthermore, the two largest importers reported Phoenix Artist as \*\*\* of their imported artists' canvas products.<sup>3</sup>

Data on capacity, production, shipments, and inventories of artists' canvas in China are presented in table VII-1. The firms are estimated to cover almost all of Chinese exports of artists' canvas to the United States. Importers identified manufacturers of artists canvas in China through trade shows, catalogs, and through existing joint venture relationships.<sup>4</sup>

**Table VII-1**

**Artists' canvas: China's capacity, production, shipments, and inventories, 2002-04, January-March 2004, January-March 2005, and projected 2005-06**

\* \* \* \* \*

Reported production capacity and production grew \*\*\* percent between 2002 and 2004. Capacity is projected to increase by \*\*\* percent between 2004 and 2005. Shipments to the Chinese home market represented approximately \*\*\* percent of production between January 2002 and March 2005.<sup>5</sup> Over the period of investigation, exports to Australia, Europe, and the United States accounted for approximately \*\*\* percent of total shipments. The United States' share of export shipments grew from \*\*\* percent in 2002 to \*\*\* percent in 2004, but decreased from \*\*\* percent in first quarter 2004 to \*\*\* percent in first quarter 2005.

### U.S. IMPORTERS' INVENTORIES FROM CHINA

Importers' end-of-period inventories based upon data submitted in response to Commission questionnaires are provided in table VII-2. Inventories of imports from China rose \*\*\* percent between 2002 and 2004, and \*\*\* percent between the first quarters of 2004 and 2005, but fluctuated downward both as a ratio to imports and as a ratio to U.S. shipments of imports during 2002-04. Inventories of imports from all other sources remained constant from 2002 to 2004 and fell \*\*\* percent between the first quarters of 2004 and 2005. The ratio of imports from all other sources to imports and U.S. shipments of imports fell \*\*\* and \*\*\* percentage points respectively, between 2002 and 2003, and rose by \*\*\* percentage points between 2003 and 2004.

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<sup>1</sup> \*\*\* exports, \*\*\*, artists' canvas.

<sup>2</sup> \*\*\* estimated it accounts for \*\*\* percent of Chinese exports of artists' canvas to the United States. Foreign producer questionnaire response, section II-8. Proprietary Customs data reports \*\*\* exported \*\*\* million square meters, or \*\*\* percent of total Chinese exports from 2002 to 2004.

<sup>3</sup> \*\*\*'s importer questionnaire responses, section II-5.

<sup>4</sup> Conference transcript, pp. 132, 219, and 221 (Market, Urnes, Stapleton).

<sup>5</sup> The ratio of home market sales to total shipments, as presented in table VII-1, is lower as it includes data from \*\*\*, a firm that does producer artists' canvas.

**Table VII-2**

**Artists' Canvas: U.S. importers' end-of-period inventories of imports, 2002-04, January-March 2004, and January-March 2005**

Item	Calendar year			January-March	
	2002	2003	2004	2004	2005
<b>Imports from China:</b>					
Inventories ( <i>1,000 square meters</i> )	61	200	376	173	389
Ratio to imports ( <i>percent</i> )	29.5	31.5	25.1	17.0	18.2
Ratio to U.S. shipments of imports ( <i>percent</i> )	38.1	40.4	28.6	15.6	18.7
<b>Imports from all other sources:</b>					
Inventories ( <i>1,000 square meters</i> )	***	***	***	***	***
Ratio to imports ( <i>percent</i> )	***	***	***	***	***
Ratio to U.S. shipments of imports ( <i>percent</i> )	***	***	***	***	***
<b>Imports from all sources:</b>					
Inventories ( <i>1,000 square meters</i> )	***	***	***	***	***
Ratio to imports ( <i>percent</i> )	***	***	***	***	***
Ratio to U.S. shipments of imports ( <i>percent</i> )	***	***	***	***	***
Source: Compiled from data submitted in response to Commission questionnaires.					

