

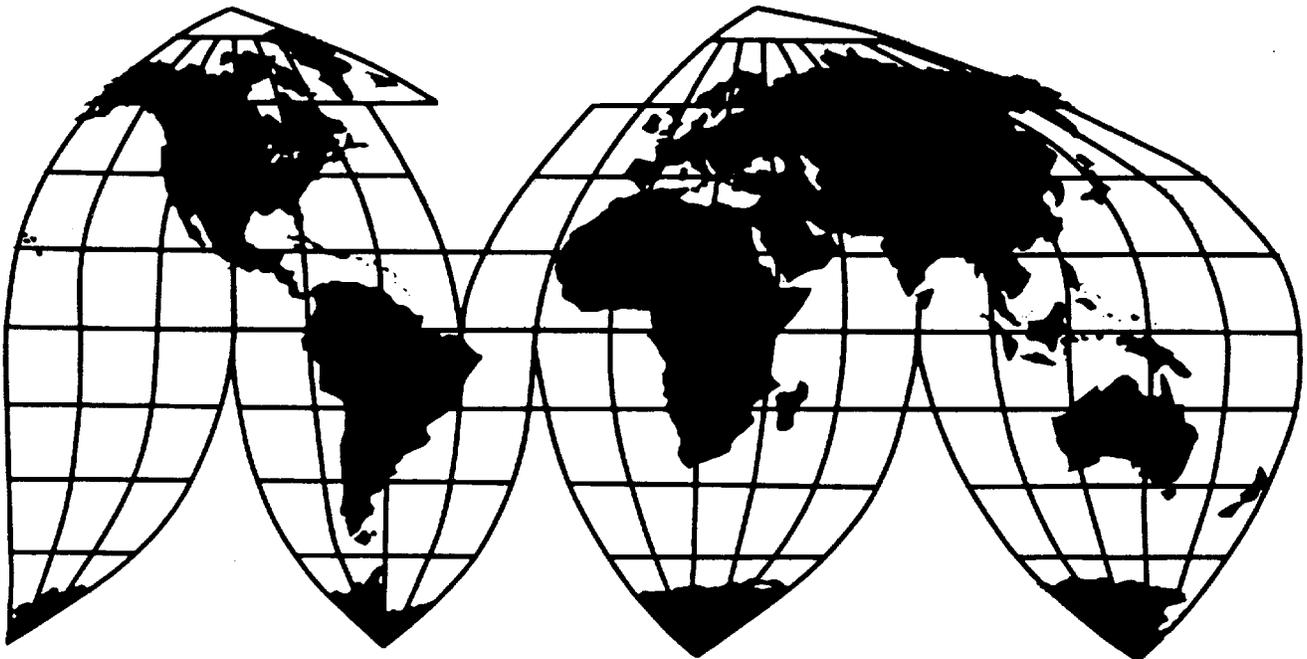
# Artists' Canvas From China

Investigation No. 731-TA-1091 (Final)

Publication 3853

May 2006

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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---

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---

### *Staff assigned*

Jai Motwane, *Investigator*  
Heidi Colby-Oizumi, *Industry Analyst*  
Nancy Bryan, *Economist*  
Justin Jee, *Accountant*  
Mark Rees, *Attorney*  
Mara Alexander, *Statistician*  
Diane Mazur, *Supervisory Investigator*

**Address all communications to  
Secretary to the Commission  
United States 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Note.—Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report.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 (Final)

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 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act), 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 have been found by the Department of Commerce (Commerce) to be sold in the United States at less than fair value (LTFV).<sup>2</sup>

## BACKGROUND

The Commission instituted this investigation effective April 1, 2006, following receipt of a petition filed with the Commission and Commerce by Tara Materials, Inc., of Lawrenceville, GA. The final phase of the investigation was scheduled by the Commission following notification of a preliminary determination by Commerce that imports of artists' canvas from China were being sold at LTFV within the meaning of section 733(b) of the Act (19 U.S.C. § 1673b(b)). Notice of the scheduling of the final phase of the Commission's investigation and of a public hearing 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 November 17, 2005 (70 FR 69781). The hearing was held in Washington, DC, on March 28, 2006, 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)).

<sup>2</sup> Commissioner Daniel R. Pearson dissenting.



## VIEWS OF THE COMMISSION

Based on the record in this investigation, we determine that an industry in the United States is materially injured by reason of imports of artists' canvas from China that are sold in the United States at less than fair value (LTFV).<sup>1 2</sup> Artists' canvas is a surface for the graphic presentation of painted or printed images. Made from woven fabric that is primed and coated ("gessoed") to accept paints or inks, it is sold in a variety of shapes, sizes, textures, and formats.<sup>3</sup>

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

### I. DOMESTIC LIKE PRODUCT

#### A. In General

In determining 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 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

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<sup>1</sup> Commissioner Pearson dissenting. See Additional and Dissenting Views of Commissioner Daniel R. Pearson.

<sup>2</sup> This investigation does not raise the issues of whether the establishment of an industry is materially retarded, or the existence of critical circumstances under 19 U.S.C. § 1673d(b)(4)(A)(i).

<sup>3</sup> Confidential Staff Report, INV-DD-047 (Apr. 13, 2006) (CR) at I-6, Public Staff Report (PR) at I-4-I-5.

<sup>4</sup> 19 U.S.C. § 1677(4)(A).

<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 Nippon, 19 CIT at 455 n.4; Timken Co. v. United States, 913 F. Supp. 580, 584 (Ct. Int'l Trade 1996).

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 Commerce as to the scope of the imported merchandise that has been found to be subsidized or sold at LTFV, the Commission determines what domestic product is like the imported articles Commerce has identified.<sup>10</sup>

## **B. Product Description**

In its final determination, 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 canvases, canvas panels, canvas pads, canvas rolls . . . , printable canvases, floor cloths, and placemats) are tightly woven prepared painting and/or printing surfaces.<sup>11</sup>

Specifically excluded from the scope are “tracing cloths, ‘paint-by-number’ or ‘paint-it-yourself’ artist canvases with a copyrighted preprinted outline, pattern, or design,” as well as “stretcher strips . . . so long as they are not incorporated into artist canvases or sold as part of an artist canvas kit or set.”<sup>12</sup>

Artists’ canvas is made from raw canvas<sup>13</sup> that receives two to four coats of gesso depending upon the application of the final product. The coated canvas may be sold in bulk rolls of various widths or lengths or it may be converted into a finished canvas product, the most common form of which is “assembled” canvas that is stretched around and affixed to wooden frames by staple or spline (tucked into

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

<sup>9</sup> Nippon Steel, 19 CIT at 455; Torrington, 747 F. Supp. at 748-49. See also S. Rep. No. 96-249 at 90-91 (1979) (Congress has indicated that the like product standard should not be interpreted in “such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not ‘like’ each other, nor should the definition of ‘like product’ be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.”).

<sup>10</sup> Hosiden Corp. v. Advanced Display Mfrs., 85 F.3d 1561, 1568 (Fed. Cir. 1996) (Commission may find single like product corresponding to several different classes or kinds defined by Commerce); Torrington, 747 F. Supp. at 748-752 (affirming Commission determination of six like products in investigations in which Commerce found five classes or kinds).

<sup>11</sup> 71 Fed. Reg. 16116 (Mar. 30, 2006).

<sup>12</sup> Id. at 16117 (footnote omitted). Commerce also made a scope ruling that canvas woven and primed in India but cut and stretched in China does not constitute subject merchandise from China. See id. at 16116-16117.

<sup>13</sup> The woven fabrics used in artists’ canvas include cotton, linen, muslin, jute, or polyester. CR at I-6, PR at I-5.

a slat in the frame).<sup>14</sup> Other common finished forms include panels,<sup>15</sup> archival boards,<sup>16</sup> and print canvas, the last of which is treated with an additional ink receptive coating for use in digital printers.<sup>17</sup>

In the preliminary phase of this investigation, the Commission applied the traditional six factor test and determined that artists' canvas is a continuum of different types of a single domestic like product. The Commission found that the various types of artists' canvas share significant similarities, particularly in terms of physical characteristics and uses, the perceptions of producers and importers, channels of distribution, and manufacturing facilities, processes, and employees. While differences in finishing processes and price exist between artists' canvas in bulk rolls and the various forms of converted product, and the interchangeability of certain types of artists' canvas may be limited (digital printing, for example, may only be performed on print canvas), the Commission concluded that these distinctions do not establish clear dividing lines between artists' canvas products that would justify finding two or more domestic like products.<sup>18</sup> The Commission thus found a single domestic like product, co-extensive with the scope, but noted that it would further examine the like product definition in any final phase, particularly with respect to the treatment of artists' canvas kits and the treatment of bulk rolls as compared to finished product.<sup>19</sup>

### C. Parties' Arguments and Analysis

The definition of the domestic like product is not in dispute. Petitioner and Respondents concur with the Commission's treatment of the issue in its preliminary determination. Petitioner also contends that application of a semi-finished products analysis, which it claims is not required because bulk canvas is not necessarily a "semi-finished" product, leads to the same finding of a single domestic like product.<sup>20</sup> We conclude that the record in the final phase of this investigation has not changed so as to warrant a departure from the definition adopted by the Commission in the preliminary phase, that is, a single domestic like product corresponding to the scope.<sup>21</sup>

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<sup>14</sup> Bulk rolls may also be characterized as "finished" product for certain consumers (typically professional artists) who purchase it in this form so that they may perform their own customized stretching. There are also end uses for bulk products independent of finished canvas, such as floor cloths. See CR at I-6, I-12 & II-1, PR at I-4-I-5, I-9, & II-1; see also Artists' Canvas from China, Inv. No. 731-TA-1091 (Prelim.), USITC Pub. 3777 (May 2005) (Preliminary Determination) at 6 n.27. (Where we need to refer to the confidential version of the preliminary phase opinion, we cite to "Confidential Views.")

<sup>15</sup> Coated canvas that is adhered to a chipboard or a cardboard core. Preliminary Determination at 5.

<sup>16</sup> Coated canvas of high professional grade that is adhered to hardboard. Id.

<sup>17</sup> CR at I-6, PR at I-5. Less common forms of finished product include floor cloths and place mats. CR at I-6, PR at I-5.

<sup>18</sup> Preliminary Determination at 5-7.

<sup>19</sup> Preliminary Determination at 7 & n.35.

<sup>20</sup> E.g., Petitioner's Prehearing Brief at 3-18; Respondents' Prehearing Brief at 2-3.

<sup>21</sup> In the preliminary determination, the Commission noted that it would further examine the treatment of artists' canvas kits in a final phase investigation. While \*\*\*, kits were included in the scope based on concerns of the Petitioner of possible circumvention of any resulting order. Preliminary Determination at 5 n.19. Information collected during the final phase indicates that kits are fabricated domestically, albeit in limited quantities. CR at I-8 n.22, PR at I-7 n.22 (\*\*\*). Thus, we need not turn to the "next most similar" product analysis addressed in the preliminary phase. The factual record is otherwise unchanged regarding kits, and the parties raise no issue regarding their inclusion as defined in the scope. Accordingly, we do not find that artists' canvas kits constitute a separate domestic like product.

Bulk Rolls/Finished Product. Bulk rolls, in limited circumstances, are used as finished product or may be sold to artists who prefer to perform their own stretching as part of their artistic work; however, the record shows that the vast majority of bulk rolls is used in the production of finished artists' canvas before sale to the ultimate end user. We have therefore considered both the semi-finished products analysis and traditional six factor test in examining the domestic like product issue.

Under the semi-finished products analysis, in making its determination on whether to treat the semi-finished and finished products as one like product or two, the Commission considers: (1) whether the upstream article is dedicated to the production of the downstream article or has independent uses; (2) whether there are perceived to be separate markets for the upstream and downstream articles; (3) differences in the physical characteristics and functions of the upstream and downstream articles; (4) differences in the cost or value of the vertically differentiated articles; and (5) the significance and extent of the process used to transform the upstream into the downstream articles.<sup>22</sup>

The record reveals no meaningful vertical distinction between these two general types of artists' canvas so as to warrant a finding of two domestic like products under a semi-finished products analysis. In terms of dedication to production, bulk rolls generally, although not always, are dedicated to the production of finished artist canvas. In 2005, \*\*\* percent of U.S. producers' U.S. shipments were sold to converters – firms that produce finished artists' canvas products using bulk canvas purchased from unrelated firms.<sup>23</sup>

Petitioner argues that there is a perceived common market for bulk rolls and finished product.<sup>24</sup> Respondents have not disputed that, for purposes of the Commission's like product analysis, the two types of product overlap. While bulk canvas is sold primarily to converters and the majority of finished canvas is sold to retailers,<sup>25</sup> the ultimate end user of either is the artist.<sup>26</sup>

Bulk rolls and finished product share the same fundamental physical characteristics and functions: all artist canvas is woven fabric gessoed to accept paints or inks, and functions as a building block to artistic expression.<sup>27</sup> The additional processing required to convert bulk rolls to finished product creates differences in costs or value, with average unit values for the finished product at least twice that of bulk rolls per square meter.<sup>28</sup>

Given the extent to which bulk rolls go into the production of finished canvas, the inherent similarities of the two types of product, and the lack of any argument suggesting that the two should be treated as separate domestic like products, we do not find that the semi-finished products analysis points to separate domestic like products.

The additional information obtained in the final phase of the investigation also supports the preliminary determination that, under the traditional six factor domestic like product test, bulk rolls and finished product are also sufficiently similar to warrant a single domestic like product definition. The physical characteristics and uses of the two, as noted above, are similar. All artists' canvas is used as a medium for the graphic expression of art. It is made of a canvas fabric that, once coated with gesso, will

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<sup>22</sup> See, e.g., Outboard Engines from Japan, Inv. No. 731-TA-1069 (Final), USITC Pub. 3752 (Feb. 2005) at 6.

<sup>23</sup> CR, PR at Table I-3. We note that these data tend to understate the amount of bulk canvas production dedicated to finished artists' canvas because of the internal consumption of some bulk canvas by integrated producers to produce finished product. CR, PR at Table I-3 n.1; see CR, PR at Table III-5.

<sup>24</sup> Petitioner's Prehearing Brief at 16.

<sup>25</sup> CR at I-10, PR at I-8.

<sup>26</sup> Generally, only the professional or experienced artist will purchase the upstream product. CR, PR at II-1. We note that print canvas is mostly used for art reproduction. Id.

<sup>27</sup> See, e.g., Revised and Corrected Transcript of Public Hearing on March 28, 2006 (Tr.) at 28 (Mr. Straquadine).

<sup>28</sup> CR, PR at Tables III-5-III-6.

allow the paint or ink to be applied without penetrating the fabric. Such coated canvas is used exclusively for artists' canvas, giving the product its unique qualities. The coating provides the ultimate end user with the surface upon which to produce a graphic presentation, and the canvas serves as the material that best supports the coated surface. Whether sold in bulk or finished form, artists' canvas serves the same elemental function in the creative process.<sup>29</sup>

In terms of interchangeability, most of the larger bulk rolls are converted to cut sheets to make stretched canvas, panels, or pads. The smaller bulk rolls (typically 3 yards to 6 yards) are purchased by professional or other serious artists who prefer to stretch their own canvas.<sup>30</sup> Therefore, bulk rolls usually, although not exclusively,<sup>31</sup> undergo further processing before use by the artist, but the artist herself in certain circumstances may perform those finishing steps.<sup>32</sup>

The parties do not perceive a clear dividing line between bulk rolls and finished product. Indeed, print canvas, a finished product, may be sold in bulk form.<sup>33</sup> Questionnaire responses regarding producer and customer perceptions show that finished canvas products tend to appeal to a broader group of artists that includes students, hobbyists, and first time painters because it is ready-to-use, while bulk rolls are for the artist with special quality and size needs.<sup>34</sup> In either case, the end user and the use to which the canvas is ultimately put are generally the same: artists of varying proficiency creating expressions of art.

In terms of channels of distribution, the majority of U.S. producers' commercial shipments of finished artist canvas is sold directly to retailers, with the remainder sold primarily through distributors. The percentage of bulk rolls sold to retailers during the period examined ranged from \*\*\* percent (2005) to \*\*\* percent (2002); the percentage sold to distributors ranged between \*\*\* percent (2005) and \*\*\* percent (2002).<sup>35</sup> Bulk rolls are sold primarily to converters or firms that further process the bulk canvas to produce finished artist canvas.<sup>36</sup> Direct sales to end users by U.S. producers exist for both bulk rolls and finished product, but account for \*\*\* percent of U.S. producers' shipments.<sup>37</sup>

Because bulk rolls are the input for finished artists' canvas products, there is overlap, as found by the Commission in the preliminary phase, in terms of manufacturing facilities, processes, and employees.<sup>38</sup> The raw canvas for all artists' canvas products is purchased by the producer and coated or primed with two to four layers of gesso, which is mixed using various chemical compounds based on the application for which it is intended. This paint-receptive coating, as noted, provides the surface upon which the art is produced and creates the barrier that prevents the paint from penetrating the canvas fibers.<sup>39</sup>

Moreover, three U.S. firms, including the Petitioner, produce both bulk rolls and finished artists' canvas products. With respect to these firms, the bulk rolls and finished artists' canvas products are

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<sup>29</sup> CR at I-6-I-9, PR at I-4-I-7; Tr. at 28-30 (Mr. Straquadine); Preliminary Determination at 6.

<sup>30</sup> See, e.g., CR at D-17, PR at D-18.

<sup>31</sup> See, e.g., CR at I-9 n.27 (use of bulk rolls for floor coverings) & D-8 (use of bulk rolls for large murals), PR at I-7 n.27 & D-8.

<sup>32</sup> See, e.g., CR at D-17-D-20, PR at D-17-D-20.

<sup>33</sup> Tr. at 137 (Mr. Benator) (noting that Tara sells bulk rolls of print canvas and that print converters may also sell print canvas in rolls of varying sizes).

<sup>34</sup> CR at I-10, D-17-D-20, PR at I-8, D-17-D-20. See also CR, PR at II-1 (noting that 5 of 15 purchasers reported that bulk rolls and finished product are interchangeable; 10 reported that interchangeability is limited due to the skill, tools, and time required to transform the product into finished product).

<sup>35</sup> CR, PR at Table I-3.

<sup>36</sup> CR at I-10, PR at I-8.

<sup>37</sup> CR, PR at Table I-3.

<sup>38</sup> Preliminary Determination at 7.

<sup>39</sup> CR at I-7, PR at I-4.

produced in the same facilities and the workers performing the converting may also be employed in the production of the bulk canvas, although the machines used are different.<sup>40</sup>

The converting processes consist of additional steps in the manufacture of artists' canvas,<sup>41</sup> and these additional steps increase the price of the product. In 2005, for example, the average unit value of U.S. producers' commercial shipments of bulk rolls was \$\*\*\* per square meter, compared to \$\*\*\* per square meter for finished canvas.<sup>42</sup> The Commission noted in the preliminary phase that the existence of pricing differences was consistent with an expected price continuum of different types of the same product.<sup>43</sup>

The other differences evidenced in this final phase, particularly with respect to the finishing processes and interchangeability, are also consistent with the continuum of artists' canvas found in the preliminary phase. Any dividing lines among artists' canvas products, including between bulk rolls and finished product, are not clear on this record. Limits on interchangeability, for example, are not reserved to comparing bulk rolls and finished product. As the Commission noted in its preliminary determination, canvas presented on a stretcher strip (assembled canvas) may not be used for printing; the costs for certain materials may also limit their use for particular applications.<sup>44</sup> Moreover, the processes that take place after gessoing the bulk canvas, the facilities in which they are performed, and the employees who perform them vary depending on the particular type of finished product.

Instead of showing a clear dividing line between bulk rolls and finished product, the record continues to demonstrate a continuum of artists' canvas products sold in numerous grades, textures, shapes, sizes, formats, and packages, sharing varying degrees of similarity in terms of physical characteristics and uses, interchangeability, customer and producer perceptions, channels of distribution, and manufacturing facilities, processes, and employees. The parties are in agreement that no one artists' canvas product or type of product constitutes a separate domestic like product. Based on the record in this final phase investigation, whether we apply the traditional six factor test or a semi-finished products analysis, we find a single domestic like product, all artists' canvas, co-extensive with the scope of the investigation.

## II. DOMESTIC INDUSTRY<sup>45</sup>

### A. In General

The domestic industry is defined as "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>46</sup> In assessing the domestic production activity associated with a

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<sup>40</sup> CR at I-9-I-10, PR at I-7; Tr. at 127-128 (Mr. Freeman) (noting that the same employees make bulk and finished canvas).

<sup>41</sup> See, e.g., CR at I-7-I-8, I-13; PR at I-6, I-9-I-10.

<sup>42</sup> CR, PR at Tables III-5-III-6.

<sup>43</sup> Preliminary Determination at 7.

<sup>44</sup> Preliminary Determination at 6.

<sup>45</sup> Commissioner Pearson, reaching a negative final determination, does not join in the remainder of these Views. See Additional and Dissenting Views of Commissioner Daniel R. Pearson. Chairman Koplan and Commissioner Aranoff concur in the affirmative material injury determination, but do not join in the rest of the opinion. See Views of Chairman Stephen Koplan and Commissioner Shara L. Aranoff.

<sup>46</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.

(continued...)

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.<sup>47</sup> 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.<sup>48</sup>

In the preliminary phase of this investigation, the Commission addressed whether firms that engage in the production of pre-stretched canvas but do not produce the bulks rolls (so-called converters) are part of the domestic industry producing artists' canvas. In addition to these firms, there was evidence of a toll-processing arrangement whereby \*\*\*. Based on the available information in the preliminary phase, \*\*\* appeared to be an "important but minor" additional processing step in the fabrication of certain finished product.<sup>49</sup> However, the record was unclear as to whether there were other such toll processors and the Commission had no trade, production, or financial data from firms engaged in this sort of converting operation. Therefore, the Commission did not address their inclusion in the domestic industry.<sup>50</sup> In contrast, the available information indicated that firms converting bulk rolls into pre-stretched canvas were engaged in sufficient production-related activity to constitute members of the domestic industry. Accordingly, the Commission defined the industry to include these converters, but noted it would explore the issue further in any final phase investigation.<sup>51</sup>

## **B. Parties' Arguments**

The parties are in agreement with respect to the inclusion in the domestic industry of firms that convert bulk rolls into pre-stretched or assembled canvas.<sup>52</sup> Whether such firms engage in sufficient production-related activity is not disputed in the final phase of this investigation. The significant issue, they contend, is whether firms that convert canvas rolls into print canvas, for use in digital printing, should be included in the domestic industry.

Petitioner argues that print converting operations are not sufficient to qualify as artists' canvas production under the Commission's traditional production-related activity test and, thus, print converters do not qualify as domestic producers.<sup>53</sup> Respondents argue that the Commission need not engage in the six-factor sufficient production-related activity test because there appear to exist only non-integrated

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<sup>46</sup> (...continued)

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.

<sup>47</sup> 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.

<sup>48</sup> 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) (Aramid Fiber) 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>49</sup> Confidential Views at 11 n.40.

<sup>50</sup> Preliminary Determination at 8 n.40.

<sup>51</sup> Preliminary Determination at 7-8.

<sup>52</sup> See, e.g., Petitioner's Prehearing Brief at 18-20; Respondents' Prehearing Brief at 3-6.

<sup>53</sup> See, e.g., Petitioner's Responses to Commissioner Questions at 5-9.

producers of print canvas – the so-called print converters.<sup>54</sup> Absent inclusion of non-integrated producers, they continue, there would be no U.S. producers of the domestic like product. Including print converters in the domestic industry is therefore warranted regardless of the extent of their production activity.<sup>55</sup> Respondents further argue that, even under the six-factor test, print converters should be included in the domestic industry because they engage in sufficient production-related activity.<sup>56</sup>

Respondents also charge that Tara did not properly report in the petition, or at any time during the investigation, the identity of print converters to the Commission, even though print canvas is included within the scope of their petition and this investigation. Tara’s failure to identify such producers, they claim, has impeded the Commission’s investigation, resulting in significant numbers of producers of artists’ canvas that did not receive and have not responded to questionnaires regarding their operations. They further argue data on the amount of value added by various converters, in particular, are unreliable for converters of assembled canvas and insufficient for print converters and that, for the latter, the Commission should assume that the value-added data for non-responding firms is similar to the data from those that have responded.<sup>57</sup>

Tara counters that it has been forthcoming in identifying firms involved in the coating of canvas produced by domestic manufacturers. Tara states it was clear from the outset of the investigation that there were inkjet coaters in the United States, and that Tara does not consider the coating process to constitute production, but instead to be a mere finishing step. Tara also states it did not include such finishers in the petition precisely because it does not consider them domestic producers, and that it has been fully responsive to Commission requests for information about inkjet coaters when this issue was raised. Tara argues that any deficiencies in questionnaire responses cannot be held against Tara, and that any request for taking adverse inferences is baseless.<sup>58</sup>

### C. Analysis

Two types of firms produce the artists’ canvas that are subject to this investigation – “coaters” ( i.e., firms that produce bulk canvas) and “converters” ( i.e., firms that produce finished canvas products). Converters can be further divided into firms that produce assembled canvas products (such as stretched canvas, canvas panels, and canvas pads<sup>59</sup>), and firms that produce canvas suitable for use with digital printers (“print converters”).<sup>60</sup>

A complete list of the potential U.S. producers identified in this investigation, and the status and extent of their individual responses to the Commission’s questionnaires, is set forth in appendix E to the staff report. All 30 potential producers listed by Respondents received questionnaires. In addition, the Commission identified and sent questionnaires to 13 other firms. Of the 43 firms that received producer questionnaires, 3 are integrated producers, 4 producers of bulk canvas, and 36 potential finished canvas producers, including 26 print canvas producers. Responses were received from 33 firms, including all 3 integrated producers, all 4 coaters, and 26 potential converters, including 20 print canvas producers. The

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<sup>54</sup> We note that, based on our definition of the domestic industry, producers of bulk canvas are producers of the domestic like product, including print canvas.

<sup>55</sup> See, e.g., Respondents’ Posthearing Brief at 6-7 & Exh. 1 at 4-5.

<sup>56</sup> See, e.g., Respondents’ Posthearing Brief Exh. 1 at 5-10

<sup>57</sup> See, e.g., Respondents’ Posthearing Brief at 4-6, 8-10 & Exh. 1 at 1-6. They also contend that comparing the value-added data for these two types of finished canvas production is irrelevant. See, e.g., Respondents’ Posthearing Brief Exh. 1 at 5-6.

<sup>58</sup> Petitioner’s Response to Commissioner Questions at 1-4.

<sup>59</sup> Coated canvas sheets that are bound together in notebook form. Preliminary Determination at 5.

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

Commission thus received responses from 33 of 43 of the identified firms. For 5 of the 10 non-responding firms, the Commission either confirmed that they did not produce artists' canvas or received no confirmation that they actually engage in production activities of any sort; staff obtained production level information from 4 of the remaining 5 converters.<sup>61</sup>

Table III-1 of the staff report identifies the U.S. firms that provided trade and financial data. The firms identified in this table account for over 93 percent of total U.S. production of bulk artists' canvas, and over 90 percent of U.S. production of finished canvas products.<sup>62</sup> Domestic converters' costs of conversion from bulk to finished canvas, for both non-print and print converters, set forth in table I-4 of the final report, are discussed below. Two significant converters of print canvas reported data relating to conversion costs; one converter of non-print canvas reported conversion costs, and staff derived from the financial data reported by the integrated producers their non-print canvas conversion costs based on their reported costs of production for finished canvas products.<sup>63</sup>

Any suggestion by Respondents that we must obtain 100 percent coverage in questionnaire responses in order to make our determinations is incorrect. While the Commission endeavors to obtain the most complete set of data as is practicably possible within the limits imposed by the statutory deadlines and the ability of questionnaire respondents to comply with the data requests, the Court of International Trade has made clear that 100 percent coverage is not required before the Commission can make a determination.<sup>64</sup> We are satisfied that this investigation's final phase record provides a sound basis for deciding the issues presented. When necessary to fill any gap in the record, as discussed below, we rely upon facts available, thus accepting Respondents' premise that the available information at a minimum reflects practices or percentages applicable to the group.

Rather than reflect negatively on the cooperation of the Petitioner, the Commission's experience in obtaining information from print converters in this investigation suggests to us a large gap in perception between Respondents and print converting firms in terms of how each would characterize print converting operations: Print converters do not perceive themselves to be artists' canvas manufacturers and have a hard time allocating expenses associated with their business operations to the production of artists' canvas. \*\*\*, illustrates the point. \*\*\*,<sup>65</sup> \*\*\*,<sup>66</sup> This contrasts with the business of coaters and/or non-print converters, whose operations are defined by their artists' canvas production.

Below, we examine the production-related activity of non-print converters and print converters using the traditional six-factor test. The test demonstrates that non-print converters are engaged in sufficient production-related activity to constitute domestic producers, while print converters are not engaged in sufficient production-related activity to constitute domestic producers.

## **1. Non-Print Converters**

The parties agree that such firms engage in sufficient production-related activity to constitute producers. The manufacture of the most common form of finished non-print canvas, stretched canvas, begins with the production of "stretcher strips" that are made out of wood. Raw lumber is machine-ripped and fed into a chop saw that removes imperfections. The pieces are then cut to appropriate size,

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<sup>61</sup> CR, PR at III-1 & nn.1-2.

<sup>62</sup> CR at III-2, PR at III-1-III-2.

<sup>63</sup> CR at I-13 n.38, PR at I-9 n.38.

<sup>64</sup> See American Bearing Manufacturers Association v. United States, 350 F. Supp. 2d 1100, 1124 n. 22 (Ct. Int'l Trade 2004), quoting United States Steel Group v. United States, 873 F. Supp. 673, 688 (Ct. Int'l Trade 1994), aff'd, 96 F. 3d 1352 (Fed. Cir. 1996).

<sup>65</sup> EDIS Doc. No. 246308 (letter dated January 25, 2006 from \*\*\*)

<sup>66</sup> See, e.g., EDIS Doc. No. 252206 (email dated April 14, 2006 from \*\*\*)

producing what is referred to as a “blank.” The blanks are fed into a moulder that creates a rounded edge over which canvas can be smoothly stretched. Once moulded, blanks are fed into tennoners that cut a 45-degree interlocking corner that allows blanks to be joined together. This product is called a “stretcher strip.” Four stretcher strips are joined to form a frame, and a piece of cut canvas (the canvas is cut from bulk rolls) is stretched over the frame. The stretched canvas is then stapled to the side or rear of the frame, or tucked into a groove in the frame (splined), to complete the assembled canvas.<sup>67</sup>

The capital investment for non-print converting operations requires the equivalent of a commercial carpentry shop and machinery different from that used to produce the bulk canvas.<sup>68</sup> Capital expenditures increased steadily during the period of investigation. Such expenditures increased from \$\*\*\* in 2002 to \$\*\*\* in 2005, and reported research and development (R&D) expenses increased from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>69</sup> The additional processing requires skilled employees, although they need not be dedicated to performing only these operations.<sup>70</sup>

The Commission did not possess conversion cost data for the preliminary determination, but the original pricing data suggested a high value added. This has been confirmed in the final phase of the investigation. The costs of conversion from bulk to finished product for producers of non-print canvas products ranged from \*\*\* percent (basing bulk canvas costs on the unit value of integrated producers’ reported commercial shipments of bulk canvas applied to the quantity of reported internal consumption) to \*\*\* percent (basing bulk canvas costs on the value of internal consumption reported by integrated producers).<sup>71</sup>

Employment for non-print finished canvas totaled \*\*\* production workers in 2002 and \*\*\* production workers in 2005.<sup>72</sup> Based on hourly wages and productivity (in square meters per hour), unit labor costs for production employees were \$\*\*\* in 2002 and \$\*\*\* in 2005.<sup>73</sup> Finally, while non-domestic sourcing is available, no converters reported purchasing raw materials from foreign sources.<sup>74</sup>

Taken together, these factors support a finding that non-print converters engage in sufficient production-related activity to constitute producers in the domestic industry. Accordingly, and consistent with the Commission’s preliminary determination and the position of the parties in the final phase, we continue to define the domestic industry to include non-print converters.

## **2. Print Converters**

We are persuaded that the two types of converters – print and non-print – are qualitatively different and that, on balance, the factors with respect to print converters tip against a finding of sufficient production-related activity to qualify print converters as producers of artists’ canvas.

As an initial matter, we reject Respondents’ attempt to avoid altogether the question of production-related activities of print converters. We may not, under the statute, include in the domestic industries all sellers or distributors of a like product simply because those sellers handle the goods. The statute defines the domestic industry as domestic “producers” of the like product, and as the Commission

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<sup>67</sup> CR at I-7-I-8, PR at I-6. The production of canvas panels and archival boards \*\*\*. CR at I-8 n.18, PR at I-6 n.18.

<sup>68</sup> CR at I-9-I-10, PR at I-7-I-8.

<sup>69</sup> Staff table VI-8.

<sup>70</sup> CR at I-7-I-8, I-10, PR at I-6-I-8.

<sup>71</sup> Memorandum, INV-DD-056 (Apr. 19, 2006) at Table I-4, PR at Table I-4; Memorandum, INV-DD-061 (Apr. 25, 2006) (INV-DD-061) at Table I-4A, PR at Table I-4A.

<sup>72</sup> Memorandum, INV-DD-057 (Apr. 21, 2006) (INV-DD-057) at Table C-5, PR at Table C-5.

<sup>73</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>74</sup> CR, PR at Table I-4 n.2.

has consistently recognized, this requires, when appropriate, that the activity of a given firm be analyzed to determine whether its activities should be deemed production.<sup>75</sup> Contrary to Respondents' argument, finding that print converters are not engaged in sufficient production-related activity to be included in the industry does not result in a lack of "production." In this case, bulk roll producers (coaters) and non-print converters constitute the production of the domestic like product being produced. For a firm to qualify as a producer without sufficient production-related activity would expand the definition of domestic industry beyond the Commission's consistent application of the statutory definition of domestic industry and render the domestic industry requirement of "production" devoid of content.

Accordingly, we apply the six-factor test to print converters to determine whether they engage in sufficient production-related activity, the issue ultimately deemed moot in the preliminary phase due to the lack of data from such firms. Print canvas, like non-print canvas, \*\*\*.<sup>76</sup>

The inkjet coating machinery is estimated to cost from \$1 million to \$3 million.<sup>77</sup> According to \*\*\*. This firm reports that \*\*\*.<sup>78</sup> Similarly, \*\*\* reported that \*\*\*. Print canvas for this firm accounted for \*\*\*.<sup>79</sup> \*\*\* of its coating capacity for print canvas production.<sup>80</sup>

The capital investment required for print converters thus must be considered in light of the machinery being used for the production of various other (non-subject) products. \*\*\* was unable to make such an allocation, reporting instead that it \*\*\*.<sup>81</sup> Three other print converters reported \*\*\*.<sup>82</sup> The non-subject products to which print converters' coating machinery is dedicated varies depending on the business, as noted above. In sales terms, print canvas constituted a weighted average of 22.6 percent of total net sales for the responding print converters, the major known converters of print canvas.<sup>83</sup>

Technical expertise is required in the development of the proprietary coating typically used for print canvas. However, such coating is used for a wide range of the converters' products and is not limited to print canvas. Coating the canvas is done by machine, but the process, as with other finished canvas products, requires skilled labor. The cutting and packaging that follow require less expensive equipment and unskilled labor, and represent a fraction of the total cost of conversion.<sup>84</sup>

The costs of conversion from bulk to print canvas account for \*\*\* percent of the total cost of producing these items.<sup>85</sup> Production workers for print converters, as reported by the major known

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<sup>75</sup> Cf., e.g., Certain Frozen or Canned Warmwater Shrimp and Prawns from Brazil, China, Ecuador, India, Thailand, and Vietnam, Inv. Nos. 731-TA-1063-68 (Final), USITC Pub. 3748 (Jan. 2005) at 13 (finding, for example, that shrimp processing involving cooking constituted domestic production while that involving marinating, also within the domestic like product definition, did not).

<sup>76</sup> INV-DD-051 at I-13, PR at I-9.

<sup>77</sup> See id. at I-13 n.36, PR at I-9 n.36 (Petitioner's estimate; neither Respondents nor converters supplied data respecting the cost of ink jet coating machinery); cf. Producer Questionnaire of \*\*\* at 17 (\*\*\*).

<sup>78</sup> INV-DD-051 at I-13 n.36, PR at I-9 n.36.

<sup>79</sup> EDIS Doc. No. 252206 at 3 (email from \*\*\* dated April 14, 2006).

<sup>80</sup> Petitioner's Responses to Commissioner Questions at 7. As noted in the preliminary phase investigation, \*\*\* has a tolling relationship with \*\*\*. See also CR, PR at III-2 n.6. No other toll processing arrangement was identified by the Commission. This arrangement constitutes \*\*\*. \*\*\*. CR, PR at III-2 & n.6. We see no basis upon which to treat \*\*\* differently than other converters of print canvas simply because \*\*\*.

<sup>81</sup> EDIS Doc. No. 254131 at 2 (\*\*\* response to question III-8 of producers' questionnaire).

<sup>82</sup> CR, PR at Table VI-9; INV-DD-061 at Table C-6 n.3, PR at Table C-6 n.3.

<sup>83</sup> Staff Worksheet 2.

<sup>84</sup> Producer Questionnaire Response of \*\*\* at 17.

<sup>85</sup> CR, PR at Table I-4. Respondent points to Wax and Wax/Resin Thermal Transfer Ribbons from France and Japan, Inv. No. 731-TA-1039-1040 (Final), USITC Pub. 3683 (Apr. 2004) as supportive of finding sufficient

(continued...)

converters, ranged from \*\*\* in 2002 to \*\*\* in 2005.<sup>86</sup> Employment levels, even accounting for any gaps in the record, are far less than the more labor intensive non-print converting operations that ranged from \*\*\* to \*\*\* during the period of investigation. With the high volume sheet runs of the print converters, unit labor costs (hourly wages divided by production) ranged from \$\*\*\* per hour in 2002 to \$\*\*\* per hour in 2005.<sup>87</sup>

As with non-print canvas, the bulk rolls used in the production of print canvas may be sourced from abroad, but the reporting firms sourced domestically during the period of investigation.<sup>88</sup>

On balance, and considering the evidence with respect to each factor, we are not persuaded that print converting activity constitutes sufficient production-related activity to qualify these firms as members of the domestic industry that produces artists' canvas. Allocations of the required capital investment are difficult to make, as demonstrated by print converter responses. Print canvas production is growing but remains just a part of the overall operations of print converting firms. While technical expertise is required in the production of the proprietary coating used for print canvas, the coating is used for all of these firms' products, including various nonsubject products that constitute a large share of sales for these firms. The value added by print converters is not insignificant, but the value added, like the number of production workers, is small as compared to non-print converters.

Petitioner also makes the point that the production-related activities of the coaters – the makers of the bulk canvas – are significantly greater than the production-related activities of print converters. In Tara's case, for example, the capital investment for producing bulk canvas that is used by print converters is approximately \$\*\*\*, including coating lines (\*\*\*), \$\*\*\* for inspection equipment, \$\*\*\* million for chemical making equipment, and \$\*\*\* for handling equipment. Bulk operations at Tara alone employ \*\*\* production workers.<sup>89</sup>

Print converters, unlike the producers of bulk or assembled canvas, are part of a digital imaging industry for which canvas coating, overall, remains one portion of the business. The finishing work that they perform, while important, does not qualify them, based on all of the production activity indicia, as members of the domestic industry producing artists' canvas. We therefore decline to expand the definition of the domestic industry to include these firms.

Based on the final phase record in this investigation, we continue to define the domestic industry as all U.S. producers of artists' canvas, that is, the producers of bulk canvas and non-print converters. These firms include Tara, Duro, Signature, Holliston Mills, Avondale Mills, and Masterpiece.<sup>90</sup>

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<sup>85</sup> (...continued)

production-related activity based on such value added levels (there 30 percent). However, each investigation is *sui generis*, and value added, as with any other single factor, is not determinative. See, e.g., Aramid Fiber, USITC Pub. 2783 at I-8-I-9 & n.34 (“no single factor – including value added – is determinative . . .”).

<sup>86</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>87</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>88</sup> CR, PR at Table I-4 n.2.

<sup>89</sup> Petitioner's Responses to Commissioner Questions at 7.

<sup>90</sup> No responding U.S. producers in the final phase of the investigation reported any related firm, foreign or domestic, engaged in the production, export, or importation of subject merchandise from China, nor did any \*\*\*. CR, PR at III-2. In the preliminary phase of the investigation, the Commission considered whether to exercise its discretion to exclude \*\*\*, which reported that it imported \*\*\* square meters of subject product from China, from the domestic industry under the related parties provision of the statute. The Commission found that appropriate circumstances did not exist to exclude the firm from the domestic industry. Confidential Views at 11-12 n.44. In the final phase, the parties have not argued that any firm should be excluded from the domestic industry as a related party, and the record is unchanged on this point from the preliminary phase with respect to \*\*\*. Accordingly, we find no basis to revisit that determination and no new related party issue has arisen.

### III. MATERIAL INJURY BY REASON OF LESS THAN FAIR VALUE IMPORTS<sup>91</sup>

In the final phase of antidumping duty investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.<sup>92</sup> In making this determination, the Commission must consider the volume of 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>93</sup> The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”<sup>94</sup> In assessing whether 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>95</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>96</sup>

#### A. Conditions of Competition

Demand for artists’ canvas is driven by the ultimate consumer that uses the product for graphic presentation of painted or printed images. The demand for assembled artists’ canvas tends to be seasonal, peaking in the spring and summer months as retailers stock up for back-to-school promotions.<sup>97</sup>

When asked how overall demand has changed during the period of investigation, four of the responding U.S. producers and all of the responding importers reported that it had increased.<sup>98</sup> The increase in demand for assembled canvas was most commonly attributed to the rapid growth of the home decor market.<sup>99</sup> Two producers reported that sales of low-priced, non-branded artists’ canvas have increased overall demand for artists’ canvas.<sup>100</sup>

Eighteen of 26 purchasers also reported that demand for assembled canvas had increased. The increase was most commonly attributed to growth in the craft and home decor markets. Nine purchasers specifically noted that lower prices of canvas have led to the increased demand.<sup>101</sup>

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<sup>91</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-1 (\*\*\*) percent by quantity and (\*\*\*) percent by value in 2004).

<sup>92</sup> 19 U.S.C. § 1673d(b).

<sup>93</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>94</sup> 19 U.S.C. § 1677(7)(A).

<sup>95</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>96</sup> Id.

<sup>97</sup> CR, PR at II-1.

<sup>98</sup> CR at II-5, PR at II-3.

<sup>99</sup> The growth of print canvas was also cited as contributing to increased demand for artists’ canvas.

<sup>100</sup> CR at II-5, PR at II-3.

<sup>101</sup> CR at II-6, PR at II-4.

Data on the record show that, overall, apparent U.S. consumption has increased \*\*\* for artists' canvas during the period of investigation. Apparent consumption increased \*\*\* percent between 2002 and 2005, from \*\*\* square meters to \*\*\* square meters.<sup>102</sup>

The U.S. market is supplied by domestic production as well as subject and nonsubject imports. The domestic industry remains the largest supplier of the market, although its share of consumption by quantity has \*\*\* declined from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>103</sup> The domestic industry's share of consumption by value has declined \*\*\*, from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>104</sup> The industry's capacity to produce bulk artists' canvas increased \*\*\* percent during the period of investigation, while its capacity to produce finished canvas remained level.<sup>105</sup> Capacity utilization rates for bulk artists' canvas increased during the period of investigation (by \*\*\* percentage points) while those for finished artists' canvas declined (by \*\*\* percentage points).<sup>106</sup>

Three U.S. firms (\*\*\*) are integrated producers, firms that produce bulk and assembled artists' canvas; other firms produce one or the other.<sup>107</sup> The Commission received data from two other producers of bulk canvas, \*\*\*, and one other producer of assembled artists' canvas (\*\*\*)<sup>108</sup> Tara is the largest producer of artists' canvas, accounting for over \*\*\* percent of reported U.S. production of bulk canvas in 2005 and \*\*\* percent of reported production of finished canvas.<sup>109</sup> \*\*\* is the second largest producer of artists' canvas, accounting for \*\*\* percent of reported production of bulk canvas in 2005, and \*\*\* percent of reported production of finished canvas.<sup>110</sup>

Tara moved a large portion of its U.S. production of assembled canvas during the period of investigation to its Mexican subsidiary, Decoracion Colonial (Decoracion). In 1990, Tara acquired Hy-Jo Picture Frames (Hy-Jo), a California producer of wood-based frames. The acquisition included Hy-Jo's Mexican subsidiary, Decoracion. In \*\*\*, Tara began production of \*\*\* artists' canvas, a \*\*\* product, at Decoracion's facility in Tijuana. Tara expanded production of artists' canvas at Decoracion in \*\*\* beginning with the production of \*\*\*. Later that year, Tara shifted a portion of the production of its core stretched canvas products to Mexico and, over the course of the following three years, eliminated \*\*\* jobs at its Georgia facility.<sup>111</sup>

Subject imports from China supplied an increasing share of the U.S. consumption by quantity during the period of investigation, from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>112</sup> With assembled

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<sup>102</sup> CR, PR at Table C-4. Consistent with the Commission's domestic industry definition, the data in this table excludes trade, production, and financial data from domestic print converters. \*\*\* are included in this table, but are consistent with the treatment of print converters because the included print canvas is made from \*\*\*. In fact, \*\*\*. \*\*\*. Producers' Questionnaire of \*\*\* at 14.

<sup>103</sup> CR, PR at Table C-4.

<sup>104</sup> CR, PR at Table C-4. We note that U.S. producers' share of consumption value may be \*\*\* in this table because it identifies the shipment values that \*\*\*. The financial performance indicators in this table also may be \*\*\* because of such inclusion. The data were not reported in such a fashion as to \*\*\*.

<sup>105</sup> CR, PR at Tables C-2 & C-5; INV-DD-057 at Table C-5.

<sup>106</sup> CR, PR at Tables C-2 & C-5; INV-DD-057 at Table C-5.

<sup>107</sup> CR, PR at III-1.

<sup>108</sup> CR, PR at Table III-1.

<sup>109</sup> Staff Table III-1.

<sup>110</sup> Staff Table III-1.

<sup>111</sup> CR at III-3-III-4, PR at III-3.

<sup>112</sup> CR, PR at Table C-4.

canvas constituting the vast majority of artists' canvas imports from China,<sup>113</sup> the share of consumption by value increased from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>114</sup> The share of consumption of nonsubject imports, of which Mexico constituted the largest source,<sup>115</sup> increased irregularly in quantity from \*\*\* percent in 2002 to \*\*\* percent in 2005, and increased in value from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>116</sup> Tara accounts for essentially all of the imports of artists' canvas from Mexico.<sup>117</sup>

As noted above, there are two general categories of artists' canvas, bulk canvas and finished canvas, and a continuum of product sold in various grades, textures, shapes, sizes and formats encompasses them. Reported subject imports from China are mostly, although not exclusively, of the finished canvas and, in particular, the more labor intensive stretched canvas (approximately \*\*\* percent).<sup>118</sup> Subject imports from China are \*\*\*. Most of the U.S. finished canvas is sold to retailers.<sup>119</sup>

Subject imports and the domestically produced artists' canvas are generally substitutable. The majority of importers and purchasers that compared bulk canvas from China with that from the United States reported that the two are always or frequently interchangeable. All responding U.S. producers reported that the two are at least sometimes interchangeable.<sup>120</sup> The majority of importers and purchasers that compared assembled canvas from China with that from the United States reported that the two are always or frequently interchangeable. The majority of U.S. producers reported that the two are always interchangeable.<sup>121</sup> Most purchasers reported that domestically produced artists' canvas and subject imports are comparable in terms of quality and product range.<sup>122</sup>

Price was identified as a very important factor in the artists' canvas purchasing decisions by 22 of 27 purchasers.<sup>123</sup> Purchasers generally found that Chinese artists' canvas and the U.S. product were comparable, with one exception: 17 of 20 indicated that Chinese artists' canvas is lower priced than U.S. product.<sup>124</sup>

## **B. Volume**

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>125</sup>

Subject import volume increased steadily and sharply throughout the period of investigation, rising from 202,000 square meters in 2002 to 2.3 million square meters in 2005, an increase overall of

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<sup>113</sup> Bulk canvas imports from China ranged from approximately \*\*\* square meters (in 2002) to \*\*\* square meters (in 2005). CR, PR at Table C-2.

<sup>114</sup> CR, PR at Table C-4.

<sup>115</sup> CR, PR at Table IV-1.

<sup>116</sup> CR, PR at Table C-4.

<sup>117</sup> CR, PR at IV-2 nn.7-8.

<sup>118</sup> INV-DD-057 at Table IV-4 (shares of shipments), PR at Table IV-4.

<sup>119</sup> CR at I-10, PR at I-8; CR, PR at Table I-3.

<sup>120</sup> CR at II-9, PR at II-7; CR, PR at Table II-3.

<sup>121</sup> CR at II-10, PR at II-7; CR, PR at Table II-3.

<sup>122</sup> CR, PR at Table II-5 (12 of 20 reported that product consistency is comparable; 14 of 20 reported that the two are comparable in terms of meeting industry quality standards; 12 of 20 reported that the two are comparable in terms of exceeding industry quality standards; 10 of 19 reported that product range is comparable).

<sup>123</sup> CR at II-6-II-9, PR at II-5; CR, PR at Tables II-1-II-2.