**U.S. IMPORTERS' IMPORTS SUBSEQUENT TO MARCH 31, 2005**

Ten of the responding importers indicated that they imported or arranged for the importation of \*\*\* square meters of artists' canvas from China for delivery after March 31, 2005.

**Table VII-3**

**Artists' canvas: U.S. importers and import orders of artists' canvas from China, end delivery date, 2005**

\* \* \* \* \*

**DUMPING IN THIRD-COUNTRY MARKETS**

Based on available information, artists' canvas from China has not been subject to any other import relief investigation in other countries.

**APPENDIX A**  
***FEDERAL REGISTER* NOTICES**



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**INTERNATIONAL TRADE  
COMMISSION**

[Investigation No. 731-TA-1091  
(Preliminary)]

**Artists' Canvas From China**

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

**ACTION:** Institution of antidumping investigation and scheduling of a preliminary phase investigation.

**SUMMARY:** The Commission hereby gives notice of the institution of an investigation and commencement of preliminary phase antidumping investigation No. 731-TA-1091 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. 1673b(a)) (the Act) 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 of artists' canvases<sup>1</sup>, provided for in statistical reporting numbers 5901.90.2000 and 591.90.4000 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 a preliminary determination in antidumping investigations in 45 days, or in this case by May 16, 2005. The Commission's views are due at Commerce within five business days thereafter, or by May 23, 2005.

<sup>1</sup> The products covered by this investigation are artist canvases regardless of dimension and/or size, whether assembled or unassembled (*i.e.*, kits that include artist canvas and other items, such as a wood frame), that have been primed/coated, whether or not made from cotton, whether or not archival, whether bleached or unbleached, and whether or not containing an ink receptive top coat. Artist canvases (*i.e.*, pre-stretched canvases, canvas panels, canvas pads, canvas rolls (including bulk rolls that have been primed), printable canvases, floor cloths, and placements) are tightly woven prepared painting and/or printing surfaces. The written description of the scope of this investigation is dispositive.

For further information concerning the conduct of this investigation 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).

**DATES:** *Effective Date:* April 1, 2005.

**FOR FURTHER INFORMATION CONTACT:**

Megan Spellacy (202-205-3190), 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 this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

**SUPPLEMENTARY INFORMATION:**

**Background.**—This investigation is being instituted in response to a petition filed on April 1, 2005, by Tara Materials, Inc., Lawrenceville, GA.

**Participation in the investigation and public service list.**—Persons (other than petitioners) wishing to participate in the investigation 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 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 investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation 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 this investigation available to authorized applicants representing interested parties (as defined in 19 U.S.C. 1677(9)) who are parties to the investigation under the APO issued in the investigation, 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 this investigation for 9:30 a.m. on April 22, 2005, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Megan Spellacy (202-205-3190) not later than April 19, 2005, to arrange for their appearance. Parties in support of the imposition of antidumping duties in this investigation 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 April 27, 2005, a written brief containing information and arguments pertinent to the subject matter of the investigation. 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 FR 68036 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigation must be served on all other parties to the investigation (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:** This investigation is 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.

Issued: April 1, 2005.

By order of the Commission.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-6827 Filed 4-5-05; 8:45 am]

**BILLING CODE 7020-02-P**

**DEPARTMENT OF COMMERCE****International Trade Administration**

[A-570-899]

**Initiation of Antidumping Duty Investigation: Certain Artist Canvases From the People's Republic of China**

**AGENCY:** Import Administration, International Trade Administration, Department of Commerce.

**EFFECTIVE DATE:** April 28, 2005.

**FOR FURTHER INFORMATION CONTACT:** Jon Freed or Michael Holton, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 482-3818 and (202) 482-1324, respectively.