<sup>124</sup> CR, PR at Table II-5.

<sup>125</sup> 19 U.S.C. § 1677(7)(C)(i).

1031.7 percent.<sup>126</sup> Subject imports' share of U.S. consumption also increased steadily and sharply, in quantity and value terms. Subject imports' share by quantity increased from \*\*\* percent in 2002 to \*\*\* percent in 2005, representing an overall increase of \*\*\* percentage points.<sup>127</sup> Subject imports' share by value increased from \*\*\* percent in 2002 to \*\*\* percent in 2005, or by \*\*\* percentage points.<sup>128</sup>

The increase in subject imports' share of apparent U.S. consumption came at the expense of the share held by the domestic industry. The domestic industry's share of apparent consumption decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005, or by \*\*\* percent.<sup>129</sup> Even more tellingly, the domestic industry's share of apparent consumption by value showed a greater decline, from \*\*\* percent in 2002 to \*\*\* percent in 2005, a decline of \*\*\* percentage points.<sup>130</sup> The steeper decline in the domestic industry's share of apparent U.S. consumption by value reflects the shift domestic producers had to make, due to the increasing presence of subject imports from China, from selling higher value finished canvas to selling more lower value bulk canvas. As the presence of Chinese finished canvas grew in the market, domestic producers were increasingly relegated to lower value bulk canvas shipments. The quantity data, while significant in itself, thus understates the harmful impact of Chinese imports on U.S. producers. The value data confirm that subject imports from China have taken a significant share of the higher value and more lucrative finished canvas market.

Subject import volume relative to production in the United States also increased during the period of investigation. Subject imports from China were equivalent to \*\*\* percent of U.S. production during 2002 and increased throughout the period, reaching \*\*\* percent in 2005.<sup>131</sup>

The domestic industry's share of U.S. consumption was also displaced, albeit to a far lesser degree, by nonsubject imports. Nonsubject imports' share of U.S. consumption by quantity grew by \*\*\* percentage points between 2002 and 2005, and by \*\*\* percentage points by value.<sup>132</sup> With imports from Mexico representing the largest source of nonsubject imports, these increases are largely attributable to Tara's production move of certain finished canvas operations from the United States to Mexico, the impetus for which we discuss in the impact section below.

Respondents claim that the increases in subject import volume and market share during the period of investigation are not significant. Subject imports, they claim, have created the growth in market demand for their product through innovative marketing, diversified new products, and attractive price points.<sup>133</sup> Such growth, they claim, would not have occurred without subject imports.<sup>134</sup> We are unpersuaded. First, demand in the U.S. market was not stagnant prior to the entry of subject imports from China. Tara has testified to consistent growth dating back to 1990.<sup>135</sup> As noted above, the increased demand for finished products during the period of investigation is attributed to the growing home decor market. While imports from China have capitalized on that new demand and may have helped fuel it with their LTFV prices, they did not create it. The domestic industry also produces hobby quality products,

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<sup>126</sup> CR, PR at Tables IV-1 & C-4.

<sup>127</sup> CR, PR at Table C-4.

<sup>128</sup> CR, PR at Table C-4.

<sup>129</sup> CR, PR at Table C-4.

<sup>130</sup> CR, PR at Table C-4.

<sup>131</sup> CR, PR at Table IV-5.

<sup>132</sup> CR, PR at Table C-4.

<sup>133</sup> See, e.g., Respondents' Prehearing Brief at 29.

<sup>134</sup> See, e.g., Respondents' Posthearing Brief at 12.

<sup>135</sup> Tr. at 16-17 (Mr. Delin).

but faces a significant competitive disadvantage: the lower price associated with subject imports.<sup>136</sup> Respondents themselves concede the importance of price in this market.<sup>137</sup>

Moreover, import purchasers' acquisitions of subject merchandise are not confined to serving only those customers that would not otherwise buy domestic artists' canvas for price reasons. For example, Michaels Stores, A.C. Moore, Aaron Bros., and Utrecht had previously purchased their private label finished canvas from Tara. All have since switched to purchasing subject merchandise at some point during the period of investigation based at least in part on price. Instead of supplementing their domestic sources with low-priced imports to serve only purchasers that would not otherwise buy artists' canvas, they have replaced existing lines of domestically produced product with lower-priced Chinese product.<sup>138</sup>

Finally, Respondents' new market theory fails to explain the domestic industry's \*\*\* percent decline in shipments of finished artists' canvas between 2002 and 2005.<sup>139</sup> Rather than create a new market, low-priced subject imports have merely served to decrease the U.S. industry's participation in the existing market. Based on this record, the volume of subject imports increased substantially over the period of investigation, 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 of investigation, both in absolute terms and relative to domestic consumption and production.

### **C. Price Effects of the Subject Imports**

Section 771(7)(C)(ii) of the Act provides that, in evaluating the price effects of the 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>140</sup>

As noted, we have found that domestically produced artists' canvas and subject imports from China are substitutable. In the competition for sales of artists' canvas, price is an important factor, as are quality and availability.<sup>141</sup> The quality and availability of the two are generally considered comparable by purchasers. Indeed, purchasers tend to view the two overall as comparable, with the exception of price, which purchasers generally report is lower for subject imports.<sup>142</sup>

The Commission collected quarterly pricing data from U.S. producers and importers for various artists' canvas products. The pricing data reported by these firms accounted for approximately \*\*\* percent of the value of U.S. producers' commercial shipments of artists' canvas and \*\*\* percent of the

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<sup>136</sup> See, e.g., Tr. at 35-38 (Mr. Straquadine); CR at V-4 (pricing products 1-2), PR at V-3.

<sup>137</sup> See, e.g., Tr. at 173 (Mr. Marek).

<sup>138</sup> See, e.g., Tr. at 35 (Mr. Straquadine), 106 (Mr. Thompson); CR at V-22-V-25, PR at V-7-V-9; Petitioner's Posthearing Brief at 7-8 & Exh. C. The lost sales and revenue allegations of the domestic industry are discussed in the price effects section (IIIC) below.

<sup>139</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>140</sup> 19 U.S.C. § 1677(7)(C)(ii).

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

<sup>142</sup> CR, PR at Table II-5.

value of U.S. imports from China during the period of investigation.<sup>143</sup> For two of the products, products 7 (bulk rolls) and 8 (print canvas rolls), there were no sales reported of the product from China. Neither are imported in significant volumes to the United States. Price comparisons were available for 6 of the pricing products for which we collected data.

Based on the record data, we find significant underselling by subject imports from China during the period of investigation. Prices of imports from China were lower than the U.S. producer prices in 78 out of 83 quarterly comparisons, by margins ranging from 0.7 percent to 72.1 percent. For products 1 through 5, the prices of imports from China were lower than the U.S. producer prices in all 71 quarterly comparisons. In 7 out of 12 comparisons relating to product 6, the imported product was priced lower than the U.S. producer prices. In the remaining 5 instances, the imported product oversold the domestic product by margins ranging from 1.2 percent to 16.6 percent.<sup>144</sup>

For five of the six products for which price comparisons were available, domestic prices declined to varying degrees during the period of investigation. Data for products 1 and 2 showed the highest degree of head-to-head competition. The weighted-average sales price for U.S.-produced product 1 decreased \*\*\* percent, while product 1 from China decreased \*\*\* percent over the same period. The weighted-average sales price for U.S.-produced product 2 decreased \*\*\* percent, while product 2 from China decreased by \*\*\* percent.<sup>145</sup>

The weighted-average sales price for U.S.-produced product 3 fluctuated over the period of investigation, decreasing overall by \*\*\* percent; the margins of underselling for product 3 from China decreased, coincident with an increase in the price of product 3 from China of \*\*\* percent during the period of investigation.<sup>146</sup>

Product 4 is the only product with available comparisons for which the U.S.-produced product increased in price (\*\*\* percent); product 4 from China also increased \*\*\* percent in price.<sup>147</sup> We do not accord great weight to this comparison, however, due to limited data based on the minimal production of this product (splined canvas) in the United States.<sup>148</sup>

Data for product 5 shows that the U.S.-produced product price declined minimally overall during the period of investigation; the sales prices reported for product 5 from China decreased by only \*\*\* percent during the period for which comparisons were available, but the underselling margins were consistently the highest of any product.<sup>149</sup>

Finally, the weighted-average sales price for U.S.-produced product 6 declined \*\*\* percent during the period of investigation, while that for product 6 from China declined \*\*\* percent during the period for which comparisons were available.<sup>150</sup>

These data show evidence of significant price depression, particularly for products 1 through 3 and 5. There was also evidence of price declines for product 6, but we do not rely on those comparisons as showing adverse price effects due to the mixed evidence of underselling and overselling for that product.

In addition, there is evidence that import underselling has prevented U.S. producers from raising their prices to cover increased material and production costs. The domestic industry's average cost of goods sold (COGS) as a ratio of net sales increased \*\*\* percentage points from \*\*\* percent in 2002 to

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<sup>143</sup> CR at V-4-V-5, PR at V-3.

<sup>144</sup> CR, PR at Tables V-9-V-10.

<sup>145</sup> CR, PR at Tables V-1-V-2.

<sup>146</sup> CR, PR at Table V-3.

<sup>147</sup> CR, PR at Table V-4.

<sup>148</sup> See, e.g., Tr. at 322 (Mr. Benator) .

<sup>149</sup> CR, PR at Table V-5.

<sup>150</sup> CR, PR at Table V-6.

\*\*\* in 2005.<sup>151</sup> The COGS/net sales ratio for finished canvas rose from \*\*\* percent in 2002 to \*\*\* percent in 2005. However, the COGS/net sales ratio for bulk canvas increased somewhat less from \*\*\* percent to \*\*\* percent in the same period.<sup>152</sup> Thus, the aggregate increase in the COGS/net sales ratio was mitigated by the displacement of U.S. shipments out of the finished canvas market by subject imports. These data suggest that domestic producers have faced a cost-price squeeze in which they have been unable to increase prices notwithstanding increased costs, particularly raw material and labor costs for finished canvas.

Further evidence of significant adverse price effects caused by subject imports' significant underselling of domestic product is found in the confirmed lost sales allegations. At least four purchasers confirmed making the switch from domestic sources to subject imports from China based on price.<sup>153</sup> In addition, while \*\*\* disagreed with the particular allegation, it confirmed that it switched \*\*\* percent of its purchases to a Chinese source based at least in part on price.<sup>154</sup> \*\*\* also confirmed that it had switched sourcing to Chinese and nonsubject imports based at least in part on price.<sup>155</sup> \*\*\* was named in two lost sales allegations involving artists' canvas valued at \$\*\*\*. \*\*\* confirmed that it has switched purchases to the lower-priced imports, but pointed out that it remains a major customer of \*\*\*.<sup>156</sup>

MacPherson's was also cited in a lost revenue allegation that it denied. Respondents suggest that Tara caused its own injuries by terminating its business relationship with MacPherson's, forcing MacPherson's to become \*\*\*.<sup>157</sup> Tara counters that MacPherson's began purchasing Chinese canvas for price reasons for a private label line in December 2000, and that Tara's decision to terminate its relationship with MacPherson's in December 2003 was based on various factors that led it to conclude that MacPherson's was "actively working against Tara's interests."<sup>158</sup> MacPherson's has denied these allegations and claims the termination was against its wishes.<sup>159</sup> Tara notes that its decision to terminate the relationship has not harmed it as a company, \*\*\*.<sup>160</sup>

Based on the evidence gathered in the final phase of this investigation, we find that lower-priced subject imports have had significant price depressing effects with some evidence of price suppression. Respondents depend (and have depended) for the success of their marketing strategies on "value"

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<sup>151</sup> CR, PR at Table C-4.

<sup>152</sup> CR, PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5.

<sup>153</sup> CR, PR at Table V-11.

<sup>154</sup> CR at V-22, PR at V-8.

<sup>155</sup> \*\*\* disputed \*\*\* claims that \*\*\* was to blame for the switch, and noted that \*\*\* quality complaints were mostly limited to linen artists' canvas that it was addressing but that \*\*\* nevertheless replaced the entire product line with Chinese imports. CR at V-25, PR at V-9. Documentation submitted by Tara confirms that a key issue for \*\*\* was price. Petitioner's Prehearing Brief Exh. B.

Aaron Brothers similarly complained about quality issues, but Tara appears to have been addressing these when the firm's decision was made to import from China, and documentation submitted by Tara convey the company's demands on Tara for lower pricing and the decision to source from China when Tara was unable to reduce its price sufficiently. Tr. at 36 (Mr. Straquadine); Petitioner's Prehearing Brief Exh. A.

<sup>156</sup> CR at V-23, PR at V-8. We note further that \*\*\* did not respond to the lost sales allegations against it. The firm's purchases from \*\*\*. Purchasers' Questionnaire Response of \*\*\* at II-1. While limited quantities of purchases may have been of \*\*\*, the data show a \*\*\*, with \*\*\*. *Id.* at II-2.

<sup>157</sup> *See, e.g.*, Respondents' Posthearing Brief at 1.

<sup>158</sup> Petitioner's Posthearing Brief at 6.

<sup>159</sup> *See, e.g.*, Tr. at 160-62, 165 (Mr. Stapleton).

<sup>160</sup> Petitioner's Prehearing Brief at 40 & Exh. C.

products, that is, products that undersell the competition.<sup>161</sup> The underselling demonstrated on this record has been significant and has fueled the rapidly increasing volume and market share of subject imports, resulting in the direct displacement of sales by domestic producers. This underselling has also placed a downward pressure on domestic prices as domestic producers have attempt to maintain a diminishing share of the market, resulting in the declining price trends shown in our pricing data, and the cost-price squeeze that we find the domestic industry is experiencing.

Based on the significant and rising volume of subject imports, the general substitutability of the products, the importance of price to purchasers of artists' canvas, the consistent pattern of significant underselling by subject imports, generally declining U.S. prices, the cost-price squeeze that subject imports have placed on the domestic industry, and confirmed lost sales allegations, we find that subject imports have had significant adverse price effects on the U.S. industry.

#### **D. Impact**

In examining the impact of the subject imports on the domestic industry, we consider all relevant economic factors that bear on the state of the industry in the United States.<sup>162</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, and research and development. 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>163</sup> <sup>164</sup>

As the U.S. market for artists' canvas grew over the period of investigation, the domestic industry increased its capacity and production for bulk canvas, while capacity for finished canvas remained flat and the production of finished canvas declined. The industry's bulk canvas capacity increased \*\*\* percent between 2002 and 2005 from \*\*\* square meters to \*\*\* square meters. Bulk canvas production increased \*\*\* percent between 2002 and 2005 from \*\*\* square meters to \*\*\* square meters.<sup>165</sup> Finished canvas capacity started and concluded the period of investigation at \*\*\* square meters, while production dropped \*\*\* percent from \*\*\* square meters in 2002 to \*\*\* square meters in 2005.<sup>166</sup>

Capacity utilization for bulk canvas increased \*\*\* percentage points during the period of investigation, from \*\*\* percent to \*\*\* percent.<sup>167</sup> In contrast, capacity utilization for finished canvas declined \*\*\* percentage points from \*\*\* percent to \*\*\* percent.<sup>168</sup>

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<sup>161</sup> See, e.g., Tr. at 161, 167 (Mr. Stapleton).

<sup>162</sup> 19 U.S.C. § 1677(7)(C)(iii). See also SAA at 851, 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.").

<sup>163</sup> 19 U.S.C. § 1677(7)(C)(iii). See also SAA at 851, 885; Live Cattle from Canada and Mexico, Invs. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25 n.148.

<sup>164</sup> The Act instructs the Commission to consider the "magnitude of the dumping margin" in an antidumping proceeding as part of its consideration of the impact of imports. 19 U.S.C. § 1677(7)(C)(iii)(V). In its final affirmative determination for subject artist canvas from China, Commerce found dumping margins of 78 percent *ad valorem* for eight specific producer/exporters, and a China-wide rate of 264 percent *ad valorem*, applicable to all other producer/exporters. 71 Fed. Reg. at 16116.

<sup>165</sup> CR, PR at Table C-2.

<sup>166</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>167</sup> CR, PR at Table C-2.

<sup>168</sup> INV-DD-057 at Table C-5, PR at Table C-5.

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 2005 in quantity terms, and from \*\*\* percent in 2002 to \*\*\* percent in value terms.<sup>169</sup> As previously described, the increasing presence of Chinese finished product relegated domestic producers to selling more bulk canvas; therefore, the square meter production increased but at significantly lower prices. On a square meter basis, based on fourth quarter 2005 prices, the bulk roll product for which we collected pricing data (product 7) was \$\*\*\*, whereas the highest volume stretched products ranged from \$\*\*\* (product 2) to \$\*\*\* (product 1).<sup>170</sup>

While U.S. shipment volumes increased \*\*\* percent from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, the values of those shipments, reflecting the shift from finished to bulk canvas, declined \*\*\* percent, from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>171</sup> The unit values of U.S. producers' shipments and sales also declined in the same period, by \*\*\* percent and \*\*\* percent, respectively.<sup>172</sup>

The total number of production workers declined during the period of investigation from \*\*\* in 2002 to \*\*\* in 2005.<sup>173</sup> Total wages paid similarly declined, from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>174</sup> Hourly wages increased as the number of workers shrank.<sup>175</sup> Productivity increased for bulk canvas and finished canvas production, while unit labor costs for the former remained flat and declined for the latter.<sup>176</sup>

The domestic industry's financial indicators worsened over the period of investigation. Operating income declined \*\*\* percent, from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>177</sup> Operating margins declined from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>178</sup> \*\*\* (\*\*\* reported \*\*\* in 2005, and another that year reported a margin of \*\*\* (\*\*\*).<sup>179</sup> The domestic industry's deteriorating financial performance reflects the impact of the shift to lower value bulk canvas and the losses sustained in connection with finished canvas. For finished canvas, operating income of \$\*\*\* in 2002 declined to a loss of \$\*\*\* in 2004 and to a further loss of \$\*\*\* in 2005; a net operating income of \*\*\* percent in 2002 turned into net operating losses of \*\*\* percent in 2004 and \*\*\* percent in 2005.<sup>180</sup>

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<sup>169</sup> CR, PR at Table C-4.

<sup>170</sup> Staff worksheet 1; CR, PR at Table V-7.

<sup>171</sup> CR, PR at Table C-4. Inventories declined \*\*\* percent between 2002 and 2005. CR, PR at Table C-4.

<sup>172</sup> Shipment values declined from \$\*\*\* per square meter to \$\*\*\* per square meter; average unit sales values declined from \$\*\*\* per square meter to \$\*\*\* per square meter. CR, PR at Table C-4. We note that data mix issues might be present.

<sup>173</sup> CR, PR at Table C-4.

<sup>174</sup> CR, PR at Table C-4.

<sup>175</sup> CR, PR at Table C-4 (from \$\*\*\* in 2002 to \$\*\*\* in 2005).

<sup>176</sup> CR, PR at Table C-2 (for bulk canvas, productivity increased \*\*\* percent, while unit labor costs remained at \$\*\*\* at the start and finish of the period of investigation); INV-DD-057 at Table C-5, PR at Table C-5 (for finished canvas, productivity increased \*\*\* percent, and unit labor costs declined \*\*\* percent from \$\*\*\* to \$\*\*\*).

<sup>177</sup> CR, PR at Table C-4.

<sup>178</sup> CR, PR at Table C-4.

<sup>179</sup> CR, PR at Table VI-4.

<sup>180</sup> INV-DD-057 at Table C-5, PR at Table C-5.

The domestic industry's capital expenditures increased from \$\*\*\* in 2002 to \$\*\*\* in 2005; R&D expenses increased from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>181</sup> Finally, the domestic industry's return on investment (ROI) decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>182</sup>

We attribute the domestic industry's performance declines over the period of investigation in significant part to the rapid increases in subject import volume and market share that have had significant adverse price effects. Subject imports have used their price advantage to wrest a significant share of the U.S. market and to become the market leader in finished artists' canvas products.

While Respondents argue that the impact on the domestic industry of Petitioner's move of certain production to Mexico should not be attributed to subject imports in the U.S. market,<sup>183</sup> we find that Tara moved its production capacity to Mexico in significant part due to low-priced competition from subject imports. As discussed above, Tara had produced splined canvas in Mexico since \*\*\*. Because the Mexican facility was located near a major customer's distribution facility in southern California, production was increased to accommodate a large increase in that customer's orders. This splined canvas did not replace domestic production, however, because Tara never made splined canvas in the United States. Sales of splined Mexican product increased between 1996 and 2002, and included the branded Fredrix Creative Edge product, and two firms' private labels (Aaron Bros. and The Art Store). None of this production was moved from the U.S. to Mexico, and imports from Mexico increased as a result of splined product's growth in the U.S. market.<sup>184</sup> This more limited Mexican production predated the surge of Chinese product in the U.S. market. The production that was moved to Mexico was Tara's traditional stretched canvas, but the production was not moved until 2003.

In 2000, Tara was notified that \*\*\* was shifting its purchases to Chinese suppliers; in the same time frame, \*\*\* started offering a private label canvas sourced from China. In March 2003, \*\*\* and \*\*\*, which were sharing sourcing information, asked Tara to re-quote their artists' canvas SKUs in light of low-priced canvas sourcing in China.<sup>185</sup> Later that month, \*\*\* informed Tara of its decision to source its private label line from China, \*\*\*.<sup>186</sup>

In the face of these events, Tara determined that its private label production suffered from too great a price disadvantage against the Chinese product to be competitive. In an effort to reduce labor costs and narrow the price gap with Chinese imports, Tara moved a substantial portion of stretched canvas production to Mexico in April 2003, and moved a large percentage of its West Coast stretcher bar production there in November 2003.<sup>187</sup> The move coincided with \*\*\* informing Tara of the decision to source its private label line from China, as discussed above.<sup>188</sup> Tara had explored various options of greater automation and cost reduction, but was still unable to reduce costs to compete with the lower-priced Chinese product. It determined that the only viable option was to move a significant volume of its stretched canvas operation to the Mexico facility.<sup>189</sup>

Respondents' claim that Tara should have delayed the expansion until after imports had significantly increased ignores the fact that the company's largest customer had announced that it would soon replace a huge portion of its purchases with Chinese product. Subject imports would rise sharply

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<sup>181</sup> Staff Table VI-8.

<sup>182</sup> Staff Table VI-10.

<sup>183</sup> See, e.g., Respondents' Prehearing Brief at 29.

<sup>184</sup> See, e.g., Petitioner's Prehearing Brief Exh. A at 1; Tr. at 21-24 (Mr. Freeman). We note that this growth in the finished canvas market predated the surge of subject imports from China.

<sup>185</sup> See, e.g., Petitioner's Prehearing Brief Exh. 1 at 1-2; Petitioner's Posthearing Brief Exh. A at 1.

<sup>186</sup> See, e.g., Petitioner's Posthearing Brief Exh. C.

<sup>187</sup> See, e.g., Tr. at 22-23 (Mr. Freeman).

<sup>188</sup> A follow-up letter from \*\*\*. Petitioner's Posthearing Brief Exh. C at 2.

<sup>189</sup> See, e.g., Tr. at 22-23 (Mr. Freeman).

thereafter, both to fill \*\*\* account and as other retailers followed suit and began purchasing lower-priced Chinese product. We therefore find that lower-priced competition from subject imports from China played a significant role in Tara's decision to move certain production capacity to Mexico. We note further that Tara continues to produce finished products in Georgia, which reinforces the company's claim that it moved production to Mexico reluctantly. In fact, Tara's capacity, production and shipment of finished canvas in Georgia vastly exceed those of its Mexico operation, and part of that production includes stretched canvas.<sup>190</sup>

We note further that the declines in U.S. finished canvas production and shipments are not explained by the increase of imports of finished product from Mexico.<sup>191</sup> The U.S. producers' share of apparent U.S. consumption of finished artists' canvas has declined \*\*\* percentage points during the period of investigation, from \*\*\* percent in 2002 to \*\*\* percent in 2005. Nonsubject imports' share of apparent U.S. consumption of finished canvas (including Tara's imports from Mexico) has declined \*\*\* percentage points during this same period, from \*\*\* percent in 2002 to \*\*\* percent in 2005. The share of U.S. consumption of finished canvas products from China explains the differences: Subject imports' share increased \*\*\* percentage points from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>192</sup>

The issue here is not one of attenuated competition where large shares of subject imports fail to compete with U.S. product, as Respondents would argue. As noted, U.S. producers have experienced lost sales to subject imports and subject imports have displaced U.S. shipments. In a market that has grown more than \*\*\* percent from 2002 to 2005, the domestic industry's condition has worsened as measured by multiple indicia of performance. These declines occurred as significant volume of subject imports gained market share at the expense of U.S. producers, consistently undersold the domestic product, took sales from U.S. producers, and significantly depressed U.S. prices with some evidence of price suppression. We therefore find that subject imports have had a negative impact on the condition of the domestic industry during the period of investigation.