**Initiation of Investigation***The Petition*

On March 31, 2005, the Department of Commerce ("Department") received a Petition on imports of certain artist canvases from the People's Republic of China ("PRC") ("Petition") filed in proper form by Tara Materials Inc. ("Tara" or "Petitioner") on behalf of the domestic industry and workers producing certain artist canvases. On April 7, 2005, the Department clarified that the official filing date for the Petition was April 1, 2005, and that the proper period of investigation ("POI") is July 1, 2004, through December 31, 2004. See *Memorandum from Edward Yang to Barbara Tillman: Decision Memo Concerning Petition Filing Date and Period of Investigation*, April 7, 2005. On April 7, 2005, and April 14, 2005, the Department requested clarification of certain areas of the Petition and received responses to those requests on April 12, 2005, April 15, 2005, and April 18, 2005.

In accordance with section 732(b) of the Tariff Act of 1930, as amended ("the Act"), Petitioner alleged that imports of certain artist canvases from the PRC 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 and threaten to injure an industry in the United States.

*Scope of Investigation*

The products covered by this investigation are artist canvases regardless of dimension and/or size, whether assembled or unassembled (*i.e.*, kits that include artist canvases and other items, such as a wood frame), that have been primed/coated, whether or not made from cotton, whether or not

archival, whether bleached or unbleached, and whether or not containing an ink receptive top coat. Priming/coating includes the application of a solution, designed to promote the adherence of artist materials, such as paint or ink, to the fabric. Artist canvases (*i.e.*, pre-stretched canvases, canvas panels, canvas pads, canvas rolls (including bulk rolls that have been primed), printable canvases, floor cloths, and placemats) are tightly woven prepared painting and/or printing surfaces.

Artist canvases subject to this investigation are currently classifiable under subheadings 5901.90.20.00 and 5901.90.40.00 of the Harmonized Tariff Schedule of the United States (HTSUS). Specifically excluded from the scope of this investigation are tracing cloths and stretcher strips, whether or not made from wood, so long as they are not incorporated into artist canvases or sold as part of an artist canvas kit. While HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this proceeding is dispositive.

*Comments on Scope of Investigation*

During our review of the Petition, we discussed the scope with Petitioner to ensure that it accurately reflects the product for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the Department's regulations, we are setting aside a period for interested parties to raise issues regarding product coverage. See *Antidumping Duties; Countervailing Duties; Final Rule*, 62 FR 27295, 27323 (1997). The Department encourages all interested parties to submit such comments within 20 calendar days of publication of this initiation notice.

Comments should be addressed to Import Administration's Central Records Unit in Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230—Attn: Michael Holton. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and consult with interested parties prior to the issuance of the preliminary determination.

*Determination of Industry Support for the Petition*

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 the Department's industry support determination, which is to be made before the initiation of the investigation, be based on whether a minimum

percentage of the relevant industry supports the Petition. 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 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 (Ct. Int'l Trade 2001), citing *Algoma Steel Corp. Ltd. v. United States*, 688 F. Supp. 639, 642-44 (Ct. Int'l Trade 1988).

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 title." Thus, the reference point from which the domestic like product analysis 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, 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 in the Petition, we have determined there is a single domestic like product, certain artist canvas, which is defined further in the "Scope of the Investigation" section above, and we have analyzed industry support in terms of that domestic like product.

Our review of the data provided in the petition and other information readily available to the Department indicates that Petitioner has established industry support representing at least 25 percent of the total production of the domestic like product; and more than 50 percent of the production of the domestic like product produced by that portion of the industry, requiring no further action by the Department pursuant to section 732(c)(4)(D) of the Act. In addition, the Department received no opposition to the petition from domestic producers of the like product. Therefore, the domestic producers (or workers) who support the petition account for at least 25 percent of the total production of the domestic like product, and the requirements of section 732(c)(4)(A)(i) of the Act are met. Furthermore, the domestic producers who support the petition 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 petition. Thus, the requirements of section 732(c)(4)(A)(ii) of the Act also are met. Accordingly, the Department determines that the petition was filed on behalf of the domestic industry within the meaning of section 732(b)(1) of the Act. *See Import Administration: Antidumping Duty Investigation Initiation Checklist of Certain Artist Canvas from the PRC ("Initiation Checklist")*, dated April 21, 2005, at Attachment II (Industry Support).