## CONCLUSION

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

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<sup>190</sup> CR at III-4, PR at III-4; CR, PR at Table III-2.

<sup>191</sup> INV-DD-057 at Table C-5, PR at Table C-5. Nor do we find that this product, which is brought in by Tara, is injurious to the domestic industry.

<sup>192</sup> INV-DD-057 at Table C-5, PR at Table C-5.



## VIEWS OF CHAIRMAN STEPHEN KOPLAN AND COMMISSIONER SHARA L. ARANOFF

Based on the record in this investigation, we join our colleagues in the majority in determining that an industry in the United States is materially injured by reason of imports of artists' canvas from China that are sold in the United States at less than fair value ("LTFV").<sup>1 2</sup> We adopt Part I of the views of our colleagues, and incorporate it herein by reference. Artists' canvas is a surface for the graphic presentation of painted or printed images. Made from woven fabric that is primed and coated ("gessoed") to accept paints or inks, it is sold in a variety of shapes, sizes, textures, and formats.<sup>3</sup>

### II. DOMESTIC INDUSTRY

#### A. In General

The domestic industry is defined as "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>4</sup> In assessing the domestic production 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.<sup>5</sup> 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.<sup>6</sup>

In the preliminary phase of this investigation, the Commission addressed whether firms that engage in the production of "pre-stretched" artists' canvas<sup>7</sup> but do not produce the bulks rolls (so-called converters) are part of the domestic industry producing artists' canvas. In addition to these firms, there

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<sup>1</sup> Commissioner Pearson dissenting. See Additional and Dissenting Views of Commissioner Daniel R. Pearson.

<sup>2</sup> This investigation does not raise the issues of whether the establishment of an industry is materially retarded, or the existence of critical circumstances under 19 U.S.C. § 1673d(b)(4)(A)(i).

<sup>3</sup> Confidential Staff Report, INV-DD-047 (Apr. 13, 2006) ("CR") at I-6, Public Staff Report ("PR") at I-5.

<sup>4</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.

<sup>5</sup> 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.

<sup>6</sup> 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 to 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>7</sup> In the preliminary determination, the Commission used the term "pre-stretched" artists' canvas when referring to canvas stretched over a wooden frame, as well as to other products such as canvas panels and pads. Artists' Canvas from China, Inv. No. 731-TA-1091 (Preliminary), USITC Pub. 3777 (May 2005) (hereinafter "Preliminary Determination"). In the present views, we use the term "non-print finished" artists' canvas to refer to such products. We use the term "print canvas" to refer to artists' canvas that has received an additional coating that allows it to be used in inkjet and other printers.

was evidence of a toll-processing arrangement whereby \*\*\*.<sup>8</sup> Based on the available information in the preliminary phase, \*\*\* appeared to be an “important but minor” additional processing step in the fabrication of the finished product.<sup>9</sup> However, the record was unclear as to whether there were other such toll processors and the Commission had no trade, production, or financial data from firms engaged in this sort of converting operation, rendering any issue as to their inclusion in the domestic industry moot.<sup>10</sup> In contrast, the available information indicated that firms converting bulk rolls into non-print finished canvas were engaged in sufficient production-related activity to constitute members of the domestic industry. Accordingly, the Commission defined the industry to include these converters, but noted it would explore the issue further in any final phase investigation.<sup>11</sup>

## **B. Parties’ Arguments**

The parties are in agreement that firms that convert bulk rolls into non-print finished canvas engage in sufficient production-related activity to be included in the domestic industry in the final phase of this investigation.<sup>12</sup> They disagree, however, on whether firms that convert canvas rolls into print canvas, for use in digital printing, should be included in the domestic industry as well.

Petitioner argues that print converting operations are not sufficient to qualify as artists’ canvas production under the Commission’s traditional production-related activity test and, thus, print converters do not qualify as domestic producers.<sup>13</sup> Respondents argue that the Commission need not engage in the six-factor sufficient production-related activity test because there appear to exist only non-integrated producers of print canvas – the so-called print converters. Absent inclusion of non-integrated producers, they continue, there would be no U.S. producers of the domestic like product. Including print converters in the domestic industry is therefore warranted regardless of the extent of their production activity.<sup>14</sup> Respondents further argue that, even under the six-factor test, print converters should be included in the domestic industry because they engage in sufficient production-related activity.<sup>15</sup>

Respondents also charge that Petitioner Tara Materials, Inc. (“Tara”) did not properly report in the petition, or at any time during the investigation, the identity of print converters to the Commission, even though print canvas is included within the scope of the subject merchandise. Tara’s failure to identify such producers, they claim, has impeded the Commission’s investigation, resulting in significant numbers of producers of artists’ canvas that have not responded to the questionnaire. They further argue that the value-added data, in particular, is unreliable for converters of non-print finished canvas and insufficient for print converters and that, for the latter, the Commission should assume that the value-added data for non-responding firms is similar to the data from those that have responded.<sup>16</sup>

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<sup>8</sup> Artists’ Canvas from China, Inv. No. 731-TA-1091 (Preliminary), Confidential Views at 11 n.40 (hereinafter “Confidential Views”). Where possible, citation is made to the public version of the preliminary views (the Preliminary Determination).

<sup>9</sup> Confidential Views at 11 n.40.

<sup>10</sup> Preliminary Determination at 8 n.40.

<sup>11</sup> Preliminary Determination at 7-8.

<sup>12</sup> See, e.g., Petitioner’s Prehearing Brief at 18-20; Respondents’ Prehearing Brief at 3-6.

<sup>13</sup> See, e.g., Petitioner’s Posthearing Responses to Commissioner Questions at 5-9.

<sup>14</sup> See, e.g., Respondents’ Posthearing Brief at 6-7 & Exh. 1 at 4-5.

<sup>15</sup> See, e.g., Respondents’ Posthearing Brief Exh. 1 at 5-10

<sup>16</sup> See, e.g., Respondents’ Posthearing Brief at 4-6, 8-10 & Exh. 1 at 1-6. They also contend that comparing the value-added data for these two types of finished canvas production is irrelevant. See, e.g., Respondents’ Posthearing Brief Exh. 1 at 5-6.

Tara counters that it has been forthcoming about identifying firms involved in the coating of canvas produced by domestic manufacturers. Tara states it was clear from the outset of the investigation that there were inkjet coaters in the United States, and that Tara does not consider the coating process to constitute production, but instead to be a mere finishing step. Tara also states it did not include such finishers in the petition precisely because it does not consider them domestic producers, and that it has been fully responsive to Commission requests for information. Tara argues that any deficiencies in questionnaire responses cannot be held against Tara, and that any request for taking adverse inferences is baseless.<sup>17</sup>

### C. Analysis

Two types of firms produce the artists' canvas that are subject to this investigation – producers of bulk canvas and “converters” (i.e., firms that produce finished canvas products). Converters can be further divided into firms that produce non-print finished canvas products (such as stretched canvas, canvas panels, and canvas pads) (“non-print converters”), and firms that produce canvas suitable for use with digital printers (“print converters”).<sup>18</sup>

A complete list of the potential U.S. producers identified in this investigation, and the status and extent of their individual responses to the Commission's questionnaires, is set forth in Appendix E to the staff report. The Commission issued questionnaires to all 30 potential producers identified by Respondents, as well as others identified in the course of the investigation.<sup>19</sup> The Commission received responses from 33 of 43 of the identified firms. For five of the 10 non-responding firms, the Commission either confirmed that they did not produce artists' canvas or received no confirmation that they actually engage in production activities of any sort; staff obtained production level information from 4 of the remaining 5 converters.<sup>20</sup>

Table III-1 of the staff report identifies the U.S. firms that provided trade and financial data. The firms identified in this table are believed to account for over 93 percent of total U.S. production of bulk artists' canvas, and over 90 percent of U.S. production of finished canvas products.<sup>21</sup> Domestic converters' costs of conversion from bulk to finished canvas, for both non-print and print converters, set forth in Table I-4A of the final report, are discussed below. Two significant converters of print canvas reported data relating to conversion costs; one converter of non-print finished canvas reported conversion costs, and staff derived from the financial data reported by the integrated producers their finished canvas conversion costs based on their reported costs of production for finished canvas products.<sup>22</sup>

Any suggestion by Respondents that we must obtain 100 percent coverage in questionnaire responses in order to make our determinations is incorrect. While the Commission endeavors to obtain the most complete set of data as is practicably possible within the limits imposed by the statutory deadlines and the ability of questionnaire respondents to comply with the data requests, the Court of International Trade has made clear that 100 percent coverage is not required before the Commission can make a determination.<sup>23</sup> We are satisfied that this investigation's final phase record provides a sound

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<sup>17</sup> Petitioner's Posthearing Responses to Commissioner Questions at 1-4.

<sup>18</sup> CR, PR at III-1.

<sup>19</sup> CR, PR at III-1 n.1.

<sup>20</sup> CR, PR at III-1 & nn.1-2.

<sup>21</sup> CR at III-2, PR at III-1.

<sup>22</sup> CR at I-13 n.38, PR at I-9 n.38.

<sup>23</sup> See American Bearing Manufacturers Association v. United States, 350 F. Supp. 2d 1100, 1124 n. 22 (Ct. Int'l Trade 2004), quoting United States Steel Group v. United States, 873 F. Supp. 673, 688 (Ct. Int'l Trade 1994), (continued...)

basis for deciding the issues presented. When necessary to fill any gap in the record, as discussed below, we rely upon facts available.

Below, we examine the production-related activity of non-print converters and print converters using the traditional six-factor test. The test demonstrates that both non-print converters and print converters engage in sufficient production-related activity to be included in the domestic industry.

## 1. Non-Print Converters

The parties agree that non-print converters engage in sufficient production-related activity to constitute producers. The manufacture of the most common form of non-print finished artists' canvas, stretched canvas, begins with the production of "stretcher strips" that are made out of wood. Raw lumber is machine-ripped and fed into a chop saw that removes imperfections. The pieces are then cut to appropriate size, producing what is referred to as a "blank." The blanks are fed into a moulder, which creates a rounded edge over which canvas can be smoothly stretched. Once moulded, blanks are fed into tenoners that cut a 45-degree interlocking corner that allows blanks to be joined together. This product is called a "stretcher strip." Four stretcher strips are joined to form a frame, and a piece of artists' canvas cut from a bulk roll is stretched over the frame. The stretched canvas is then stapled to the side or rear of the frame, or tucked into a groove in the frame (splined), to complete the assembled canvas.<sup>24</sup>

The capital investment for non-print converting operations requires the equivalent of a commercial carpentry shop and machinery different from that used to produce the bulk canvas.<sup>25</sup> Capital expenditures increased steadily during the period of investigation. Such expenditures increased from \$\*\*\* in 2002 to \$\*\*\* in 2005, and reported research and development ("R&D") expenses increased from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>26</sup> The additional processing requires skilled employees, although they need not be dedicated to performing only these operations.<sup>27</sup>

Although we lacked data for the costs incurred in conversion operations at the time of the preliminary determination, pricing data then available suggested that such operations contributed significant added value. As noted in the preliminary determination, the average price for bulk canvas was \$\*\*\* per square meter compared to \$\*\*\* per square meter for finished canvas.<sup>28</sup> In this final phase investigation, costs conversion data are now available, and pricing data have been updated. Both indicate that non-print converters add substantial value to the final product. In 2005, the costs of conversion from bulk to non-print finished product accounted for \*\*\* percent of the total cost of non-print finished canvas products (basing bulk canvas costs on the unit value of integrated producers' reported commercial shipments of bulk canvas).<sup>29</sup> In terms of price, the average unit value of U.S. shipments of bulk canvas in

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<sup>23</sup> (...continued)  
aff'd, 96 F.3d 1352 (Fed. Cir. 1996).

<sup>24</sup> CR at I-7 to I-8, PR at I-6. The production of canvas panels and archival boards \*\*\*. CR at I-8 n.18, PR at I-6 n.18.

<sup>25</sup> CR at I-9 to I-10, PR at I-7.

<sup>26</sup> CR, PR at Table VI-8.

<sup>27</sup> CR at I-7 to I-8, PR at I-8.

<sup>28</sup> Preliminary Determination at 8 n.43.

<sup>29</sup> Memorandum, INV-DD-061 (Apr. 25, 2006) at Table I-4A, PR at Table I-4A. While conversion costs may also be calculated basing bulk canvas costs on the value of internal consumption reported by integrated producers – which yields a conversion cost of 83.8 percent – we believe that calculations based on market prices are a better reflection of actual conversion costs. See Memorandum INV-DD-056 (April 19, 2006) at Table I-4, PR at Table I-4 (showing cost of conversion based on value of internal consumption).

2005 was \$\*\*\* per square meter.<sup>30</sup> Although average prices for all non-print finished canvas are not available on the record, prices for representative canvas panel and stretched canvas products ranged from \$\*\*\* per square meter to \$\*\*\* per square meter.<sup>31</sup>

Employment for non-print finished canvas totaled \*\*\* production workers in 2002 and \*\*\* production workers in 2005.<sup>32</sup> Based on hourly wages and production (in square meters per hour), unit labor costs for production employees were \$\*\*\* in 2002 and \$\*\*\* in 2005.<sup>33</sup> Finally, while non-domestic sourcing is available, no converters reported purchasing raw materials from foreign sources.<sup>34</sup>

Taken together, these factors support a finding that non-print converters engage in sufficient production-related activity to constitute producers in the domestic industry. Accordingly, and consistent with the Commission's preliminary determination and the position of the parties in the final phase, we continue to define the domestic industry to include non-print converters.

## 2. Print Converters

We are also persuaded that print converters engage in sufficient production-related activity to qualify as domestic producers of artists' canvas.

As an initial matter, we reject Respondents' argument that we are precluded from considering the extent of print converters' production-related activities. We may not, under the statute, include in a domestic industry all sellers of a like product simply because those sellers handle the goods. The statute defines the domestic industry as domestic "producers" of the like product, and as the Commission has consistently recognized, this requires, when appropriate, that the activity of a given firm be analyzed to determine whether its activities should be deemed production.<sup>35</sup> Contrary to Respondents' argument, finding that print converters are not engaged in sufficient production-related activity to be included in the industry does not result in a lack of "production." In such a case, bulk roll producers and non-print converters would constitute the producers of the domestic like product. For a firm to qualify as a producer without sufficient production-related activity would expand the definition of domestic industry beyond the Commission's consistent application of the statutory definition of domestic industry and render the domestic industry requirement of "production" devoid of content.

Accordingly, we apply the six-factor test to determine whether print converters engage in sufficient production-related activity, the issue ultimately deemed moot in the preliminary phase due to the lack of data from such firms. Print canvas, like non-print finished canvas, is produced using pre-

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<sup>30</sup> CR, PR at Table C-2. During 2005, reported quarterly prices for a domestic bulk artists' canvas product ranged from \$\*\*\* to \$\*\*\* per square meter. CR, PR at Table V-7.

<sup>31</sup> Staff worksheet 1 (compiled from data from questionnaire responses and the National Institute for Standards and Technology).

<sup>32</sup> Memorandum, INV-DD-057 (Apr. 21, 2006) at Table C-5, PR at Table C-5.

<sup>33</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>34</sup> INV-DD-061 at Table I-4A n.2, PR at Table I-4A n.2.

<sup>35</sup> Cf., e.g., Certain Frozen or Canned Warmwater Shrimp and Prawns from Brazil, China, Ecuador, India, Thailand, and Vietnam, Inv. Nos. 731-TA-1063-68 (Final), USITC Pub. 3748 (Jan. 2005) at 13 (finding, for example, that shrimp processing involving cooking constituted domestic production while that involving marinating, also within the domestic like product definition, did not).

gessoed bulk canvas.<sup>36</sup> The canvas is \*\*\* and is then machine coated with a \*\*\* ink-receptive coating \*\*\*.<sup>37</sup> When dried, the canvas \*\*\*, and then cut into rolls of a smaller size \*\*\* or into sheets.<sup>38</sup>

Although we lack data as to the actual extent of capital investments by print converters, evidence in the record indicates that the investments are substantial. Because there are seven identified domestic print converters, it appears that there are at least seven such production lines in the United States.<sup>39</sup> Petitioner Tara estimates that the capital investment required for a single print canvas production line ranges from \$1 million to \$3 million.<sup>40</sup> Given the number of print canvas production lines and the estimated cost of a single line, we can roughly estimate the minimum collective capital investment in production lines by print converters to be in the range of \$5 million to \$20 million. This estimate does not include capital investments made in other equipment, including that used to produce the proprietary coatings. For purposes of comparison, Tara, which produced \*\*\* percent of domestic bulk canvas in 2005,<sup>41</sup> reported that its capital investments totaled about \$\*\*\* million, including investments in production lines, inspection equipment, “chemical making equipment,” and handling equipment.<sup>42</sup>

Tara argues that the capital investments of print converters should be discounted, because the production equipment used to make print canvas is used to produce other products as well.<sup>43</sup> While print converters \*\*\*<sup>44</sup>\*\*\*.<sup>45</sup> Accordingly, for most reporting print converters, print canvas is the most important product produced on their coating lines in terms of both production volumes and net sales. While diversification of products coated on such machinery may help justify the capital investment, the record does not suggest to us that the investment required for the production of print canvas is rendered less than significant as a result of the varying usage of the machinery. Without the upfront capital investment, print canvas could not be made at all.

The technical expertise involved in the production of print canvas is no less than that required to produce bulk or non-print finished canvas and may be greater. \*\*\*.<sup>46</sup> Mixing the coating and properly applying it require trained, skilled labor. The cutting and packaging that follow require less expensive

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<sup>36</sup> Petitioner’s Posthearing Responses to Commissioner Questions at 5.

<sup>37</sup> Petitioner’s Posthearing Responses to Commissioner Questions at 5; Revised and Corrected Transcript of Public Hearing on March 28, 2006 (“Tr.”) at 136-37 (testimony of Mr. Benator); INV-DD-051 at I-13, PR at I-9.

<sup>38</sup> Tr. at 136-37 (Mr. Benator), INV-DD-051 at I-13, PR at I-9.

<sup>39</sup> CR, PR at Table E-1.

<sup>40</sup> CR at I-13 n.36, PR at I-9 n.36 (Petitioner’s estimate; neither Respondents nor converters supplied data respecting the cost of ink jet coating machinery); cf. Producer Questionnaire of \*\*\* at 16 (\*\*\*).

<sup>41</sup> CR, PR at Table III-1.

<sup>42</sup> Petitioner’s Posthearing Responses to Commissioner Questions at 7.

<sup>43</sup> Petitioner’s Posthearing Responses to Commissioner Questions at 8. See CR at I-13 n.36, PR at I-9 n.36.

<sup>44</sup> In 2005, print canvas accounted for \*\*\* percent and \*\*\* percent of production on such equipment for IJ Technologies and BF Inkjet, respectively. CR at I-13, n. 36, PR at I-9 n. 36. For Intelicoat Technologies, sales of products produced on print canvas production equipment accounted for \*\*\* percent of sales of all products produced on that equipment in 2005. Electronic mail message from \*\*\* In 2005, IJ Technologies and BF Inkjet accounted for over \*\*\* percent of reported domestic production of print canvas. Figure derived from Staff Worksheet 2 (compiled from responses to questionnaires). In the case of \*\*\*, print canvas accounts for a growing share of sales of products made on its print canvas production line, rising from \*\*\* percent in 2002 to \*\*\* percent in 2005. Electronic mail message from \*\*\*.

<sup>45</sup> In 2005, print canvas accounted for \*\*\* percent of the net sales of \*\*\*, \*\*\* percent of the net sales of \*\*\*, and \*\*\* percent of the net sales of \*\*\*. Staff worksheet 2 (compiled from responses to questions III-5 and III-6 of the producers questionnaires (and for \*\*\* the response to question II-14).

<sup>46</sup> Producer Questionnaire of \*\*\* at 16.

equipment and unskilled labor, and represent a fraction of the total cost of conversion.<sup>47</sup> Operation of the coating line alone requires up to three employees.<sup>48</sup> The coating itself, which is typically proprietary, is mixed separately; the finishing steps of transforming the master rolls into sizes and packaging suitable for shipping are also performed separately.<sup>49</sup> In terms of technical expertise, the process is broadly similar to that performed by bulk producers, which purchase raw canvas and apply two or more coats of gesso.<sup>50</sup> While the production process of non-print finished canvas is more labor intensive than the production of print canvas, that process is not highly technical.

With respect to value added, both conversion costs and average prices indicate a substantial contribution by print converters. The operations performed in converting bulk canvas to print canvas account for \*\*\* percent of the total cost of the finished product.<sup>51</sup> In 2005, the average unit value of U.S. shipments of bulk canvas was \$\*\*\* per square meter compared to \$\*\*\* per square meter for print canvas.<sup>52 53</sup> Both conversion costs and resulting differences in price indicate that print converters add substantial value to print canvas.<sup>54</sup>

The number of production workers for print converters, as reported by the major known converters, ranged from \*\*\* in 2002 to \*\*\* in 2005.<sup>55</sup> Even accounting for the lack of data from certain print converters, these employment levels are substantially lower than those reported by bulk producers and the far more labor intensive non-print finished canvas converting operations.<sup>56</sup> On the other hand, unit labor costs (total wages divided by production) for print converters ranged from \$\*\*\* per square

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<sup>47</sup> Producer Questionnaire Response of \*\*\* at 16.

<sup>48</sup> Petitioner's Responses to Commissioner Questions at 6.

<sup>49</sup> CR at I-13, PR at I-9; Producer Questionnaire Response of \*\*\* at 16; electronic mail message dated April 14, 2006 from \*\*\* to Mark B. Rees at 3.

<sup>50</sup> CR at I-7, PR at I-6.

<sup>51</sup> INV-DD-061 at Table I-4A n.2, PR at Table I-4A n.2.

<sup>52</sup> CR, PR at Table C-2, and INV-DD-061 at Table C-6, PR at Table C-6.

<sup>53</sup> Although Tara argues that the value added by bulk producers is substantially greater than that added by print converters, data supplied by the company do not confirm that assertion. Tara indicates that the average cost for the basic fabric used in bulk canvas production averages \$\*\*\* per square meter, that the average unit value for Tara's bulk sales in 2005 was \$\*\*\* per square meter, and that Tara typically sells print canvas for \$\*\*\* to \$\*\*\* per square meter. Petitioner's Posthearing Responses to Commissioner Questions at 6 (Tara's basic fabric costs and sales price for print canvas) and CR and PR at Table VI-6 (Tara's average unit values for bulk canvas). Based on Tara's reported data, the value added by converting basic fabric into bulk canvas is considerably less than the value added by converting bulk canvas into print canvas.

<sup>54</sup> Each investigation is *sui generis*, and value added, as with any other single factor, is not determinative of our finding. 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 to I-9 & n.34, aff'd Aramide Maatschappij V.O.F. v. United States, 19 CIT 884 (1995). As noted by Respondents, however, the Commission recently found that certain producers engaged in sufficient production related activity to be included in the domestic industry where the value they added averaged 30 percent. Respondents' Posthearing Brief at 7, citing Wax and Wax/Resin Thermal Transfer Ribbons from France and Japan, Inv. No. 731-TA-1039-1040 (Final), USITC Pub. 3683 (Apr. 2004) at 13. In addition, we found in the preliminary determination in the instant investigation that converters added significant value based on the fact that prices for bulk canvas averaged \$\*\*\* per square meter compared to \$\*\*\* per square meter for finished canvas, figures that are roughly similar to those found in this final phase investigation. Preliminary Determination at 8 n.43.

<sup>55</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>56</sup> Comparing the same years respectively, employment levels ranged from \*\*\* to \*\*\* for bulk producers, and \*\*\* to \*\*\* for non-print converters. CR, PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5.

meter in 2002 to \$\*\*\* per square meter in 2005, compared to only \$\*\*\* per square meter in 2002 to \$\*\*\* per square meter in 2005 for bulk producers.<sup>57</sup>

As with non-print canvas, the bulk rolls used in the production of print canvas may be sourced from abroad, but the reporting firms sourced domestically during the period of investigation.<sup>58</sup>

On balance, we find that print converters engage in sufficient production-related activity to qualify as members of the domestic industry. The extent of capital investment by print converters is substantial. While the equipment is used to make other products, print canvas is the primary focus of two of the three responding converters that provided such data, both in terms of production volume and net sales. Print converters perform operations broadly similar to those performed by bulk producers, except that print converting operations may require greater technical expertise. While print converters employ fewer production workers than do bulk producers, the former incur substantially higher unit labor costs than do the latter. Finally, the value added by print converters is substantial, as indicated by conversion costs and the resulting price differentials.

Based on the final phase record in this investigation, we define the domestic industry as all U.S. producers of artists' canvas, including the producers of bulk canvas, non-print converters, and print converters.<sup>59</sup>

### III. MATERIAL INJURY BY REASON OF LESS THAN FAIR VALUE IMPORTS<sup>60</sup>

In the final phase of antidumping duty investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.<sup>61</sup> In making this determination, the Commission must consider the volume of 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>62</sup> The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."<sup>63</sup> In assessing whether the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the

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<sup>57</sup> CR, PR at Table C-2; INV-DD-061 at Table C-6, PR at Table C-6.