The Department finds that Petitioner filed this petition on behalf of the domestic industry because it is an interested party as defined in section 771(9)(G) of the Act and it has demonstrated sufficient industry support with respect to the antidumping investigation that it is requesting the Department initiate. *See Initiation Checklist at Attachment II (Industry Support)*.

#### *Export Price and Normal Value*

The following is a description of the allegation of sales at less than fair value upon which the Department based its decision to initiate this investigation. The sources of data for the deductions and adjustments relating to the U.S.

price and the factors of production are also discussed in the *Initiation Checklist*. Petitioner submits that the particular export prices and normal values chosen represent equivalent forms of artist canvas. Petitioner identified the proper products for comparison by matching the dimensions of the artist canvas, the type and depth of stretcher strip, the weight of the cotton canvas, the number of coating applications, and the number and locations of staples in the artist canvas. *See* Petition Exhibit 34, April 12, 2005, Supplement to the Petition at pages 19–20, and April 15, 2005, Supplement to Petition at Exhibit 4. Should the need arise to use any of this information as facts available under section 776 of the Act in our preliminary or final determination, we may reexamine the information and revise the margin calculations, if appropriate.

#### *Export Price*

Petitioner based export price on a price list for artist canvas offered for sale by a producer and exporter of artist canvas located in the PRC. *See* Petition at page 26 and Exhibit 34. Petitioner also submitted promotional materials. Petitioner made no adjustments or deductions to the export price. Because, for the reasons discussed in the *Initiation Checklist*, this resulted in a conservative estimate of the export price, we relied on the data in the Petition.

Using the product codes contained in the price list provided to the U.S. buyer, Petitioner chose four of the most common types of artist canvas sold in the U.S. to be used for the dumping margin calculation. *See* Petition Exhibit 34, April 12, 2005, Supplement to the Petition at pages 19–20, and April 15, 2005, Supplement to Petition at Exhibit 4.

#### *Normal Value*

Petitioner asserted that the PRC is a non-market economy country ("NME") and no determination to the contrary has yet been made by the Department. In previous investigations, the Department has determined that the PRC is an NME. *See Notice of Final Determination of Sales at Less Than Fair Value: Magnesium Metal from the People's Republic of China*, 70 FR 9037 (February 24, 2005), *Notice of Final Determination of Sales at Less Than Fair Value: Certain Tissue Paper Products From the People's Republic of China*, 70 FR 7475 (February 14, 2005), and *Notice of Final Determination of Sales at Less Than Fair Value: Certain Frozen and Canned Warmwater Shrimp From the People's Republic of China*, 69

FR 70997 (December 8, 2004). In accordance with section 771(18)(C)(i) of the Act, the presumption of NME status remains in effect until revoked by the Department. The presumption of NME status for the PRC has not been revoked by the Department and 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.

Petitioner selected India as the surrogate country. *See* Petition at pages 14–16. Petitioner explained that India was selected as the appropriate surrogate for purposes of this Petition because India is economically comparable to the PRC and is a significant producer of comparable merchandise. *See* Petition at page 14. Petitioner identified three Indian companies that produce artist canvas. *See* Petition at page 15, April 12, 2005, Supplement to the Petition at page 13, and April 15, 2005, Supplement to the Petition at page 2 and Exhibit 1. In addition, Petitioner submitted import statistics indicating that India exported about 555,000 square meters of artist canvas to the United States in 2004. *See* Petition at page 15.