<sup>58</sup> INV-DD-061 at Table I-4A n.2, PR at Table I-4A n.2.

<sup>59</sup> No responding U.S. producers in the final phase of the investigation reported any related firm, foreign or domestic, engaged in the production, export, or importation of subject merchandise from China, nor did any \*\*\*. CR, PR at III-2. In the preliminary phase of the investigation, the Commission considered whether to exercise its discretion to exclude \*\*\*, which reported that it imported \*\*\* square meters of subject product from China, from the domestic industry under the related parties provision of the statute. The Commission found that appropriate circumstances did not exist to exclude the firm from the domestic industry. Preliminary Determination at 9 n.44. In the final phase, the parties have not argued that any firm should be excluded from the domestic industry as a related party, and the record is unchanged on this point from the preliminary phase with respect to \*\*\*. Accordingly, we find no basis to revisit that determination and no new related party issue has arisen.

<sup>60</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-1 (\*\*\* percent by quantity and \*\*\* percent by value in 2004).

<sup>61</sup> 19 U.S.C. § 1673d(b).

<sup>62</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>63</sup> 19 U.S.C. § 1677(7)(A).

state of the industry in the United States.<sup>64</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>65</sup>

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

Demand for artists’ canvas is driven by the ultimate consumer that uses the product for graphic presentation of painted or printed images. The demand for non-print finished artists’ canvas tends to be seasonal, peaking in the spring and summer months as retailers stock up for back-to-school promotions.<sup>66</sup>

When asked how overall demand has changed during the period of investigation, four of the responding U.S. producers, all of the responding importers, and 18 of 26 responding purchasers reported that it had increased.<sup>67</sup> With respect to non-print canvas, the increase in demand was most commonly attributed to the rapid growth of the home decor market.<sup>68</sup> Two producers and 9 purchasers also reported that sales of low-priced, non-branded artists’ canvas have increased overall demand for artists’ canvas.<sup>69</sup> In addition, there was sharply increased demand in the print canvas segment of the market as printers and publishers increasingly produced commercial artwork on artists’ canvas.<sup>70</sup> Reported U.S. shipments of print canvas more than \*\*\* in volume from 2002 to 2005.<sup>71</sup>

Data on the record show that, overall, apparent U.S. consumption has increased \*\*\* for artists’ canvas during the period of investigation. Apparent consumption increased \*\*\* percent between 2002 and 2005, from \*\*\* square meters to \*\*\* square meters.<sup>72</sup>

The U.S. market is supplied by domestic production as well as subject and nonsubject imports. The domestic industry remains the largest supplier of the market, although its share of consumption by quantity has steadily declined from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>73</sup> The domestic industry’s share of consumption by value has \*\*\*, from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>74</sup>

\*\*\* U.S. firms (\*\*\*) are integrated producers, firms that produce bulk and finished artists’ canvas; other firms produce one or the other.<sup>75</sup> The Commission received data from two other producers of bulk canvas, \*\*\*, one other producer of non-print finished artists’ canvas (\*\*\*), and four producers of print canvas (\*\*\*)<sup>76</sup> Tara is the largest producer of artists’ canvas, accounting for over \*\*\* percent of reported U.S. production of bulk canvas in 2005 and \*\*\* percent of reported production of finished canvas.<sup>77</sup> \*\*\* is the second largest producer of artists’ canvas, accounting for \*\*\* percent of reported

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<sup>64</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>65</sup> Id.

<sup>66</sup> CR, PR at II-1.

<sup>67</sup> CR at II-5 to II-6, PR at II-3 to II-4.

<sup>68</sup> CR at II-5, PR at II-4.

<sup>69</sup> CR at II-5 to II-6, PR at II-3 to II-4.

<sup>70</sup> Tr. at 75-77 (Messrs. Straquadine and Benator), Staff Fieldwork Report (Feb., 24, 2006) at 3, CR and PR at II-1, Petitioner’s Posthearing Responses to Commissioner Questions at 10.

<sup>71</sup> See INV-DD-061 at Table C-6, PR at Table C-6.

<sup>72</sup> CR, PR at Table C-1.

<sup>73</sup> CR, PR at Table C-1.

<sup>74</sup> CR, PR at Table C-1.

<sup>75</sup> CR, PR at III-1.

<sup>76</sup> CR, PR at Table III-1.

<sup>77</sup> CR, PR at Table III-1.

production of bulk canvas in 2005, and \*\*\* percent of reported production of finished canvas.<sup>78</sup> BF Inkjet and Intelicoat account for \*\*\* percent and \*\*\* percent of domestic production of finished canvas products, respectively.<sup>79</sup>

During the period of investigation, Tara moved a large portion of its U.S. production of finished canvas to its Mexican subsidiary, Decoracion Colonial (“Decoracion”). Prior to the period, in 1990, Tara acquired Hy-Jo Picture Frames (“Hy-Jo”), a California producer of wood-based frames.<sup>80</sup> The acquisition included Hy-Jo’s Mexican subsidiary, Decoracion.<sup>81</sup> In \*\*\*, Tara began production at Decoracion’s facility in Tijuana of \*\*\* artists’ canvas, a \*\*\* product that it had never produced in its U.S. facility.<sup>82</sup> Tara expanded production of artists’ canvas at Decoracion in \*\*\* beginning with the production of \*\*\*.<sup>83</sup> Later that year, Tara shifted a portion of the production of its core stretched canvas products to Mexico and, over the course of the following three years, eliminated \*\*\* jobs at its Georgia facility.<sup>84</sup>

Subject imports from China supplied an increasing share of the U.S. consumption by quantity during the period of investigation, from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>85</sup> With non-print finished canvas constituting the vast majority of artists’ canvas imports from China,<sup>86</sup> subject imports’ share of consumption by value increased from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>87</sup> The share of consumption of nonsubject imports, of which Mexico constituted the largest source,<sup>88</sup> increased irregularly in quantity from \*\*\* percent in 2002 to \*\*\* percent in 2005, and increased in value from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>89</sup> \*\*\*.<sup>90</sup>

There are three general categories of artists’ canvas – bulk canvas, non-print finished canvas, and print canvas – and within these general categories a continuum of products is sold in various grades, textures, shapes, sizes and formats. Reported subject imports from China are mostly, although not exclusively, of non-print finished canvas products and, in particular, the more labor intensive stretched canvas (approximately \*\*\* percent).<sup>91</sup> Subject imports from China are either \*\*\*, or imported by retailers and distributors themselves.<sup>92</sup> Most of the U.S. finished canvas is sold to retailers, although some is sold to large distributors who serve smaller retailers.<sup>93</sup>

Subject imports and domestically produced artists’ canvas are generally substitutable. The majority of importers and purchasers that compared bulk canvas from China with that from the United

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<sup>78</sup> CR, PR at Table III-1.

<sup>79</sup> CR, PR at Table III-1.

<sup>80</sup> Tr. at 21-22 (Freeman), 322 (Benator); CR at III-3; PR at III-2.

<sup>81</sup> Tr. at 21-22 (Freeman), 322 (Benator); CR, PR at III-3.

<sup>82</sup> Tr. at 21-22 (Freeman), 322 (Benator); CR, PR at III-3.

<sup>83</sup> CR at III-3 to III-4, PR at III-3

<sup>84</sup> CR at III-3 to III-4, PR at III-3.

<sup>85</sup> CR, PR at Table C-1.

<sup>86</sup> Bulk canvas imports from China ranged from approximately \*\*\* square meters (in 2002) to \*\*\* square meters (in 2005). CR, PR at Table C-2. There were \*\*\* imports of print canvas from China during the period of investigation. INV-DD-057 at Table IV-4, PR at Table IV-4.

<sup>87</sup> CR, PR at Table C-1.

<sup>88</sup> CR, PR at Table IV-1; INV-DD-057 at Table IV-1A, PR at Table IV-1A.

<sup>89</sup> CR, PR at Table C-1.

<sup>90</sup> CR at IV-2 nn.7-8, PR at IV-1 nn.7-8.

<sup>91</sup> INV-DD-057 at Table IV-4, PR at Table IV-4 (share of shipments).

<sup>92</sup> CR at I-10; PR at I-8; Tr. at 42 (Mr. Chicherski), 156-57 (Mr. Stapleton), 170-72 (Mr. Marek).

<sup>93</sup> CR at I-10; PR at I-8; CR, PR at Table I-3.

States reported that the two are always or frequently interchangeable. All responding U.S. producers reported that the two are at least sometimes interchangeable.<sup>94</sup> The majority of importers and purchasers that compared non-print finished canvas from China with that from the United States reported that the two are always or frequently interchangeable. The majority of U.S. producers reported that the two are always interchangeable.<sup>95</sup> Most purchasers reported that domestically-produced artists' canvas and subject imports are comparable in terms of quality and product range.<sup>96</sup>

Price was identified as a very important factor in the artists' canvas purchasing decisions by 22 of 27 purchasers.<sup>97</sup> Purchasers generally found that Chinese artists' canvas and the U.S. product were comparable, with one exception: 17 of 20 indicated that Chinese artists' canvas is lower priced than U.S. product.<sup>98</sup>

## **B. Volume**

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>99</sup>

In considering the volume of subject imports, several important conditions of competition inform our analysis. We consider that bulk canvas, non-print finished canvas, and print canvas each constitutes an important segment of the domestic market.<sup>100</sup> Bulk canvas generally represents the lowest-priced product, while average prices for print canvas and non-print finished canvas are generally two and three times higher, respectively, than prices for bulk canvas.<sup>101</sup> Stretched canvas accounts for the great majority of non-print finished canvas, and it is the most labor-intensive, highest-value added, and highest priced of all artists' canvas products.<sup>102</sup>

While the domestic industry produces products sold in all three segments of the market, subject imports are heavily concentrated in the non-print finished canvas segment, and in particular in stretched canvas products.<sup>103</sup> Among non-print finished canvas products, subject imports and domestic products are comparable in terms of product range, availability, and quality.<sup>104</sup> As a result, majorities of producers, importers, and purchasers each indicated that subject and domestic non-print finished canvas are "always"

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<sup>94</sup> CR at II-9; PR at II-8; CR, PR at Table II-3.

<sup>95</sup> CR at II-10; PR at II-7; CR, PR at Table II-3.

<sup>96</sup> CR, PR at Table II-5 (12 of 20 reported that product consistency is comparable; 14 of 20 reported that the two are comparable in terms of meeting industry quality standards; 12 of 20 reported that the two are comparable in terms of exceeding industry quality standards; 10 of 19 reported that product range is comparable).

<sup>97</sup> CR at II-6 to II-9; PR at II-5; CR, PR at Tables II-1 & II-2.

<sup>98</sup> CR, PR at Table II-5.

<sup>99</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>100</sup> CR, PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5; INV-DD-0161 at Table C-6, PR at Table C-6.

<sup>101</sup> CR, PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5; INV-DD-0161 at Table C-6, PR at Table C-6.

<sup>102</sup> INV-DD-057 at Table IV-4, PR at Table IV-4 (stretched canvas the highest volume non-print finished canvas product); compare CR, PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5; and INV-DD-061 at Table C-6, PR at Table C-6 (showing average unit labor costs and average unit sales values for bulk, non-print finished, and print canvas products); INV-DD-061 at Table I-4A, PR at Table I-4A (costs of converting bulk into non-print finished and print canvas).

<sup>103</sup> See, e.g., INV-DD-057 at Table IV-4, PR at Table IV-4.

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

or “frequently” interchangeable.<sup>105</sup> As we evaluate whether the volume of subject imports is significant, we bear in mind that subject imports are heavily concentrated in those artists’ canvas products that are the most labor-intensive to produce, the highest in value added, and the highest in price. Looking at the market as a whole, the record shows that subject import volumes increased steadily and sharply throughout the period of investigation. Subject import volumes rose from 202,000 square meters in 2002 to 2.3 million square meters in 2005, for an increase of 1031.7 percent.<sup>106</sup> Despite rising U.S. demand, subject imports’ share of U.S. consumption increased steadily and sharply, both in quantity and value terms. Subject imports’ share by quantity increased from \*\*\* percent in 2002 to \*\*\* percent in 2005, representing an overall increase of \*\*\* percentage points.<sup>107</sup> Subject imports’ share by value increased from \*\*\* percent in 2002 to \*\*\* percent in 2005, or by \*\*\* percentage points.<sup>108</sup>

The increase in subject imports’ share of apparent U.S. consumption came at the expense of the share held by the domestic industry. The domestic industry’s share of apparent consumption by quantity decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005, or by \*\*\* percentage points.<sup>109</sup> The domestic industry’s share of apparent consumption by value showed a greater decline, from \*\*\* percent in 2002 to \*\*\* percent in 2005, a decline of \*\*\* percentage points.<sup>110</sup>

The domestic industry’s greater loss of market share by value occurred as it lost sales volumes and market share in the high-value non-print finished canvas products in which the subject imports were concentrated. While apparent U.S. consumption of non-print finished canvas increased in value by \*\*\* percent from 2002 to 2005, the value of U.S. shipments of domestically produced non-print finished products fell by \*\*\* percent.<sup>111</sup> As a result, the domestic industry’s market share in the highest value-added and highest priced component of the market fell from \*\*\* percent in 2002 to just \*\*\* percent in 2005.<sup>112</sup> As subject imports from China grew to hold the largest share of this portion of the market by 2005, domestic producers were increasingly relegated to lower value bulk and print canvas shipments. For the overall market, the quantity data, while significant, thus understate the significance of subject imports in relation to U.S. producers. The value data confirm that subject imports from China have taken a significant share of the higher value and higher priced non-print finished canvas market.<sup>113 114</sup>

Respondents argue that subject imports did not cause the domestic industry to curtail production of non-print finished canvas, and they assert that Tara relocated certain non-print finished canvas production to its Mexico operations for reasons unrelated to subject imports. The record, however, indicates that Tara moved certain of its production activities to Mexico in significant part due to low-priced competition from subject imports. As discussed above, Tara had produced splined canvas in

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<sup>105</sup> CR, PR at Table II-3.

<sup>106</sup> CR, PR at Table C-1.

<sup>107</sup> CR, PR at Table C-1.

<sup>108</sup> CR, PR at Table C-1.

<sup>109</sup> CR, PR at Table C-1.

<sup>110</sup> CR, PR at Table C-1.

<sup>111</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>112</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>113</sup> Subject import volume relative to production of artists’ canvas in the United States also increased during the period of investigation. Subject imports from China were equivalent to \*\*\* percent of U.S. production of bulk artists’ canvas during 2002 and increased throughout the period, reaching \*\*\* percent in 2005. CR, PR at Table IV-5.

<sup>114</sup> Nonsubject imports’ share of U.S. consumption by quantity grew by \*\*\* percentage points between 2002 and 2005, and by a relatively \*\*\* percentage points by value. CR, PR at Table C-1. With imports from Mexico representing the largest source of nonsubject imports, these increases are largely attributable to Tara’s production move of certain finished canvas operations from the United States to Mexico.

Mexico since \*\*\*.<sup>115</sup> Because \*\*\*, production was increased to accommodate a large increase in that customer's orders.<sup>116</sup> This splined canvas did not replace domestic production, however, because Tara never made splined canvas in the United States.<sup>117</sup> Tara's U.S. sales of its splined Mexican product increased between 1996 and 2002, and included product sold under Tara's own Fredrix Creative Edge brand name, as well as two firms' private labels (Aaron Brothers, Inc., and The Art Store).<sup>118</sup> None of this production was moved from the U.S. to Mexico, and imports from Mexico increased as a result of splined product's growth in the U.S. market.<sup>119</sup> This more limited Mexican production predated the surge of Chinese product in the U.S. market.

In 2000, Tara was notified that one of its large customers, \*\*\*, was shifting its purchases to Chinese suppliers. In the same time frame, \*\*\*, a large distributor customer of Tara's, started offering a private label canvas sourced from China. In March 2003, \*\*\* and \*\*\*, which were sharing sourcing information, asked Tara to re-quote their artists' canvas prices in light of low-priced canvas sourcing in China.<sup>120</sup> Later that month, \*\*\* informed Tara of its decision to source its private label line from China, \*\*\*.<sup>121</sup>

In the face of these events, Tara determined that its private label production suffered from too great a price disadvantage against the Chinese product to be competitive. In an effort to reduce labor costs and narrow the price gap with Chinese imports, Tara moved a substantial portion of stretched canvas production from its Georgia facility to Mexico in April 2003, and moved a large percentage of its West Coast stretcher bar production there in November 2003.<sup>122</sup> Tara had explored various options of greater automation and cost reduction, but was still unable to reduce costs to compete with the lower-priced Chinese product. It determined that the only viable option was to move a significant volume of its stretched canvas operation to the Mexico facility.<sup>123</sup> Accordingly, although the actual imports that \*\*\* would use to replace the Tara products had not yet begun,<sup>124</sup> we find that Tara's actions were taken in response to indisputable evidence of future lost sales.

Respondents' claim that Tara should have delayed the expansion of its Mexican operations until after imports had significantly increased ignores the fact that the company's largest customer had announced that it would soon replace a huge portion of its purchases with Chinese product. Subject imports would rise sharply thereafter, both to fill the \*\*\* account and as other retailers followed suit and began purchasing lower-priced Chinese product. We therefore find that lower-priced competition from subject imports from China played a significant role in Tara's decision to move certain production capacity to Mexico. We note further that Tara continues to produce finished products in Georgia, which reinforces the company's claim that it moved production to Mexico reluctantly. In fact, Tara's capacity,

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<sup>115</sup> CR, PR at III-3.

<sup>116</sup> CR at III-3 to III-4, PR at III-3.

<sup>117</sup> Tr. at 21 (Mr. Freeman), 322 (Mr. Benator).

<sup>118</sup> Tr. at 21-23 (Mr. Freeman).

<sup>119</sup> See, e.g., Petitioner's Prehearing Brief Exh. A at 1; Tr. at 21-24 (Mr. Freeman). We note that this growth in the finished canvas market predated the surge of subject imports from China.

<sup>120</sup> See, e.g., Petitioner's Prehearing Brief Exh. 1 at 1-2; Petitioner's Posthearing Brief Exh. A at 1.

<sup>121</sup> See, e.g., Petitioner's Posthearing Brief Exh. C.

<sup>122</sup> See, e.g., Tr. at 22-23 (Mr. Freeman).

<sup>123</sup> Id.

<sup>124</sup> A follow-up letter from \*\*\*. Petitioner's Posthearing Brief Exh. C at 2.

production and shipments of finished canvas in Georgia continue to vastly exceed those of its Mexico operation, and part of that production includes stretched canvas.<sup>125</sup>

Moreover, the decline in U.S. non-print finished canvas production and shipments is not explained by the partial relocation of some Tara production to Mexico.<sup>126</sup> After the relocation of certain production operations to Mexico, production of finished artists' canvas products in that facility increased by \*\*\* square meters from 2002 to 2005.<sup>127</sup> Over the same period, Tara's U.S. production of finished artists' canvas products fell by \*\*\* square meters.<sup>128</sup> Accordingly, most of the decline in Tara's production of finished canvas products is not attributable to its partial shift of production to Mexico.

Respondents further claim that the increases in subject import volume and market share during the period of investigation are not significant, because subject imports have created the growth in market demand by offering diversified new products, innovative marketing, and attractive price points.<sup>129</sup> Such growth, they claim, would not have occurred without subject imports.<sup>130</sup> We are unpersuaded.

As an initial point, we find little or no evidence that subject producers introduced new products to the U.S. market not available from domestic producers. Subject imports are heavily concentrated in stretched canvas products, and to a lesser degree in canvas panels, each of which are product categories in which domestic producers offer a broad selection of choices.<sup>131</sup> In this respect, subject imports and the domestic product are generally comparable in terms of quality,<sup>132</sup> including with respect to the type of canvas, the number of coats gesso applied to it, and the bars over which the product is stretched.<sup>133</sup> While subject merchandise includes stretched products in some dimensions not previously offered by domestic producers,<sup>134</sup> such instances appear to constitute the exception rather than the rule, given that market participants generally reported that the products are interchangeable and comparable in terms of product range and availability, as noted above. In any event, the offer of an existing product in a different dimension can hardly be considered an innovation. New products were instead developed and offered first by the domestic industry, including digital print canvas, watercolor canvas, and "sew-paintable" canvas.<sup>135</sup> Unlike simply offering stretched canvas in a new size, these products required significant research and development and they are truly innovative.<sup>136</sup> The domestic industry, therefore, was responsible for any growth in demand spurred by new products.

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<sup>125</sup> CR, PR at Table III-2.

<sup>126</sup> From 2002 to 2005, domestic production of non-print finished canvas fell by \*\*\* percent, and the industry's U.S. shipments fell by \*\*\* percent in quantity and \*\*\* percent in value. INV-DD-067 at Table C-5, PR at Table C-5.

<sup>127</sup> Production by Tara's Mexico affiliate increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. CR, PR at Table III-2.

<sup>128</sup> Domestic production of finished canvas by Tara fell from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. CR, PR at Table III-2.

<sup>129</sup> See, e.g., Respondents' Prehearing Brief at 29.

<sup>130</sup> See, e.g., Respondents' Posthearing Brief at 12.

<sup>131</sup> INV-DD-057 at Table IV-4, PR at Table IV-4 (subject import concentration in stretched and panel products), Petitioner's Posthearing Responses to Commissioner Questions at 12-13, 32 & Exh. 3 (broad product range offered by domestic producers).

<sup>132</sup> CR, PR at Tables II-3 and II-5.

<sup>133</sup> Petitioner's Posthearing Responses to Commissioner Questions at 32-34.

<sup>134</sup> CR at II-9, PR at II-6, Petitioner's Posthearing Responses to Commissioner Questions at 32-35.

<sup>135</sup> Tr. at 33-34 (Mr. Straquadine), Petitioner's Posthearing Responses to Commissioner Questions at 34-35.

<sup>136</sup> Tr. at 30, 33-34 (Mr. Straquadine) (patent pending on watercolor canvas product), Petitioner's Posthearing Responses to Commissioner Questions at 34-35. See Tr. at 41, 43 (Mr. Chicherski) (retailer reporting that Tara offers new products, while subject imports are "knock offs").

Nor is there evidence that foreign producers or importers of the subject merchandise somehow created demand by engaging in innovative marketing campaigns. As noted above, increases in demand are largely attributable to the increase in consumption for use in the do-it-yourself home decor market.<sup>137</sup> While marketing innovations do appear to have capitalized on and contributed to this growth in demand, those efforts occurred downstream at the retail level. Vendors reported boosting impulse purchases by displaying artists' canvas products more prominently in retail stores than had previously been the case, and promoting their use in home decor projects.<sup>138</sup> Retailers also indicated that they created the appearance of value by routinely selling at prices heavily discounted off of "ordinary" prices, and by displaying large in-store signs as to these discounts.<sup>139</sup> Retailers reported that these techniques were developed for use with existing domestic product offerings, and that they can be employed regardless of the origin of the product, contrary to the notion that subject imports facilitated these efforts.<sup>140</sup>

While there is some evidence that the low prices of subject imports contributed to increased consumption, it appears that demand was already growing prior to the entry of subject imports from China, since as far back as 1990.<sup>141</sup> <sup>142</sup> Moreover, most market participants providing information to the Commission indicated that the primary factors driving increased demand during the period of investigation were the growing use of artists' canvas in home decor applications, sharply increased demand for print canvas, and improved retail marketing techniques.<sup>143</sup>

Moreover, import purchasers' acquisitions of subject merchandise are not confined to serving only those customers that would not otherwise buy domestic artists' canvas for price reasons. For example, Michaels Stores, A.C. Moore, Aaron Brothers, and Utrecht had previously purchased their private label finished canvas from Tara. All have since switched to purchasing subject merchandise at some point during the period of investigation based at least in part on price. Instead of supplementing their domestic sources with low-priced imports to serve only purchasers that would not otherwise buy artists' canvas, they have replaced existing lines of domestically produced product with lower-priced Chinese product.<sup>144</sup> While other retailers still carry domestic products, even they often place these products in direct competition with subject imports sold at heavily discounted prices.<sup>145</sup>

Finally, Respondents' new market theory fails to explain the domestic industry's \*\*\* percent decline in shipments of non-print finished artists' canvas between 2002 and 2005.<sup>146</sup> Rather than create a new market, low-priced subject imports have merely served to decrease the U.S. industry's participation in the existing market. Based on this record, the volume of subject imports increased substantially over the period of investigation, and market share gains came at the expense of U.S. producers. Considering

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<sup>137</sup> CR at II-5, PR at II-3.

<sup>138</sup> E.g., Tr. at 158-59, 219-20 (Mr. Stapleton).