Petitioner provided a dumping margin calculation using the Department's NME methodology as required by 19 CFR 351.202(b)(7)(i)(C). *See* Petition Exhibits 12–15, *see also*, April 15, 2005, Supplement to the Petition, at Exhibits 6A–7D. To determine the quantities of inputs used by the PRC producers to produce each of the selected artist canvases, Petitioner relied on the production experience and actual consumption rates of Tara during 2004. Petitioner stated that the products selected were chosen because they are representative of the U.S. production of artist canvas and the artist canvas imported from the PRC. *See* Petition at page 17. For each product selected for comparison to export price, Petitioner provided two sets of normal value calculations. One set of normal value calculations reported consumption based on total material inventory withdrawals and did not account for scrap materials that were recovered and used for other production purposes. *See* April 15, 2005, Supplement to the Petition at Exhibits 6A–6D and Exhibits 7A–7D, respectively. Petitioner contends that the consumption rates

that are based on actual inventory withdrawals are the more appropriate basis for calculating normal value because the scrap is a "dead loss" with no further application in the manufacturing process. Notwithstanding this argument, an employee of Petitioner provided an affidavit that indicates that Tara's re-use of scrap material reduces its manufacturing costs. See April 15, 2005, Supplement to the Petition at Exhibit 2. However, Petitioner did not incorporate an offset for recovered scrap in its normal value calculations. As a result, Petitioner's calculation of normal value could be overstated because it did not account for scrap materials that are recovered and used for other production purposes. Therefore, for the purposes of initiation, the Department has conservatively determined to analyze the normal value calculations submitted by Petitioner that accounted for materials consumed (net of scrap). See April 15, 2005, Supplement to the Petition at Exhibits 6A–6D.

For the normal value calculation, Petitioner valued the factors of production for artist canvas using surrogate values derived from official Indian government import statistics. See Petition at Exhibits 16–31, see also April 15, 2005, Supplement to the Petition at Exhibit 3. Petitioner explained that, when surrogate values were not contemporaneous, it calculated the surrogate values using the best data available and relied on wholesale price indices in India as published in the International Financial Statistics of the International Monetary Fund to determine the appropriate adjustments for inflation. See Petition at Exhibit 32 and the April 12, 2005, Supplement to the Petition at Exhibit 32. Using the foreign currency exchange rates posted on the Department's Web site, Petitioner converted the surrogate values from rupees to U.S. dollars based on the average exchange rate for the POI. See April 12, 2005, Supplement to the Petition at Exhibit K. Additionally, in calculating the surrogate values, Petitioner excluded those values reflecting imports from countries previously determined by the Department to be NME countries and imports into India from Indonesia, Korea and Thailand, because the Department has previously excluded prices from these countries because they maintain broadly-available, non-industry specific export subsidies. See *Automotive Replacement Glass Windshields From the People's Republic of China: Final Results of Administrative Review*, 69 FR 61790

(October 21, 2004), and accompanying Issues and Decision Memorandum at Comment 5.

For each of the inputs detailed in the normal value calculations, Petitioner provided surrogate values based on Indian Import Statistics. See April 15, 2005, Supplement to the Petition at Exhibit 3. The surrogate values submitted for the material and packing inputs consist of information reasonably available, and are therefore acceptable for purposes of initiation. However, the Department has recalculated the surrogate value for raw canvas and expressed it in U.S. dollars per square yard to be consistent with the unit of measure in which the consumption of raw canvas is reported. See *Initiation Checklist* at Attachment V.

The Department calculates and publishes the surrogate values for labor to be used in NME cases. Therefore, to value labor, Petitioner used a labor rate of \$0.93 per hour, in accordance with the Department's regulations. See 19 CFR 351.408(c)(3) and Petition at Exhibits 6A–6D.

Petitioner did not include amounts for energy consumption as a separate factor of production in its calculation of normal value. Since Petitioner did not directly value energy consumption in its normal value calculation and because the Department does not normally include energy costs in the numerator of its factory overhead ratio, the Department has not included an amount for energy in its recalculation of Petitioner's normal values. See *Initiation Checklist* at pages 7–8.

Factory overhead, selling, general and administrative expenses, interest, and profit were derived from the 2003–2004 financial statements of Arvind Mills Limited, an Indian fabric producer. See Petition at pages 15–16, and Exhibit 33. Petitioner stated it was unable to obtain financial data from any Indian producers that specifically produce artist canvas. See Petition at page 15. The Department agrees with Petitioner's contention that, in the absence of surrogate financial data for the specific subject merchandise, the Department may consider financial data for surrogate companies with similar characteristics and production processes. See Petition at page 16, see also, *Notice of Initiation of Antidumping Duty Investigations: 4,4'-Diamino-2,2'-Stilbenedisulfonic Acid (DAS) and Stilbenic Fluorescent Whitening Agents (SFWA) from Germany, India, and the People's Republic of China*, 68 FR 34579, 34581 (June 10, 2003). In this case, the Department has accepted the financial information for the Indian fabric

producer for the purposes of initiation, because these data appear to be the best information on such expenses currently available to Petitioner. Petitioner submitted calculations of the surrogate financial ratios in Exhibit 33 of the Petition and revised calculations in Exhibit 8 of the April 15, 2005, Supplement to the Petition. However, the Department has recalculated the surrogate financial ratios to be consistent with its normal practice with regard to the treatment of energy, purchase of traded goods, taxes, duties, and movement expenses. See *Initiation Checklist* at Attachment VII.

In addition to the changes discussed above, the Department has adjusted Petitioner's normal value calculations with regard to how amounts for packing materials are incorporated into the normal value calculation. Petitioner stated that it had excluded the packing material amounts from the components of the normal value calculation to which the surrogate financial ratios were applied in the normal value calculations. However, Petitioner's calculation of normal value for the 16x20 stretched canvas and the 18x24 stretched canvas applied the surrogate financial ratios to the packing materials as well as to the material and labor amounts, which Petitioner valued directly. As a result, Petitioner's calculation overstated normal value to a certain extent for those two products. In light of this, the Department has recalculated the normal values for the 16x20 stretched canvas and the 18x24 stretched canvas so that packing costs are added to normal value after application of the surrogate financial ratios to the cost of manufacturing. See *Initiation Checklist* at Attachment VI.

#### *Fair Value Comparisons*

Based on the data provided by Petitioner, there is reason to believe that imports of certain artist canvas from the PRC are being, or are likely to be, sold in the United States at less than fair value. Based upon comparisons of export price to the normal value, calculated in accordance with section 773(c) of the Act, the estimated recalculated dumping margins for certain artist canvas range from 242.09 percent to 264.09 percent.

#### *Allegations and Evidence of Material Injury and Causation*

The Petition alleges that the U.S. industry producing the domestic like product is being materially injured and 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 evident in: (1) Declining market share; (2) declining domestic prices and lost sales; (3) declining production and sales; (4) reductions in employment levels; and (5) declining profitability. See *Initiation Checklist* at Attachment IV (Injury).

The Department has assessed the allegations and supporting evidence (e.g., import statistics, etc) regarding material injury and causation and determined that these allegations are supported by accurate and adequate evidence and meet the statutory requirements for initiation.

#### *Separate Rates and Quantity and Value Questionnaire*

The Department recently modified the process by which exporters and producers may obtain separate-rate status in NME investigations. This change is described in *Policy Bulletin 05.1: Separate-Rates Practice and Application of Combination Rates in Antidumping Investigations Involving Non-Market Economy Countries*, (April 5, 2005), ("*Policy Bulletin 05.1*") available at <http://ia.ita.doc.gov/>. Although the process has changed, now requiring submission of a separate-rate status application, the standard for eligibility for a separate rate (which is whether a firm can demonstrate an absence of both *de jure* and *de facto* governmental control over its export activities) has not changed.

The specific requirements for submitting a separate-rates application are outlined in detail in the application itself, and in *Policy Bulletin 05.1*, which is also available on the Department's Web site at <http://ia.ita.doc.gov/policy/bull05-1.pdf>. Regarding deadlines, *Policy Bulletin 05.1* explains that "[a]ll applications are due sixty calendar days after publication of the initiation notice. This deadline applies equally to NME-owned and wholly foreign-owned firms for completing the applicable provisions of the application and for submitting the required supporting documentation." See *Policy Bulletin 05.1* at page 5.