<sup>139</sup> Tr. at 211-13, 219-21 (Mr. Stapleton). See Tr. at 26-27 (Mr. Straquadine), 123-24 (Mr. Delin), 317-18 (Mr. Straquadine), Petitioner's Posthearing Responses to Commissioner Questions at 35-37 (Tara representatives confirming these marketing practices).

<sup>140</sup> Tr. at 158-59, 219-20 (Mr. Stapleton).

<sup>141</sup> CR at II-7, PR at II-4 (lower price additional factor spurring consumption), Tr. at 16-17 (Mr. Delin) (demand growing since 1990).

<sup>142</sup> Respondents confuse an increase in consumption with an increase in demand. Consumption, in terms of quantity, generally increases when a product is offered at lower prices.

<sup>143</sup> CR at II-5 to II-6, PR at II-3 to II-4.

<sup>144</sup> See, e.g., Tr. at 35 (Mr. Straquadine), 106 (Mr. Thompson); CR at V-22 to V-25, PR at V-8 to V-9; Petitioner's Posthearing Brief at 7-8 & Exh. C. The lost sales and revenue allegations of the domestic industry are discussed in the price effects section (III.C) below.

<sup>145</sup> Tr. at 123-24 (Mr. Delin).

<sup>146</sup> INV-DD-057 at Table C-5, PR at Table C-5.

the market for artists' canvas as a whole, we find that subject import volume, and the increase in that volume, were significant during the period of investigation, both in absolute terms and relative to domestic consumption and production.

### **C. Price Effects of the Subject Imports**

Section 771(7)(C)(ii) of the Act provides that, in evaluating the price effects of the 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>147</sup>

As noted, we have found that domestically produced artists' canvas and subject imports from China are substitutable. While purchasers indicate that quality, availability, and price are all important factors in the competition for sales of artists' canvas, they also reported that they generally considered the quality and availability of the two to be comparable.<sup>148</sup> Indeed, most purchasers reported that they view domestic and subject artists' canvas as comparable in nearly every respect, with the exception of price, which purchasers generally report is lower for subject imports.<sup>149</sup>

The Commission collected quarterly pricing data from U.S. producers and importers for eight different artists' canvas products. Because of the wide variety of artists' canvas products on the market, the pricing data reported by these firms accounted for approximately \*\*\* percent of the value of U.S. producers' commercial shipments of artists' canvas and \*\*\* percent of the value of U.S. imports from China during the period of investigation.<sup>150</sup> For two of the products, products 7 (bulk rolls) and 8 (print canvas rolls), there were no reported sales of the product from China.<sup>151</sup> Neither is imported in significant volumes to the United States. Price comparisons were available for the other six pricing products for which we collected data.

Based on the record data, we find significant underselling by subject imports from China during the period of investigation. Prices of imports from China were lower than the U.S. producer prices in 78 out of 83 quarterly comparisons, by margins ranging from 0.7 percent to 72.1 percent.<sup>152</sup> For products 1-5 (each of which were stretched artists' canvas products), the prices of imports from China were lower than the U.S. producer prices in all 71 quarterly comparisons.<sup>153</sup> In seven out of 12 comparisons relating to product 6 (canvas panels), the imported product was priced lower than the U.S. producer prices.<sup>154</sup> In the

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<sup>147</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>148</sup> CR, PR at Tables II-3 & II-5.

<sup>149</sup> CR, PR at Table II-5.

<sup>150</sup> CR at V-4 to V-5, PR at V-3.

<sup>151</sup> CR, PR at Tables V-7 & V-8.

<sup>152</sup> CR at V-20, PR at V-7.

<sup>153</sup> CR at V-4 to V-5, V-20; PR at V-7.

<sup>154</sup> CR at V-20, PR at V-7.

remaining 5 instances, the imported product oversold the domestic product by margins ranging from 1.2 percent to 16.6 percent.<sup>155</sup>

The underselling found in these price comparisons is consistent with the testimony of both domestic producers and retailers that price is the primary consideration in purchasing decisions. Retailers testified at the hearing that they routinely sell the subject imports in retail stores at prices advertised to customers as heavily discounted off of artificially inflated “ordinary” prices, in an attempt to convince customers of the value and low price of the product.<sup>156</sup> Retailers can afford to offer these discounts because the low prices of subject imports allow them to make a higher margin on discounted sales of subject product, giving them an incentive to switch away from domestic sourcing.<sup>157</sup> In negotiations with domestic producer Tara, retailers demanded that Tara support their “marketing strategies” by selling to them certain artists’ canvas products at very low prices, or risk losing these customers to subject imports.<sup>158</sup> Unable to meet prices offered by importers and demanded by retailers, domestic producers were forced to cede market share as demonstrated above.

The role of underselling in the domestic industry’s loss of market share is further demonstrated by confirmed lost sales allegations. At least four purchasers confirmed outright that they switched from domestic sources to subject imports from China based on price.<sup>159</sup> Two other purchasers – \*\*\* – confirmed that they have switched purchases to the lower-priced imports, partly on the basis of price.<sup>160</sup>

While several other purchasers denied that they switched from domestic suppliers to subject imports for price reasons, their accounts are unconvincing. For example, purchaser \*\*\* indicated that price was only one of many factors in its decision to change suppliers.<sup>161</sup> Documentation submitted by Tara, however, indicates that \*\*\* indicated in contemporaneous discussions with Tara that price was the key reason for the lost sale.<sup>162</sup> Tara also explained that while \*\*\* did make certain complaints as to the quality of Tara’s product, those comments were mostly limited to artists’ canvas made from linen, yet \*\*\* replaced Tara’s entire product line with subject imports.<sup>163</sup> Another purchaser – \*\*\* – also denied that it shifted suppliers on the basis of price, but Tara appears to have been addressing this customer’s quality concerns when the purchaser decided to import from China. Moreover, documentation submitted by Tara conveys \*\*\* demands on Tara for lower pricing and the decision to source from China when Tara was unable to reduce its price sufficiently.<sup>164 165 166</sup> We consider that the domestic industry’s loss of sales

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<sup>155</sup> CR at V-20, PR at V-7.

<sup>156</sup> Tr. at 211-13, 219-20 (Mr. Stapleton). See Tr. at 26-27 (Mr. Straquadine), 123-24 (Mr. Delin), 317-18 (Mr. Straquadine) (Tara representatives confirming these practices).

<sup>157</sup> Tr. at 26-27 (Mr. Straquadine), Petitioner’s Posthearing Responses to Questions at 35, 37. See Tr. at 214 (Mr. Stapleton) (retailers wish to purchase at low prices in order to engage in routine discounting).

<sup>158</sup> Tr. at 317-18 (Mr. Straquadine). See Tr. at 36 (Mr. Straquadine), 162 (Mr. Stapleton), 177 (Mr. Kanter), 213-14 (Mr. Stapleton) (meetings between Tara and retailers centering on price).

<sup>159</sup> CR, PR at Table V-11; CR at V-22, PR at V-8 to V-9.

<sup>160</sup> CR at V-22 to V-23, PR at V-8 to V-9.

<sup>161</sup> CR at V-25, PR at V-9.

<sup>162</sup> Petitioner’s Prehearing Brief at Exhibit B.

<sup>163</sup> CR at V-25, PR at V-9.

<sup>164</sup> Tr. at \*\*\* (Mr. Straquadine); Petitioner’s Prehearing Brief Exh. A.

<sup>165</sup> MacPherson’s was cited in a lost revenue allegation that it denied. Respondents suggest that Tara caused its own injuries by terminating its business relationship with MacPherson’s, forcing MacPherson’s to become \*\*\*. See, e.g., Respondents’ Posthearing Brief at 1. Tara counters that MacPherson’s began purchasing Chinese canvas for price reasons for a private label line in December 2000, and that Tara’s decision to terminate its relationship with MacPherson’s in December 2003 was based on various factors that led it to conclude that MacPherson’s was

(continued...)

volumes due to competition with lower priced subject imports further supports our finding that underselling by subject imports is significant in this investigation.

We also find that subject imports are having significant price depressing effects on prices for domestically produced artists' canvas products. For five of the six products for which price comparisons were available, domestic prices declined to varying degrees during the period of investigation. Data for products 1 and 2 showed the highest degree of head-to-head competition. The weighted-average sales price for U.S. produced product 1 decreased \*\*\* percent, while product 1 from China decreased \*\*\* percent over the same period. The weighted-average sales price for U.S.-produced product 2 decreased \*\*\* percent, while product 2 from China decreased by \*\*\* percent.<sup>167</sup>

The weighted-average sales price for U.S.-produced product 3 fluctuated over the period of investigation, decreasing overall by \*\*\* percent; the margins of underselling for product 3 from China decreased over the period, with a price increase of \*\*\* percent during the period of investigation.<sup>168</sup>

Product 4 is the only product with available comparisons for which the U.S.-produced product increased in price (\*\*\* percent); product 4 from China also increased \*\*\* percent in price.<sup>169</sup> We do not accord great weight to this comparison, however, due to limited data based on the minimal production of this product (splined canvas) in the United States.<sup>170</sup>

Data for product 5 shows that the price of the U.S.-produced product declined minimally overall during the period of investigation; the sales prices reported for product 5 from China decreased by only \*\*\* percent during the period for which comparisons were available, but the underselling margins were consistently the highest of any product.<sup>171</sup>

Finally, the weighted-average sales price for U.S.-produced product 6 declined \*\*\* percent during the period of investigation, while that for product 6 from China declined \*\*\* percent during the period for which comparisons were available.<sup>172</sup>

We find that these data, particularly for products 1 through 3 and 5, demonstrate that subject import prices have depressed prices for the domestic like product to a significant degree. There was also evidence of price declines for product 6, but we do not rely on those comparisons as showing adverse price effects due to the mixed evidence of underselling and overselling for that product.

Overall, there appears to be little evidence of a cost/price squeeze, given that the domestic industry's cost of goods sold ("COGS") to net sales ratio remained essentially unchanged over the period, declining very slightly from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>173</sup> However, in the case of non-print finished artists' canvas products – the market segment in which the domestic industry competed

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<sup>165</sup> (...continued)

"actively working against Tara's interests." Petitioner's Posthearing Brief at 6. MacPherson's has denied these allegations and claims the termination was against its wishes. Tr. at 160-62, 165 (Mr. Stapleton). Tara notes that its decision to terminate the relationship has not harmed it as a company, \*\*\*. Petitioner's Prehearing Brief at 40 & Exh. C. Irrespective of the wisdom of Tara's actions in this isolated instance, this occurrence does not somehow undermine the confirmed instances in which the domestic industry lost sales to subject imports on the basis of price.

<sup>166</sup> \*\*\* did not respond to the lost sales allegations against it. The firm's purchases from \*\*\*. Purchaser's Questionnaire Response of \*\*\* at II-2. While limited quantities of purchases may have been of \*\*\*, the data show a \*\*\*, with \*\*\*. Id. at II-2.

<sup>167</sup> CR, PR at Tables V-1 to V-2.

<sup>168</sup> CR, PR at Table V-3.

<sup>169</sup> CR, PR at Table V-4.

<sup>170</sup> See, e.g., Tr. at 322 (Mr. Benator) .

<sup>171</sup> CR, PR at Table V-5.

<sup>172</sup> CR, PR at Table V-6.

<sup>173</sup> CR, PR at Table C-1.

most directly with subject imports – the domestic industry’s average COGS as a ratio to net sales increased \*\*\* from \*\*\* percent in 2002 to \*\*\* percent in 2005, or by \*\*\* percentage points.<sup>174</sup> Moreover, several domestic producers reported either reducing prices or rolling back announced price increases, due to competition with subject imports.<sup>175</sup> This provides further evidence of the adverse price effects of the subject imports.

Based on the evidence gathered in the final phase of this investigation, we find that lower-priced subject imports have had significant price depressing effects. Respondents depend (and have depended) for the success of their marketing strategies on “value” products, that is, products that undersell the competition.<sup>176</sup> The underselling demonstrated on this record has been significant and has fueled the rapidly increasing volume and market share of subject imports, resulting in the direct displacement of sales by domestic producers. This underselling has also placed a downward pressure on domestic prices as domestic producers have attempted to maintain their diminishing share of the market, resulting in the declining price trends shown in our pricing data.

Based on the significant and rising volume of subject imports, the general substitutability of the products, the importance of price to purchasers of artists’ canvas, the consistent pattern of significant underselling by subject imports, evidence of adverse price effects demonstrated in the circumstances of specific lost sales, and generally declining U.S. prices, we find that subject imports have had significant adverse price effects on the U.S. industry.

#### **D. Impact**

In examining the impact of the subject imports on the domestic industry, we consider all relevant economic factors that bear on the state of the industry in the United States.<sup>177</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, and research and development. 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>178 179</sup>

As we evaluate whether subject imports have had a significant adverse impact on the condition of the domestic industry, we bear in mind conditions of competition that affect that statutory factors we are to consider. Consumption of artists’ canvas increased by \*\*\* percent from 2002 to 2005.<sup>180</sup> The domestic industry also significantly increased its production of print canvas, a new and technologically advanced product that created an new market segment for artists’ canvas and consistently generated \*\*\*

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<sup>174</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>175</sup> CR at V-21, PR at V-8.

<sup>176</sup> See, e.g., Tr. at 161, 167 (Mr. Stapleton).

<sup>177</sup> 19 U.S.C. § 1677(7)(C)(iii). See also SAA at 851, 885 (“In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.”).

<sup>178</sup> 19 U.S.C. § 1677(7)(C)(iii). See also SAA at 851, 885; Live Cattle from Canada and Mexico, Invs. Nos. 701-TA-386, 731-TA-812-813 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25 n.148.

<sup>179</sup> The Act instructs the Commission to consider the “magnitude of the dumping margin” in an antidumping proceeding as part of its consideration of the impact of imports. 19 U.S.C. § 1677(7)(C)(iii)(V). In its final affirmative determination for subject artist canvas from China, Commerce found dumping margins of 78 percent *ad valorem* for eight specific producer/exporters, and a China-wide rate of 264 percent *ad valorem*, applicable to all other producer/exporters. 71 Fed. Reg. at 16116.

<sup>180</sup> CR, PR at Table C-1.

operating income than either bulk or finished artists' canvas products.<sup>181</sup> These factors have had a substantial and favorable effect on the condition of the domestic industry. We do not, however, find that these favorable developments insulated the domestic industry from the adverse impact of subject imports.<sup>182</sup>

As the U.S. market for artists' canvas grew over the period of investigation, the domestic industry increased its capacity and production for bulk and print canvas, while capacity for non-print finished canvas remained flat and the production of finished canvas declined. The industry's bulk canvas capacity increased \*\*\* percent between 2002 and 2005 from \*\*\* square meters to \*\*\* square meters.<sup>183</sup> Bulk canvas production increased \*\*\* percent between 2002 and 2005 from \*\*\* square meters to \*\*\* square meters.<sup>184</sup> The industry's print canvas capacity increased \*\*\* percent from \*\*\* square meters to \*\*\* square meters.<sup>185</sup> Print canvas production increased \*\*\* percent between 2002 and 2005, from \*\*\* million square meters to \*\*\* square meters.<sup>186</sup> In contrast, non-print finished canvas capacity started and concluded the period of investigation at \*\*\* square meters, while production dropped \*\*\* percent from \*\*\* square meters in 2002 to \*\*\* square meters in 2005.<sup>187</sup>

Capacity utilization for bulk canvas increased \*\*\* percentage points during the period of investigation, from \*\*\* percent to \*\*\* percent.<sup>188</sup> For print canvas, capacity utilization increased by \*\*\* percentage points between 2002 and 2005, from \*\*\* percent in 2002 to \*\*\* percent.<sup>189</sup> In contrast, capacity utilization for non-print finished canvas declined \*\*\* percent from an \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>190</sup>

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. As it lost sales to lower-priced subject imports, the domestic industry lost market share, from \*\*\* percent in 2002 to \*\*\* percent in 2005 in quantity terms, and from \*\*\* percent in 2002 to \*\*\* percent in value terms.<sup>191</sup> As previously described, the increasing presence of Chinese finished product relegated domestic producers to selling relatively more bulk and print canvas; therefore, the square meter production increased but at significantly lower prices. On a square meter basis, based on fourth quarter 2005 prices, the bulk roll and print canvas products for which we collected pricing data (products 7 and 8) were \$\*\*\* and \$\*\*\* respectively, whereas the highest volume stretched pricing products ranged in price from \$\*\*\* (product 2) to \$\*\*\* (product 1).<sup>192</sup>

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<sup>181</sup> Compare CR and PR at Table C-2; INV-DD-057 at Table C-5, PR at Table C-5; and INV-DD-061 at Table C-2, PR at Table C-2 (operating margins by industry segment).

<sup>182</sup> As we consider the evidence, the issue here is not one of attenuated competition where large shares of subject imports fail to compete with U.S. product, as Respondents would argue. Subject imports from China compete head to head with domestically-produced finished canvas and, albeit to a more limited degree, with domestically produced bulk canvas.

<sup>183</sup> CR, PR at Table C-2.

<sup>184</sup> CR, PR at Table C-2.

<sup>185</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>186</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>187</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>188</sup> CR, PR at Table C-2.

<sup>189</sup> INV-DD-061 at Table C-6, PR at Table C-6.

<sup>190</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>191</sup> CR, PR at Table C-1.

<sup>192</sup> Derived from Questionnaire data, using the conversion rate of 1 square inch equaling .00065 square meters. See CR at V-14 to V-15, PR at V-6.

While U.S. shipment volumes increased 35.7 percent from 6.6 million square meters in 2002 to 9.0 million square meters in 2005, the values of those shipments, reflecting the shift from non-print finished to bulk and print canvas, increased only 5.5 percent, from \$36.0 million in 2002 to \$38.0 million in 2005.<sup>193</sup> Thus, while the domestic industry produced in greater quantities in 2005, the value of its U.S. shipments changed only slightly. This adverse phenomenon occurred as the domestic industry was displaced from the highest value added and highest price component of the market, with the result that unit values of U.S. producers' shipments and sales each declined sharply over the period, by 22.3 percent and 22.6 percent, respectively.<sup>194</sup>

Despite increases in domestic production, the total number of production workers declined during the period of investigation from 448 in 2002 to 382 in 2005, as the domestic industry was displaced out of the relatively labor-intensive non-print finished canvas segment by subject imports.<sup>195</sup> Total wages paid similarly declined, from \$11.1 million in 2002 to \$9.5 million in 2005.<sup>196</sup> Hourly wages increased as the number of workers shrank.<sup>197</sup> Productivity increased for each component of domestic production, while unit labor costs remained flat for bulk canvas and declined for non-print finished and print canvas.<sup>198 199</sup>

Consistent with the adverse trends discussed above, the domestic industry's financial indicators worsened over the period of investigation. Operating income declined 8.9 percent, from \$1.9 million in 2002 to \$1.7 million in 2005, even as the quantity of the industry's sales increased by 35.7 percent, as noted above.<sup>200</sup> Operating income margins for the overall industry declined from 4.6 percent in 2002 to 3.9 percent in 2005, even though operating margins increased sharply in the print canvas component of the industry, and even though the print canvas sector has an increasing impact on the data for the industry as a whole as it increased in size relative to the bulk and non-print finished canvas components.<sup>201</sup> One firm (\*\*\*) reported a net operating loss in 2005, and another reported a margin of \*\*\* (\*\*\*).<sup>202</sup> The domestic industry's deteriorating financial performance reflects the impact of the shift to lower value bulk and print canvas and the losses sustained in connection with non-print finished canvas. For non-print finished canvas, operating income of \$\*\*\* in 2002 declined to a loss of \$\*\*\* in 2004 and to a further loss

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<sup>193</sup> CR, PR at Table C-1. Inventories declined \*\*\* percent between 2002 and 2005. CR/ PR at Table C-1.

<sup>194</sup> Shipment values declined from \$5.43 per square meter to \$4.22 per square meter; average unit sales values declined from \$5.11 per square meter to \$3.95 per square meter. CR, PR at Table C-1. We note that data mix issues might be present.

<sup>195</sup> CR, PR at Table C-1.

<sup>196</sup> CR, PR at Table C-1.

<sup>197</sup> CR, PR at Table C-1 (hourly wages increasing from \$12.08 in 2002 to \$12.61 in 2005).

<sup>198</sup> CR, PR at Table C-2 (for bulk canvas, productivity increased \*\*\* percent, while unit labor costs remained at \$\*\*\* per square meter at the start and finish of the period of investigation); INV-DD-057 at Table C-5, PR at Table C-5 (for finished canvas, productivity increased \*\*\* percent, and unit labor costs declined \*\*\* percent from \$\*\*\* to \$\*\*\* per square meter); INV-DD-061 at Table C-6, PR at Table C-6 (for print canvas, productivity increased \*\*\* percent, while unit labor costs fell \*\*\* percent from \$\*\*\* per square meter to \$\*\*\* per square meter).

<sup>199</sup> The decline in labor costs for non-print finished canvas is not the positive development it would appear. Due to competition with subject imports, stretched canvas products made up a far smaller share of the domestic industry's shipments of non-print finished canvas in 2005 than in 2002. INV-DD-057 at Table IV-4, PR at Table IV-4. While this change in product mix gives the appearance of lower production costs, in fact subject imports large drove the domestic industry out of the production of the highest value added and highest priced artists' canvas product.

<sup>200</sup> CR, PR at Table C-1.

<sup>201</sup> CR, PR at Table C-1; INV-DD-061 at Table C-6, PR at Table C-6.

<sup>202</sup> CR, PR at Table VI-4.

of \$\*\*\* in 2005; a net operating income of \*\*\* percent in 2002 turned into net operating losses of \*\*\* percent in 2004 and \*\*\* percent in 2005.<sup>203</sup>

The domestic industry's capital expenditures increased from \$350,000 in 2002 to \$1.6 million in 2005; R&D expenses increased from \$\*\*\* in 2002 to \$\*\*\* in 2005.<sup>204</sup> Finally, the domestic industry's return on investment ("ROI") decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>205</sup>

We attribute the domestic industry's performance declines over the period of investigation in significant part to the rapid increases in subject import volume and market share that have had significant adverse price effects. Subject imports have used their price advantage to wrest a significant share of the U.S. market and to become the \*\*\* in non-print finished artists' canvas products. Subject imports therefore displaced the domestic industry in non-print finished artists' canvas products, which are the most labor-intensive, highest value added, and highest priced of all artists' canvas products.

Notwithstanding large gains in apparent U.S. consumption over the period, and the sharp growth in production of the profitable print canvas product, the domestic industry experienced a significant adverse impact due to competition with subject imports. In the critical non-print finished canvas component – representing the highest value added and priced artists' canvas products – the domestic industry lost \*\*\* percentage points in market share, and it experienced lower sales volume and lower average unit sales values, with the result that it went from \*\*\* in 2002 to \*\*\* in 2004, and greater \*\*\* in 2005.

While the domestic industry benefitted from increased demand and the growth in sales of print canvas, these developments do not negate the impact of subject imports on the domestic industry. In any event, the effects of subject imports are readily apparent even examining data for the industry as a whole. As detailed above, the domestic industry experienced sharply falling market share by quantity and by value, substantially reduced average unit shipment values and average unit sales values, and a significant loss of production workers. Despite an increase in production quantities, operating income declined in absolute terms, and operating margins and ROI also fell, even as the domestic industry sold increasing quantities of profitable print canvas. On these combined bases, we conclude that subject imports have had a significant adverse impact on the domestic industry.

## CONCLUSION

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

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<sup>203</sup> INV-DD-057 at Table C-5, PR at Table C-5.

<sup>204</sup> CR, PR at Table VI-8.

<sup>205</sup> CR, PR at Table VI-10.

## **ADDITIONAL AND DISSENTING VIEWS OF COMMISSIONER DANIEL R. PEARSON**

Based on the record in this investigation, I determine that an industry in the United States is neither materially injured nor threatened with material injury by reason of imports of artists' canvas from China that is sold in the United States at less than fair value (LTFV).<sup>1 2</sup>

I join my colleagues' discussion regarding domestic like product. With regard to the definition of the domestic industry, however, I define the industry somewhat differently from the majority of my colleagues. Therefore, I write separately to discuss my definition of the industry, to discuss the conditions of competition pertinent to my analysis, and to analyze the statutory factors.

### **I. THE DOMESTIC INDUSTRY INCLUDES CONVERTERS OF DIGITAL PRINT CANVAS**

The statute defines the domestic industry as the "producers as a [w]hole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."<sup>3</sup> In defining the domestic industry, the Commission's general practice has been to include in the industry all domestic production of the domestic like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.<sup>4</sup>

In this investigation, parties disagree as to whether to include in the industry producing artists' canvas certain firms that convert bulk canvas rolls to digital print canvas. In particular, they differ as to the degree to which these firms ("print converters") engage in sufficient production-related activities to be included as members of the domestic industry. In analyzing this issue, I apply the six factors that the Commission generally considers in analyzing whether a firm's production-related activities are sufficient to constitute domestic production.<sup>5</sup>

*Source and Extent of the Firms' Capital Investment.* The capital investment necessary in order to coat the canvas for digital print applications is substantial, although less so than for production of either the bulk canvas or the stretched (finished) variety. For digital print canvas, petitioners estimate that coating machinery of the type employed in the production of print canvas requires at least a \$1 million

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<sup>1</sup> Commerce made an affirmative final determination of sales at LTFV and calculated a weighted-average final margin of 77.90 percent applicable to eight specific exporter-producer combinations, and a China-wide rate of 264 percent applicable to all other producer-exporter combinations. 71 Fed. Reg. 16,119, Mar. 30, 2006.

<sup>2</sup> Material retardation is not an issue in this investigation.

<sup>3</sup> 19 U.S.C. §1677(4)(A).

<sup>4</sup> United States Steel Group v. United States, 873 F. Supp. 673, 681-84 (Ct. Int'l Trade 1994), aff'd, 96 F.3d 1352 (Fed. Cir. 1996).

<sup>5</sup> In deciding whether a firm's production related activities are sufficient for it to be considered part of the domestic industry, the Commission generally has analyzed the overall nature of a firm's production-related activities in the United States. 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. 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., DRAMs and DRAM Modules from Korea, Inv. No. 701-TA-431 (Final), USITC Pub. 3616 at 7-11 (Aug. 2003).

investment, and could cost up to \$3 million.<sup>6</sup> A key producer of print canvas, \*\*\*, noted that the purchase of inkjet coating equipment requires large capital expenditures as well as substantial R&D expenditures.<sup>7</sup>

*Technical Expertise Involved in U.S. Production Activities.* As the coating for digital print canvas has a proprietary specification which needs to be mixed on-site, and because the final product needs to be inspected before final slitting, it is likely that a modicum of technical expertise and training is necessary.<sup>8</sup> Indeed, according to testimony from producers of digital print canvas, the level of technical expertise involved in producing digital print canvas may be considerably greater than that associated with the production of assembled canvas.<sup>9</sup>

*Value Added to the Product in the United States.* The costs of conversion from bulk to finished article for producers of print canvas products account for \*\*\* percent of the total cost of producing these items.<sup>10</sup> This estimate is less than the value added involved in producing non-print canvas, but is well within the range of percentages that, in other investigations, the Commission has considered sufficient to include downstream processors in the domestic industry.<sup>11</sup> In this regard, I also find it significant that prices of print canvas are considerably higher, on a square meter basis, than prices of non-print canvas products.<sup>12</sup>

*Employment Levels.* The record indicates that employment levels for the finished product greatly exceed those associated with the bulk product.<sup>13</sup> As production of stretched canvas and digital print canvas are by far the two most significant finishing operations, this suggests that employment levels associated with those processes are not insignificant.<sup>14</sup>

*Quantity and Type of Parts Sourced in the United States.* This factor is inconclusive because there is no indication on the record that either producers of stretched canvas or digital print canvas procure their raw materials from other than domestic sources.<sup>15</sup>

*Conclusion.* Although the record is not fully developed on this issue, based on the information we have I find the level of capital investment, employment levels, the degree of technical expertise and, in particular, the value-added percentage accounted for by print converters to be significant enough to make print converters' production-related activities sufficient to warrant their inclusion in the domestic industry producing artists' canvas. On balance, therefore, I include converters of digital print canvas in the domestic industry.

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<sup>6</sup> CR at I-13, n. 36; PR at I-9, n. 36.

<sup>7</sup> Producer Questionnaire of \*\*\* at 16. I note that the record indicates that other non-subject digital imaging products may be made on the same machinery used to produce digital print canvas. Given that digital print canvas, however, accounts for as much as \*\*\* percent of print converters' total production I do not consider that the investment required for the production of digital print canvas is insignificant simply owing to production of non-subject products. CR at I-13, n. 36; PR at I-9, n. 36; E-mail of Apr. 14, 2006 from counsel for \*\*\* at 3; Petitioner's posthearing brief, responses to Commission questions at 7.

<sup>8</sup> CR at I-13; PR at I-9.

<sup>9</sup> Producer questionnaire response of \*\*\* at 17.

<sup>10</sup> CR, PR at table I-4.

<sup>11</sup> See, e.g., Chlorinated Isocyanurates from China and Spain, Inv. No. 731-TA-1082 & 1083 (Final), USITC Pub. 3762 (June 2005), Aramid Fiber Formed of Poly Paraphenylene Terephthalamide from the Netherlands, Inv. No. 731-TA-652 (Review), USITC Pub. 3394 (February 2001); Low Fuming Brazing Copper Wire and Rod from New Zealand, Inv. No. 731-TA-246 (Final), USITC Pub. 1779 (November 1985).

<sup>12</sup> CR, PR at table V-8 (compared to tables V-1-V-7).

<sup>13</sup> CR, PR at table III-8.

<sup>14</sup> Print converters account for \*\*\* percent of reported production of finished artists' canvas. CR, PR at III-2.

<sup>15</sup> CR, PR at table I-4, n. 2.

## II. NO MATERIAL INJURY BY REASON OF SALES OF SUBJECT IMPORTS AT LESS THAN FAIR VALUE

In the final phase of antidumping duty investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation.<sup>16</sup> In making this determination, the Commission must consider the volume of 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>17</sup> The statute defines “material injury” as “harm which is not inconsequential, immaterial, or unimportant.”<sup>18</sup> In assessing whether the domestic industry is materially injured by reason of subject imports, I consider all relevant economic factors that bear on the state of the industry in the United States.<sup>19</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>20</sup>

For the reasons discussed below, I determine that the domestic industry producing artists’ canvas is not materially injured by reason of subject imports from China found to be sold at LTFV.

### A. Conditions of Competition

For the most part, I join the majority’s views concerning the pertinent conditions of competition in the artists’ canvas industry. Because my definition of the industry, however, is different, there is an additional condition of competition that is particularly important to my analysis.

Specifically, the market for artists’ canvas currently looks very different than it did in 2002, the first year of our period of investigation. Apparent consumption increased markedly over the period examined, from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, a \*\*\*-percent increase.<sup>21</sup> This increase in consumption is not only the result of an increase in imports, whether subject or non-subject. Rather, U.S. production also increased substantially, by \*\*\* percent over the four-year period in the case of finished canvas, and \*\*\* percent in the case of bulk canvas.<sup>22</sup> A significant component of the increase in production and shipments of finished canvas is increased shipments of digital print canvas. U.S. producers’ shipments of digital print canvas increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, while U.S. producers’ shipments of stretched canvas declined over that same period from \*\*\* square meters in 2002 to \*\*\* square meters in 2005.<sup>23</sup> Thus, by the end of the period digital print canvas made up \*\*\* percent of U.S. producers’ total shipments of artists’ canvas, compared with only \*\*\* percent at the beginning of the period. By contrast, at the end of the period stretched canvas made up only \*\*\* percent of U.S. producers’ total shipments of artists’ canvas, as opposed to \*\*\* percent at the start of the period.

These trends illustrate two points. First, U.S. producers of artists’ canvas are increasingly turning to production of digital print canvas and away from stretched canvas, while at the same time managing to

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<sup>16</sup> 19 U.S.C. § 1673d(b).

<sup>17</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>18</sup> 19 U.S.C. § 1677(7)(A).

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

<sup>20</sup> Id.

<sup>21</sup> CR, PR at table C-1 (including data from print converters).

<sup>22</sup> CR, PR at tables C-2 & C-3.

<sup>23</sup> CR, PR at table IV-4.

increase their total production and shipments of the domestic like product.<sup>24</sup> Thus, digital print canvas has not substituted on a one-for-one basis for stretched canvas, but rather has contributed to making the total size of the pie bigger. Second, in moving into production of digital print canvas, U.S. producers have re-oriented their production to an area where there is as yet virtually no import competition, and none at all from China.<sup>25</sup> Moreover, a substantial minority of U.S. producers' shipments continues to be in the bulk segment, where, again, imports from China are barely present.<sup>26</sup> Moreover, petitioner Tara has \*\*\*, and produces the less import-sensitive bulk product \*\*\*.<sup>27</sup> Hence, throughout the period examined, and increasingly so by the end of the period, import competition from China in the broader artists' canvas market was significantly attenuated. This attenuation of competition has important implications for my causation analysis, as discussed below.

## **B. Volume of the 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>28</sup>

The volume of subject imports increased sharply and steadily from 202,000 square meters in 2002 to 2.3 million square meters in 2005.<sup>29</sup> Overall, imports increased by over 1,000 percent over the four years. As a share of domestic consumption, subject imports increased from \*\*\* percent of the market in 2002 to \*\*\* percent in 2005.<sup>30</sup> Nonsubject imports' market share was more than subject imports' share in 2002 and 2003, but less in 2004 and 2005, and fluctuated with no clear pattern, holding between \*\*\* and \*\*\* percent of the market.

U.S. producers' share of the market fell consistently from 2002 to 2005, dropping from \*\*\* percent to \*\*\* percent. As a ratio to the volume of U.S. production, subject imports increased their share steadily from \*\*\* percent in 2002 to \*\*\* percent in 2005.<sup>31</sup>

Although both the volume and market share of subject imports increased overall over the period examined, I do not consider those increases to be significant when viewed in the context of the dramatic changes in the market for artists' canvas. In reaching this conclusion, I take account of the fact that, throughout the period examined, the vast majority of subject imports were in the finished canvas segment of the market. For example, in 2005, of a total of \*\*\* square meters of imports of all artists' canvas, fully \*\*\* square meters, or \*\*\* percent, were in the finished canvas segment, and the record indicates that, within this category, there were no subject import shipments of digital print canvas.<sup>32</sup> By 2005, however, the focus of domestic producers had shifted into production of the bulk and digital print canvas segments of the market, so much so that by 2005, only \*\*\* percent of domestic producers' shipments were of non-

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<sup>24</sup> Id. Total U.S. producers' shipments of finished canvas increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005.

<sup>25</sup> CR, PR at table IV-4. The record contains no evidence of shipments of imports of digital print canvas from China.

<sup>26</sup> U.S. producers' shipments of bulk canvas increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. By contrast, shipments of subject imports of bulk canvas increased from only \*\*\* square meters in 2002 to \*\*\* square meters in 2005. CR, PR at table IV-4.

<sup>27</sup> CR at III-4, PR at III-3; CR, PR at table III-2.

<sup>28</sup> 19 U.S.C. § 1677(7)(C)(i).

<sup>29</sup> CR at IV-3, PR at IV-2; CR, PR at table IV-1.

<sup>30</sup> CR at IV-7, PR at IV-6; CR, PR at table IV-3.

<sup>31</sup> CR at IV-10, PR at IV-8; CR, PR at table IV-5.

<sup>32</sup> CR, PR at tables IV-4, C-1, & C-3.

print finished canvas.<sup>33</sup> Consequently, by the end of the period examined, nearly \*\*\* percent of the subject imports were competing against only \*\*\* percent of total domestic shipments.<sup>34</sup> Hence, although when viewed in isolation the volume and market share of subject imports may appear significant, when evaluated in the context of the marked attenuation of competition in this market, the volume of subject imports and the increase in that volume are insufficient to demonstrate that the subject imports themselves contributed materially to any injury to the domestic industry.

### C. Price Effects of the Subject Imports

Section 771(7)(C)(ii) of the Act provides that, in evaluating the price effects of the 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>35</sup>

Commission staff collected pricing data on eight products: (1) 8x10 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), side-stapled; (2) 16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), side-stapled; (3) 16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), stapled on back; (4) 16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), with spline; (5) 12x12 stretched canvas, gallery (or deep) stretcher bars (1-7/16" x 1-7/16" or 1-1/2" x 1-1/2"), 100% unbleached cotton duck, double-primed acrylic, stapled on back; (6) 8x10 canvas panel (non-archival) with chipboard core, polyester/cotton canvas; (7) double-primed, medium-weight, 100% unbleached cotton duck, 73" x 6 yd. roll, and; (8) inkjet printer canvas with top-coat for ink receptivity, polyester/cotton canvas, 36" x 40" roll.

For product 1 (small side-stapled finished canvas), imports from China undersold U.S. product in all 16 quarters where comparisons were possible, with margins of underselling ranging from \*\*\* to \*\*\* percent, and averaging \*\*\* percent.<sup>36</sup> U.S. prices remained fairly flat in calendar years 2002, 2003, and 2004, then dropped sharply beginning in early 2005. Underselling margins increased overall, with their sharpest increase occurring in 2003. During the period that U.S. prices declined sharply (calendar year 2005), underselling margins declined.

For product 2 (larger size side-stapled finished canvas), imports from China undersold U.S. product by wide margins in all 16 quarters where comparisons were possible. Margins of underselling

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<sup>33</sup> CR, PR at table IV-4. Finished canvas in 2005 constituted \*\*\* percent of total U.S. producers' shipments of artists' canvas. Digital print canvas constituted \*\*\* percent of total U.S. producers' shipments.

<sup>34</sup> This estimate of \*\*\* percent is somewhat overstated, as it includes shipments of archival boards, canvas pads, canvas kits, and floor coverings/placemats, where, as with digital print canvas, there is \*\*\* of shipments of subject imports. CR, PR at table IV-4.

<sup>35</sup> 19 U.S.C. § 1677(7)(C)(ii).

<sup>36</sup> CR, PR at tables V-1 & V-10.

ranged from \*\*\* to \*\*\* percent.<sup>37</sup> As with product 1, U.S. prices declined only toward the end of the period (2005). Prices and underselling margins for product 3 (larger size back-stapled finished canvas) showed similar trends.<sup>38</sup>

For product 4 (larger size finished canvas with spline), underselling margins were exclusive and fluctuated randomly, but U.S. prices increased overall notwithstanding the underselling.<sup>39</sup> Similarly, for product 5 (a more specialized back-stapled product), U.S. prices did not decline despite consistent underselling.<sup>40</sup>

For product 6 (canvas panels), the pattern of underselling and overselling was mixed, with 5 instances of overselling among the 12 quarters of data. U.S. prices showed no clear trend.<sup>41</sup> For product 7 (bulk canvas) and product 8 (digital print canvas), where there were no sales of Chinese product reported (although there were some imports of bulk canvas), U.S. prices fluctuated randomly.<sup>42</sup>

These comparisons indicate that subject imports predominantly undersold domestic product, with underselling occurring in 78 of 83 comparisons.<sup>43</sup> Only for the more basic finished canvas products (products 1-3), however, is there any evidence of consistent declines in U.S. prices. For the remaining products, which consist of more specialized finished canvas, canvas panels, bulk canvas, and digital print canvas, there is no evidence of declines in U.S. prices despite consistent underselling by imports for at least some of the products. Accordingly, I find only minimal evidence that subject imports have depressed domestic prices during the period examined.

With regard to lost sales and revenues, Commission staff was able to confirm a few lost sales allegations, but due to the fact that Tara did not specify the dollar amount of the lost sales in those instances, it is impossible to determine the proportion of Tara's business that was affected.<sup>44</sup> Further, several of the customers that disagreed with the lost sales allegations acknowledged increasing their purchases from China but noted that they continued to buy from domestic producers as well.<sup>45</sup> The one lost revenue allegation that was made, against MacPherson's, was denied.<sup>46</sup>

Finally, I find that, despite the consistent underselling, there is little, if any, evidence of price suppression. In addition to the fact that the Commission could not confirm any incidences of lost revenues, I see no evidence of any kind that would lead me to conclude that the low prices of the subject imports caused domestic producers to be unable to raise prices to cover increased costs; i.e., to experience a cost-price squeeze.<sup>47</sup> The lack of a cost-price squeeze in this industry is demonstrated by the fact that, for the artists' canvas industry, the ratio of cost of goods sold (COGS) to sales was essentially flat over the period examined, fluctuating between 77 and 78 percent.<sup>48</sup> Even for the market segment of finished canvas, the COGS/sales ratio increased only very slightly over the period examined, from \*\*\* percent in

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<sup>37</sup> CR, PR at tables V-2 & V-10.

<sup>38</sup> CR, PR at table V-3.

<sup>39</sup> CR, PR at table V-4.

<sup>40</sup> CR, PR at table V-5.

<sup>41</sup> CR, PR at table V-6.

<sup>42</sup> CR, PR at tables V-7 & V-8.

<sup>43</sup> CR, PR at table V-10.

<sup>44</sup> CR, PR at table V-11.

<sup>45</sup> CR at V-21-V-23; PR at V-8-V-9.

<sup>46</sup> CR at V-25-V-26; PR at V-9.

<sup>47</sup> \*\*\* reported that its raw material costs increased by \*\*\* percent in 2005. CR, PR at V-1.

<sup>48</sup> CR, PR at table C-1.

2002 to \*\*\* percent in 2005.<sup>49</sup> Moreover, unit COGS for both the global category of all artists' canvas, and for finished canvas separately, declined sharply over the period examined, by 23 percent for the industry as a whole, reflecting strongly increasing net sales.<sup>50</sup>

Consequently, in light of the lack of a relationship between underselling and price declines for most of the domestic industry's business, coupled with the lack of significant confirmed lost sales or lost revenues, and the absence of any evidence of price suppression, I find that subject imports did not have a significant effect on domestic prices during the period examined.

#### **D. Impact of the Subject Imports**

In examining the impact of the subject imports on the domestic industry, I consider all relevant economic factors that bear on the state of the industry in the United States.<sup>51</sup> These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, profits, cash flow, return on investment, ability to raise capital, and research and development. 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>52 53</sup>

With respect to the impact of the subject imports, when the condition of the entire artists' canvas industry is examined (including producers of both bulk and finished canvas, including digital print canvas producers), the domestic industry's performance was generally good over the four full calendar years reported. The industry was profitable in all periods examined, although it was slightly less profitable at the end of the period than at the beginning.<sup>54</sup> Capacity to produce the bulk product increased consistently throughout the period, with its greatest increase between 2004 and 2005.<sup>55</sup> Capacity to produce the finished product fluctuated, first declining in 2003 and 2004, then rising rapidly in 2005.<sup>56</sup> Production trends for the bulk and finished products are generally similar to those for capacity, with production of the

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<sup>49</sup> CR, PR at table C-3.

<sup>50</sup> CR, PR at tables C-1 & C-3.

<sup>51</sup> 19 U.S.C. § 1677(7)(C)(iii); *see also* SAA at 851 and 885 ("In material injury determinations, the Commission considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they also may demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports").

<sup>52</sup> 19 U.S.C. § 1677(7)(C)(iii); *see also* SAA at 851 and 885; Live Cattle from Canada and Mexico, Invs. Nos. 701-TA-386 and 731-TA-812-813 (Preliminary), USITC Pub. 3155 (Feb. 1999) at 25, n.148.

<sup>53</sup> The statute instructs the Commission to consider the "magnitude of the dumping margin" in an antidumping proceeding as part of its consideration of the impact of imports. 19 U.S.C. § 1677(7)(C)(iii)(V). Commerce calculated a weighted-average final margin of 77.90 percent applicable to eight specific exporter-producer combinations, and a China-wide rate of 264 percent applicable to all other producer-exporter combinations. 71 Fed. Reg. 16,119, Mar. 30, 2006.

<sup>54</sup> CR, PR at table C-1. As a percent of net sales, operating income declined overall from 4.6 percent of sales in 2002 to 3.9 percent of sales in 2005.

<sup>55</sup> CR, PR at table C-2. Capacity to produce the bulk product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. Capacity increased \*\*\* percent between 2004 and 2005.

<sup>56</sup> CR, PR at table C-3. Capacity to produce the finished product declined from \*\*\* square meters in 2002 to \*\*\* square meters in 2004, then increased markedly, by \*\*\* percent, to \*\*\* square meters in 2005, for an overall increase during the period examined of \*\*\* percent.

bulk product increasing \*\*\* percent over the four-year period and production of the finished product increasing \*\*\* percent overall, and \*\*\* percent between 2004 and 2005.<sup>57</sup>

The quantity of net sales increased steadily between 2002 and 2005, although the value of net sales fluctuated, first declining, then increasing in 2005, resulting in a net decline in the unit value of net sales.<sup>58</sup> After increasing from its 2002 level, operating income declined between 2003 and 2004, although it rebounded a bit in 2005 and, as noted above, the industry was consistently profitable with, at a minimum, a 3.5 percent margin.<sup>59</sup> The staff's variance analysis shows that the overall small decline in operating income between 2002 and 2005 was attributable mainly to the negative effect of decreases in prices, which was partially offset by the positive effects of decreased costs/expenses (at least on a per unit basis) and increased sales volume.<sup>60</sup>

As for employment, questionnaire data indicate an overall decline during the period examined in total number of workers, hours worked, and wages paid, while hourly wages increased.<sup>61</sup> Unit labor costs decreased for the finished canvas segment and were flat for the bulk canvas segment. Declines in employment indicators were consistent throughout the period.

Regardless of how the industry's condition can be characterized, I find that subject imports did not contribute importantly to that condition. The record indicates that the industry experienced some adverse trends over the period examined; in particular, declines in the unit value of shipments and a drop in profitability between 2003 and 2004. In order, however, to determine that subject imports contributed to those trends, I would need to discern a link between either of these adverse trends and the volume and price effects of the subject imports. With regard to the profitability drop in 2004, I note that subject imports were increasing strongly in that period, indicating a possible link between the volume of imports and the decline in profitability. On the price side, however, there is little evidence of price depression in 2004 (prices did not decline significantly until 2005) and, as noted above, there is virtually no evidence of price suppression. In fact, in 2003 and 2004 we see declines in the unit value of net sales while prices, for the most part, seem to be fairly flat.<sup>62</sup> This likely reflects a change in the industry's product mix towards lower-value products, given Tara's admitted relocation of much of its finished canvas production to

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<sup>57</sup> CR, PR at tables C-2 & C-3. Production of the bulk product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. Production of the finished product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2004, and then to \*\*\* square meters in 2005.

<sup>58</sup> CR, PR at table C-1. The quantity of net sales increased from 8.0 million square meters in 2002 to 11.0 million square meters in 2005. The value of net sales declined from \$40.8 million in 2002 to \$39.9 million in 2004, before recovering to \$43.4 million in 2005. The unit value of net sales declined from \$5.11 per square meter in 2002 to \$3.95 per square meter in 2005.

<sup>59</sup> CR, PR at table C-1. Operating income rose from \$1.9 million in 2002 to \$2.6 million in 2003. It then declined to \$1.4 million in 2004, before recovering to \$1.7 million in 2005.

<sup>60</sup> CR at VI-11, PR at VI-3; CR, PR at table VI-6. Indeed, while overall cost of goods sold increased, cost of goods sold declined steadily on a per-unit basis.

<sup>61</sup> CR, PR at table C-1. The number of production workers declined from 448 in 2002 to 382 in 2005. The total hours worked by those workers declined from 916 in 2004 to 752 in 2005. Wages paid to those workers declined from \$11.1 million in 2002 to \$9.5 million in 2005. Hourly wages increased irregularly from \$12.08 in 2002 to \$12.61 in 2005. For the bulk canvas segment, unit labor costs were consistent at \$0.22 per square meter. For the finished canvas segment, such costs declined steadily from \$3.12 per square meter in 2002 to \$2.07 per square meter in 2005.

<sup>62</sup> Between 2002 and 2004, the unit value of net sales declined from \$5.11 per square meter to \$4.30 per square meter. CR, PR at table C-1. During the same period, however, except for products 5, 6, and 8, prices for the pricing products selected by the Commission did not decline. CR, PR at tables V-1-V-8.

Mexico.<sup>63</sup> Hence, I find that declines in the unit value of shipments have little to do with subject imports. Similarly, declines in overall employment also likely reflect the industry's shift from production of finished canvas into production of bulk and digital print canvas products, which are less labor-intensive.<sup>64</sup> Again, although the presence of substantial volumes of subject imports of finished canvas may have triggered this shift, and may therefore have negatively affected the finished canvas segment of the industry, I must assess the impact of subject imports on the industry as a whole. As noted above in my discussion of the volume of subject imports, because of the significant attenuation of competition in this industry, I do not believe that subject imports have had a materially adverse impact on the artists' canvas industry as a whole.

In sum, even though subject imports increased significantly in volume and consistently undersold the products of the domestic industry, it is difficult for me to see how these events had any adverse impact on the industry, or that the industry is currently being injured by reason of those imports. Hence, I find that the impact of the subject imports is not significant.

Based on the record in the final phase of this investigation, and in light of my analysis of the significance of the volume, price effects, and impact of the LTFV sales of subject imports, I determine that an industry in the United States is not materially injured by reason of imports of the subject artists' canvas from China that is sold in the United States at less than fair value.