The deadline for submitting a separate-rates application applies equally to NME-owned firms, wholly foreign-owned firms, and foreign sellers who purchase the subject merchandise and export it to the United States. Therefore, this notice constitutes public notification to all firms eligible to seek separate-rate status in the investigation of artist canvas from the PRC that they must submit a separate-rates application within 60 calendar days of the date of publication of this initiation notice in the **Federal Register**. All potential respondents should also bear in mind that firms to which the Department

issues a Quantity and Value ("Q&V") questionnaire must respond both to this questionnaire and to the separate-rates application by the respective deadlines in order to receive consideration for a separate-rate status. In other words, the Department will not give consideration to any separate rate-status application made by parties that were issued a Q&V questionnaire by the Department but failed to respond to that questionnaire within the established deadline. The particular separate-rate status application for this investigation is available on the Department's Web site <http://ia.ita.doc.gov/ia-highlights-and-news.html>.

#### *Combination Rates*

The Department will calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. *The Separate Rates and Combination Rates Bulletin*, 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.

*Separate Rates and Combination Rates Bulletin*, at page 6.

#### *Initiation of Antidumping Investigation*

Based upon our examination of the Petition on certain artist canvas from the PRC, we find that the Petition meets the requirements of section 732 of the Act. Therefore, we are initiating an antidumping duty investigation to determine whether imports of certain artist canvas from the PRC are being, or are likely to be, sold in the United States at less than fair value. Unless it is postponed, we will make our preliminary determination no later than 140 days after the date of this initiation.

#### *Distribution of Copies of the Petition*

In accordance with section 732(b)(3)(A) of the Act, a copy of the public version of the Petition has been provided to the Government of the PRC.

#### *ITC Notification*

We have notified the ITC of our initiation, as required by section 732(d) of the Act.

#### *Preliminary Determination By the ITC*

The ITC will preliminarily determine, no later than May 16, 2005, whether there is a reasonable indication that imports of certain artist canvas from the PRC are causing material injury, or are threatening to cause material injury, to a U.S. industry. A negative ITC determination will result in this investigation being terminated; otherwise, this investigation will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Dated: April 21, 2005.

**Joseph A. Spetrini,**

*Acting Assistant Secretary for Import Administration.*

[FR Doc. E5-2047 Filed 4-27-05; 8:45 am]

**BILLING CODE 3510-DS-P**

**APPENDIX B**  
**CONFERENCE WITNESSES**



## CALENDAR OF THE PUBLIC CONFERENCE

Those listed below appeared as witnesses at the United States International Trade Commission's conference held in connection with the following investigation:

Subject: ARTISTS' CANVAS FROM CHINA

Inv. No.: 731-TA-1091 (Preliminary)

Date and Time: April 22, 2005 - 9:30 am

The conference was held in Room 101 (Main Hearing Room) of the United States International Trade Commission Building, 500 E Street, SW, Washington, DC.

### IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING DUTIES:

Neville Peterson LLP  
Washington, DC  
on behalf of

Tara Materials Inc.

I. Michael Benator, President and CEO, Tara Materials, Inc.  
Peter Delin, Vice President-Marketing, Tara Materials, Inc.  
Paul Straquadine, Vice President-Sales, Tara Materials, Inc.  
Ron Freeman, Vice President-Manufacturing, Tara Materials, Inc.  
Bill Cichhersi, President, Azel Art Supply, Inc.

George Thompson )--OF COUNSEL

**IN OPPOSITION TO THE IMPOSITION OF ANTIDUMPING DUTIES:**

Sonnenschein Nath & Rosenthal LLP

Washington, DC

on behalf of

Wuxi Phoenix Artists Material Col, Ltd., Michaels Stores, Inc., Aaron Brothers, Inc., MacPherson's, ColArt Americas, Inc., Dick Blick Art Materials, Sbars, Inc., Hobby Lobby Stores, Inc., A.C. Moore Arts & Crafts, Inc., Jerry's Artarama, Ningbo Conda Import & Export Co., Ltd., Ningbo Two Birds Industry Co., Ltd., and Jo-Ann Stores, Inc.

Frank Stapleton, President, MacPherson's

Alan Marek, Director of Importing, Michaels Stores, Inc.

Harvey Kanter, President, Aaron Brothers

Eric Urnes, General Manager, ColArt Americas, Inc.

John Dowers, President and Chief Executive Officer, Utrecht Art Supplies

Daniel Klett, Principal, Capital Trade Inc.

Philip Gallas )--OF COUNSEL

Mark Ludwikowski

**APPENDIX C**  
**SUMMARY DATA**



Table C-1

## Artists' canvas: Summary data concerning the U.S. market, 2002-04, January-March 2004, and January-March 2005

(Quantity=1,000 square meters, value=1,000 dollars, unit values, unit labor costs, and unit expenses are per square meter; period changes=percent, except where noted)

Item	Reported data					Period changes			
	2002	2003	2004	January-March		2002-04	2002-03	2003-04	Jan.-Mar. 2004-05
				2004	2005				
U.S. consumption quantity:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):	***	***	***	***	***	***	***	***	***
China	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. consumption value:									
Amount	***	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***	***
Importers' share (1):	***	***	***	***	***	***	***	***	***
China	***	***	***	***	***	***	***	***	***
Other sources	***	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***	***
U.S. shipments of imports from:									
China:									
Quantity	159	494	1,317	278	519	727.6	210.4	166.6	86.5
Value	1,283	4,777	10,429	2,252	3,591	712.5	272.2	118.3	59.5
Unit value	\$8.07	\$9.67	\$7.92	\$8.09	\$6.92	-1.8	19.9	-18.1	-14.5
Ending inventory quantity	61	200	376	173	389	520.8	229.2	88.6	124.3
All other sources (2):									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All sources:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Average capacity quantity	***	***	***	***	***	***	***	***	***
Production quantity	***	***	***	***	***	***	***	***	***
Capacity utilization (1)	***	***	***	***	***	***	***	***	***
U.S. shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Export shipments:									
Quantity	***	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***	***
Inventories/total shipments (1)	***	***	***	***	***	***	***	***	***
Production workers	***	***	***	***	***	***	***	***	***
Hours worked (1,000s)	***	***	***	***	***	***	***	***	***
Wages paid (\$1,000s)	***	***	***	***	***	***	***	***	***
Hourly wages	***	***	***	***	***	***	***	***	***
Productivity (square meters/hour)	***	***	***	***	***	***	***	***	***
Unit labor costs	***	***	***	***	***	***	***	***	***
Net sales (3):									
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) Shipments of imports from Mexico (from Commission questionnaires) plus imports from all other sources (from official Commerce statistics).

(3) Financial data are for bulk/rolled canvas plus assembled finished canvas.

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 and from official Commerce statistics.



**APPENDIX D**

**ALLEGED EFFECTS OF SUBJECT IMPORTS ON U.S. PRODUCERS'  
EXISTING DEVELOPMENT AND PRODUCTION EFFORTS,  
GROWTH, INVESTMENT, AND ABILITY TO RAISE CAPITAL**



Responses of U.S. producers to the following questions:

1. Since January 1, 2002, has your firm experienced any actual negative effects on its return on investment or its 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 a result of imports of artists' canvas from China?

Responses of the producers are:

**Duro** \*\*\*

**Masterpiece** \*\*\*

**Stretch Art** \*\*\*

**Tara** \*\*\*

2. Does your firm anticipate any negative impact of imports of artists' canvas from China?

Responses of the producers are:

**Duro** \*\*\*

**Masterpiece** \*\*\*

**Stretch Art** \*\*\*

**Tara** \*\*\*