## **II. NO THREAT OF MATERIAL INJURY BY REASON OF SALES OF SUBJECT IMPORTS AT LESS THAN FAIR VALUE**

Section 771(F) of the Act directs the Commission to determine whether the U.S. industry is threatened with material injury by reason of the subject imports by analyzing whether "further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted."<sup>65</sup> The Commission may not make such a determination "on the basis of mere conjecture or supposition," and considers the threat factors "as a whole" in making its determination whether dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued.<sup>66</sup> In making my determination, I considered all statutory factors that are relevant to this investigation.<sup>67</sup>

Capacity to produce the subject product in China increased markedly over the four-year period examined, both when bulk and finished canvas products are considered.<sup>68</sup> Production likewise increased, demonstrating similar trends.<sup>69</sup> Capacity utilization for both bulk and finished canvas increased markedly

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<sup>63</sup> Over the period examined, the unit value of shipments of finished canvas was at least \*\*\* as high as the unit value of shipments of bulk canvas. In 2005, the unit value of U.S. commercial shipments of finished canvas was \$\*\*\* per square meter, as compared to \$\*\*\* per square meter for bulk canvas. CR, PR at tables III-5 & III-6.

<sup>64</sup> Productivity ratios for bulk canvas were generally \*\*\* times higher than those for finished canvas, indicating far less labor input for bulk canvas than for finished canvas. CR, PR at tables C-2 & C-3.

<sup>65</sup> 19 U.S.C. § 1677(7)(F)(ii).

<sup>66</sup> Id.

<sup>67</sup> 19 U.S.C. § 1677(7)(F)(i). Statutory threat factor (I) is inapplicable because Commerce made no subsidy findings. Statutory threat factor (VII) also is inapplicable because these investigations do not involve imports of both raw and processed agricultural products.

<sup>68</sup> CR, PR at tables VII-1 & VII-2. Capacity to produce the bulk product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. Capacity to produce the finished product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005.

<sup>69</sup> CR, PR at tables VII-1 & VII-2. Production of the bulk product increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005. Production of the finished product increased from \*\*\* square meters in 2002 to \*\*\*

(continued...)

from 2002 to 2005, exceeding \*\*\* percent in 2005.<sup>70</sup> Shipments to the United States of the combined product increased overall, but the rate of increase of shipments to third country markets was greater.<sup>71</sup> Shipments to third country markets constituted a substantial majority of total shipments by 2005.<sup>72</sup> Home market shipments have also grown, but at a much slower pace than export shipments.<sup>73</sup> End-of-period inventories held in China are very small as a percentage of shipments, but U.S. importers do hold inventories accounting for approximately \*\*\* percent of imports.<sup>74</sup>

The volume of subject imports and their market share increased toward the end of the period examined, but as discussed above, any impact on the industry by such volume occurred earlier in the period, as by 2005 the industry's performance recovered, despite continued imports.<sup>75</sup> There is very little unused capacity in China.<sup>76</sup> End-of-period inventories held by U.S. importers are somewhat significant, but are not large in volume.<sup>77</sup> Third-country markets, primarily European ones, appear to be of growing importance to China.<sup>78</sup> Also, there are no trade restrictions in European or other markets that would divert exports to the United States, and there is no evidence on the record of any potential for product-shifting.

On balance, given the current state of the market, where the performance of the industry is improving reflecting a shift towards production of bulk and digital print canvas where subject imports from China are not a factor, and where, in any event, there is little unused capacity in the Chinese industry, I cannot find a possibility of imminent injury to the U.S. industry from subject imports. Consequently, I find that material injury by reason of subject imports will not occur absent issuance of an antidumping order against the subject imports. I therefore conclude that the domestic artists' canvas industry is not threatened with material injury by reason of the subject imports.

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<sup>69</sup> (...continued)  
square meters in 2005.

<sup>70</sup> CR, PR at tables VII-1 & VII-2. Capacity utilization for the bulk product increased from \*\*\* percent in 2002 to \*\*\* percent in 2005. Capacity utilization for the finished product increased from \*\*\* percent in 2002 to \*\*\* percent in 2005.

<sup>71</sup> CR, PR at table VII-3. Shipments to the United States increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, an increase of over \*\*\* percent. Shipments to all other markets increased from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, a comparable increase in percentage terms. Between 2004 and 2005, however, shipments to all other markets nearly doubled, while the increase in shipments to the United States was more modest, at \*\*\* percent.

<sup>72</sup> CR, PR at table VII-3. Shipments to all other markets accounted for \*\*\* percent of total shipments in 2005.

<sup>73</sup> CR, PR at table VII-3. Home market shipments grew from \*\*\* square meters in 2002 to \*\*\* square meters in 2005, a \*\*\*-percent increase.

<sup>74</sup> CR, PR at tables VII-3 and VII-4. In 2005, end-of-period inventories held in China as a percentage of shipments were only \*\*\* percent.

<sup>75</sup> The industry's operating income as a percent of sales declined from 6.7 percent in 2003 to 3.5 percent in 2004, but then recovered to 3.9 percent by 2005. CR, PR at table C-1. I do not consider this level of profitability as indicating that the industry is vulnerable to increased imports.

<sup>76</sup> In 2005, capacity utilization for finished canvas, the variety constituting the vast majority of subject imports over the period examined, was nearly \*\*\* percent. CR, PR at table VII-2.

<sup>77</sup> End-of-period inventories held by U.S. importers were \*\*\* square meters in 2005, an amount which is only \*\*\* percent of U.S. apparent consumption of artists' canvas in 2005. CR, PR at tables VII-4 & C-1.

<sup>78</sup> CR at VII-8, n.12, PR at VII-4, n.12.

## **CONCLUSION**

For the foregoing reasons, I determine that the domestic artists' canvas industry is neither materially injured nor threatened with material injury by reason of subject imports from China.



## PART I: INTRODUCTION

### BACKGROUND

This investigation results from a petition filed by Tara Materials, Inc. (“Tara”), of Lawrenceville, GA, 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 in the tabulation below.<sup>2</sup>

Effective date	Action
April 1, 2005	Petition filed with Commerce and the Commission; institution of the Commission’s investigation (70 FR 17467, April 6, 2005)
April 28, 2005	Initiation of Commerce’s investigation (70 FR 21996)
May 16, 2005	Commission’s preliminary determination (70 FR 29781, May 24, 2005)
November 7, 2005	Commerce’s preliminary determination (70 FR 67412); scheduling of final phase of the Commission’s investigation (70 FR 69781, November 17, 2005)
March 28, 2006	Commission’s hearing <sup>1</sup>
March 30, 2006	Commerce’s final determination (71 FR 16116)
April 26, 2006	Commission’s vote
May 15, 2006	Commission’s determination transmitted to Commerce

<sup>1</sup> A list of hearing witnesses is presented in Appendix B.

### STATUTORY CRITERIA AND 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 determination 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.*

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<sup>1</sup> A complete description of the subject merchandise, as contained in the scope definition of Commerce’s final determination notice, is presented below in the section entitled “The Subject Product.”

<sup>2</sup> Beginning with Commerce’s preliminary determination, *Federal Register* notices cited in the tabulation are presented in appendix A.

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 {an antidumping investigation}, 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.

### **SUMMARY DATA**

A summary of data collected in this investigation is presented in appendix C. Except as noted, U.S. industry data are based on questionnaire responses of ten firms that are believed to account for the vast majority of U.S. production of artists' canvas during 2005. U.S. imports are based on a combination of questionnaire data and official Commerce statistics.<sup>3</sup>

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<sup>3</sup> The precise methodology used in the calculation of U.S. imports is described at length in Part IV.

## EXTENT OF SALES AT LESS THAN FAIR VALUE

On March 30, 2006, the Department of Commerce published the results of its final determination of sales at LTFV regarding artists' canvas from China.<sup>4</sup> The results of Commerce's final determination are presented in table I-1. As indicated, Commerce determined a weighted-average dumping margin of 78 percent *ad valorem* for eight specific producer-exporter combinations, and a China-wide rate of 264 percent *ad valorem*, applicable to all other producer-exporter combinations.

**Table I-1**  
**Artists' canvas: Commerce's final dumping margins**

Exporter	Producer(s)	Weighted average dumping margin (percent <i>ad valorem</i> )
Ningbo Conda	Jinhua Universal . . . . .	264.09
	Wuxi Silver Eagle Cultural Goods . . . . .	264.09
Conda Painting	Wuxi Pegasus Cultural Goods . . . . .	264.09
Jinhua Universal	Jinhua Universal . . . . .	264.09
Phoenix Materials	Phoenix Materials . . . . .	77.90
	Phoenix Stationary . . . . .	77.90
	Shuyang Phoenix . . . . .	77.90
Phoenix Stationary	Phoenix Materials . . . . .	77.90
	Phoenix Stationary . . . . .	77.90
	Shuyang Phoenix . . . . .	77.90
Jiangsu By-products	Wuxi Yinying Stationery and Sports Products . . . . .	77.90
	Su Yang Yinying Stationery and Sports Products . . . . .	77.90
China-wide rate . . . . .		264.09
Source: Commerce's final determination (71 FR 16119, March 30, 2006).		

## SUMMARY OF U.S. MARKET PARTICIPANTS

Ten firms provided questionnaire data relating to their U.S. production of artists canvas during the period examined in the final phase of this investigation (January 2002–December 2005). On the basis of these data, petitioner Tara is the dominant U.S. producer of bulk artists' canvas, accounting for \*\*\* percent of reported U.S. production of this product in 2005. \*\*\* is the next largest U.S. producer of bulk canvas, accounting for \*\*\* percent of reported 2005 production, with \*\*\* further firms each accounting for less than \*\*\* percent. U.S. production of finished artists' canvas is less concentrated, with Tara accounting for \*\*\* percent of reported 2005 production of these products, and \*\*\* and \*\*\*, two producers of digital print canvas, accounting respectively for \*\*\* and \*\*\* percent. In tandem, \*\*\* producers of digital print canvas accounted for \*\*\* percent of reported U.S. production of finished canvas products in 2005, while \*\*\* producers of non-print finished artists' canvas products accounted for the remaining \*\*\* percent (*see* Part III, table III-1).

Twenty U.S. importers provided data in response to the Commission's questionnaires in the final phase of this investigation. On the basis of data submitted by these firms, \*\*\* is the largest U.S. importer of artists' canvas, accounting for \*\*\* percent of total reported imports in 2005. \*\*\* is the second largest

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<sup>4</sup> *Final Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China*, 71 FR 16116, March 30, 2006.

U.S. importer, accounting for \*\*\* percent of reported imports in 2005, followed by \*\*\*, which accounted for \*\*\* percent.

## **THE SUBJECT PRODUCT**

In its final LTFV determination, Commerce defined the scope of this investigation as follows:<sup>5</sup>

*The products covered by this investigation are artists canvases regardless of dimension and/or size, whether assembled or unassembled, 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 canvas and stretcher strips (whether or not made of wood, and whether or not assembled) included within a kit or set are covered by this proceeding.*

*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, “paint-by-number” or “paint-it-yourself” artist canvases with a copyrighted preprinted outline, pattern, or design, whether or not included in a painting set or kit.<sup>6</sup> Also excluded are 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 or set. While the HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this proceeding is dispositive.*

*Additionally, we have determined that canvas woven and primed in India but cut and stretched in the PRC and exported from the PRC is not subject to the investigations covering artist canvas from the PRC.*

## **U.S. Tariff Treatment**

Artists’ canvas subject to this investigation is provided for in subheadings 5901.90.20 and 5901.90.40 of the Harmonized Tariff Schedule of the United States (HTS). Table I-2 presents current tariff rates for eligible imports under these subheadings.

## **Description and Uses**

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 to be placed upon it without penetrating the original fabric.<sup>7</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. The

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<sup>5</sup> *Final Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People’s Republic of China*, 71 FR 16117, March 30, 2006.

<sup>6</sup> “Artist canvases with a non-copyrighted preprinted outline, pattern, or design are included in the scope of this investigation, whether or not included in a painting set or kit.”

<sup>7</sup> Petition, p. 5.

**Table I-2  
Artists' canvas: Tariff rates, 2006**

		General <sup>1</sup>	Special <sup>2</sup>	Column 2 <sup>3</sup>
HTS provision	Article description	Rates (percent <i>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 textile fabrics of a kind used for hat foundations:			
5901.10	Textile fabrics coated with gum or amylaceous substances, of a kind used for the outer covers of books or the like:			
5901.90	Other:			
5901.90.20	Of man-made fibers	7.0	3.5 <sup>4</sup>	74.5
5901.90.40	Other	4.1	2.1 <sup>4</sup>	35.0

<sup>1</sup> Normal trade relations, formerly known as the most-favored-nation duty rate, applicable to imports from China.  
<sup>2</sup> General note 3(c)(i) lists the special tariff treatment programs indicated in this column. Goods must meet eligibility rules set forth in other general notes, and importers must properly claim such treatment.  
<sup>3</sup> Applies to imports from a small number of countries that do not enjoy normal trade relations duty status.  
<sup>4</sup> Applies to eligible imports from Morocco, pursuant to the United States-Morocco Free Trade Agreement Implementation Act; eligible imports from Australia, Canada, Chile, Israel, Jordan, Mexico and Singapore enter the United States free of duty, pursuant to U.S. free trade agreements. Duty-free treatment also applies to eligible imports from El Salvador, Honduras, and Nicaragua pursuant to the DR-CA-US free trade agreement, and to eligible imports under subheading 5901.90.40 from countries eligible for preferential treatment pursuant to the Caribbean Basin Economic Recovery Act.

Source: Harmonized Tariff Schedule of the United States (2006).

range of woven materials that may be used to produce artists' canvas include cotton, linen, muslin, jute, and polyester.<sup>8</sup> Raw uncoated canvas may be used in a variety of applications, such as in sails for sailboats, tents, awnings, book covers, and in various industrial products; but once primed, it is used exclusively for artists' canvas.<sup>9</sup>

Artists' canvas can be sold in a variety of physical formats. The most common format is stretched (or assembled) canvas, in which coated canvas is wrapped around (and attached to) wooden frames.<sup>10</sup> Stretched canvas is produced and sold in a variety of shapes and sizes. Artists' canvas may also be sold in bulk rolls, which are often used by converters - or by artists themselves - to produce stretched canvas products. Other common formats of artists' canvas include panels and archival boards, in which canvas pieces are glued to either a chipboard or hard board surface; print canvas, in which artists' canvas is treated with an additional ink receptive coating for use in inkjet printers; and canvas pads, in which loose artists' canvas sheets are bound together.<sup>11</sup> Less common formats of artists' canvas include floor cloths, or heavy-weight canvas coated on one side and used as decorative floor covering, and placemats, in which artists' canvas is cut into oval or rectangular shapes and coated on both sides.<sup>12</sup>

<sup>8</sup> Ibid.

<sup>9</sup> Conference transcript, p. 23 (Straquadine).

<sup>10</sup> Petition, p. 5.

<sup>11</sup> Petition, pp. 5-6.

<sup>12</sup> On the basis of questionnaire data, floor cloths and placemats accounted for \*\*\* percent of U.S. producers' total U.S. shipments of artists' canvas products in 2005 (see table IV-4 in Part IV).

## Manufacturing Processes

The production process for artists' canvas proceeds as follows: raw canvas is purchased by a producer and coated (or primed) with a latex paint known as a gesso (or primer) that is mixed using various chemical compounds, based on the application for which it is intended.<sup>13</sup> This paint-receptive coating provides the surface upon which art can be produced, and provides a barrier that prevents paint from penetrating into the woven fibers of the canvas.<sup>14</sup> Raw canvas will receive two to four coats of gesso, depending upon the application of the final product. Coated canvas may be sold as-is, in bulk rolls, or it may be converted into a finished canvas product, the most common of which is stretched canvas.<sup>15</sup>

The production of stretched canvas begins with the production of "stretcher strips," around which canvas is stretched and fixed. Raw lumber is machine-ripped and fed into a chop saw that "defects"<sup>16</sup> the wood and cuts it to the appropriate size, producing a "blank." Blanks are then fed into a moulder that creates a rounded edge over which canvas can be smoothly stretched. Once moulded, blanks are fed into tenoners that cut a 45-degree interlocking corner that allows blanks to be joined together. The resulting product is called a stretcher strip.<sup>17</sup> Four stretcher strips are joined to form a frame, and a piece of cut canvas is stretched over the frame to produce a stretched canvas product. Stretched canvas is either stapled to the side or rear of the frame, or tucked into a groove in the frame to produce what is known as a "splined" canvas.<sup>18</sup>

Evidence submitted by petitioner in the preliminary phase of the Commission's investigation suggests that the production process for artists' canvas employed by at least one major producer in China is broadly similar to the process described above.<sup>19</sup>

## DOMESTIC LIKE PRODUCT ISSUES

Petitioner in this investigation contends that all artists' canvas constitutes a single domestic like product.<sup>20</sup> Respondents do not dispute petitioner's position that there is a single like product.<sup>21</sup> In its preliminary determination, the Commission found one domestic like product – all artists' canvas – co-

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<sup>13</sup> Petitioner Tara, for instance, utilizes \*\*\* different types of primer in its production of bulk canvas, though \*\*\* such compounds account for the majority of its production. Staff fieldwork report, February 24, 2006, p. 4.

<sup>14</sup> The exception to this principle is watercolor canvas, which, by definition, must allow paint to soak into its fibers. At present, Tara is the only known U.S. producer of watercolor canvas, and has a patent pending on the product. Staff fieldwork report, February 24, 2006, p. 3; hearing transcript, p. 33 (Straquadine).

<sup>15</sup> Throughout this report, the term "bulk" refers to artists' canvas that has been coated with a primer; canvas products that have undergone further processing from this bulk stage are referred to as "finished" artists' canvas.

<sup>16</sup> "Defecting" refers to the process by which knots and other imperfections are removed from wood. This process is necessary as imperfections may weaken the frame of a finished artists' canvas product. \*\*\*.

<sup>17</sup> Stretcher strips are sold by Tara independently of its artists' canvas products. See Tara product catalogue, included at att. A, staff fieldwork report, February 24, 2006.

<sup>18</sup> The production process for canvas panels and archival boards is \*\*\*. Staff fieldwork report, February 24, 2006, p. 4.

<sup>19</sup> Petition, p. 10 and exh. 7. Petitioner acknowledges, however, that the production process employed in China "is less automated and hence involves a greater reliance on labor" than that employed by U.S. producers. Ibid., p. 10.

<sup>20</sup> Petitioner's prehearing brief, pp. 3-11.

<sup>21</sup> Respondents' prehearing brief, p. 2. Respondents have noted, however, that petitioner's definition of the like product is "very broad and includes some products not produced by petitioner (i.e., kits, bleached canvas)." Respondents' postconference brief, p. 9.

extensive with Commerce's scope, but noted that it would explore the issue further in its final phase investigation, "particularly with respect to the treatment of canvas kits,<sup>22</sup> and whether bulk/rolled canvas and assembled canvas should be treated as separate domestic like products."<sup>23</sup> Recipients of the Commission's questionnaires in this final phase investigation were asked to comment on the similarities and differences between bulk/rolled and assembled/finished artists' canvas, with respect to the Commission's six traditional like product factors.<sup>24</sup> Firms' responses to this question are presented in appendix D, while other record evidence regarding the Commission's like product factors is presented below.

### **Physical Characteristics and Uses**

Petitioner in this investigation has argued that all artists' canvas, whether in bulk or finished form, serves the same end-use, namely, as a medium for artistic expression.<sup>25</sup> Petitioner further notes that the defining physical characteristic of artists' canvas, whether bulk or finished, is the same: a woven textile fabric that is either gessoed or coated.<sup>26</sup> As noted above, bulk canvas rolls are used in the production of finished canvas products.<sup>27</sup>

### **Interchangeability**

As noted above, bulk artists' canvas is used almost exclusively to produce finished artists' canvas products. Petitioner in this investigation notes that, because all artists' canvas share a common end-use, the products are interchangeable.<sup>28</sup>

### **Manufacturing Facilities, Processes, and Production Employees**

Based on record evidence in this investigation, seven firms in the United States engage in the production of bulk artists' canvas. Three of these firms, \*\*\* and Tara also produce finished artists' canvas products. Twelve U.S. firms have been identified in the course of this investigation as producers solely of finished artists' canvas, including \*\*\* firms that produce only digital print canvas. As noted above, although bulk and finished artists' canvas may be produced in the same production facility (and is in the case of \*\*\*), the two product types are produced using different machinery.<sup>29</sup> However, according

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<sup>22</sup> \*\*\*.

<sup>23</sup> *Artists' Canvas from China, Investigation No. 731-TA-1091 (Preliminary)*, USITC Publication 3777, May 2005 ("Preliminary Determination"), p. 7.

<sup>24</sup> The six factors examined by the Commission in making its like product determination are: (1) physical characteristics and uses, (2) interchangeability, (3) common manufacturing processes and production employees, (4) channels of distribution, (5) customer and producer perceptions, and, where appropriate, (6) price.

<sup>25</sup> Petitioner's postconference brief, pp. 3 and 5.

<sup>26</sup> Petition, p. 28.

<sup>27</sup> Based on record evidence, with the exception of floor coverings, which are sold in a form "remarkably similar to rolled canvas," all bulk canvas is used in the production of some or another form of finished artists' canvas. See petitioner's postconference brief, pp. 1-4.

<sup>28</sup> *Ibid.*, p. 6.; see also petition, p. 29.

<sup>29</sup> Although petitioner contends that "no other products are or can be manufactured using the production process or production equipment for artist canvas," (petition, p. 31) one U.S. producer of artists' canvas reported that it produces \*\*\*. \*\*\*'s response to the producers' questionnaire, p. 5. Further, U.S. producers of digital print canvas reported that \*\*\*. See, for example, producer questionnaire responses of \*\*\*. p. 5.

to petitioner, workers employed in the production of bulk canvas may also be employed in the production of finished artists' canvas products.<sup>30</sup>

### **Channels of Distribution**

Channels of distribution data for bulk and finished canvas, based on the questionnaire responses of U.S. producers, are presented in table I-3 (data for shipments of imports of finished canvas from China are also included in this table). On the basis of these data, the majority of U.S. producers' commercial shipments of finished artists' canvas is sold directly to retailers, with the remainder sold primarily through distributors. Bulk artists' canvas is sold primarily to converters, or firms that further process bulk canvas to produce finished artists' canvas. Direct sales to end users account for \*\*\* percent of U.S. producers' commercial shipments. By way of comparison, reported imports of artists' canvas from China are all either \*\*\*.

**Table I-3**  
**Artists' canvas: U.S. producers' and importers' reported channels of distribution, 2005**

\* \* \* \* \*

### **Customer and Producer Perceptions**

Petitioner in this investigation has argued that there is no difference in the way consumers perceive different types of artists' canvas.<sup>31</sup> Respondents have not disagreed. The responses of questionnaire recipients in this phase of the investigation relating to the question of customer and producer perceptions is presented in appendix D.

### **Price**

Questionnaire data submitted in the final phase of this investigation indicate that, in 2005, the average unit value of U.S. producers' commercial U.S. shipments of bulk artists' canvas was \$\*\*\*, compared to \$\*\*\* for finished canvas (*see* Part III, tables III-5 and III-6). A more detailed discussion of prices for U.S.-produced artists' canvas is presented in Part V of this report.

### **Semi-Finished Product Factors**

In cases such as artists' canvas, in which one product within the scope of the investigation – in this case bulk canvas – is used in the production of a downstream product that is also within the scope of the investigation (finished canvas), the Commission may also apply a semi-finished product analysis, in which it examines: (1) whether the upstream article is dedicated to the production of the downstream article or has independent uses; (2) whether there are perceived to be separate markets for the upstream and downstream articles; (3) differences in physical characteristics and functions of the upstream and downstream articles; (4) differences in the costs or value of the vertically differentiated articles; and (5) the significance and extent of the process used to transform the upstream into the downstream article.

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<sup>30</sup> Hearing transcript, p. 128 (Freeman).

<sup>31</sup> Petitioner's prehearing brief, p. 9.

As noted above, the primary use for bulk artists' canvas is in the production of finished canvas products,<sup>32</sup> though there are end-uses for bulk products (such as floorcloths) independent of finished canvas. Customer and producer perceptions of bulk and finished canvas are presented in appendix D, while the physical characteristics and function of the two products are described above. Differences in the value of bulk and finished canvas are also discussed in the section above, as is a description of the process by which finished canvas is produced from bulk canvas. Petitioner in this investigation has argued that production of digital print canvas by converting firms (referred to as "finishers" by petitioner) does not constitute U.S. production, and that firms only engaging in this type of production should not be included in the domestic industry.<sup>33</sup> Respondents contend that the value added by print converters is "significant," and that such firms should therefore be included in the domestic industry.<sup>34</sup>

Two producers of digital print canvas, \*\*\*, submitted descriptions of their production process for this product as part of their questionnaire response. According to these two firms' responses, print canvas is produced as follows:<sup>35</sup> \*\*\*,<sup>36</sup> <sup>37</sup>

U.S. converters receiving the Commission's questionnaire were asked to report their firms' costs of conversion relating to the production of finished canvas products. Data relating to this question are presented in table I-4.<sup>38</sup> As indicated in this table, the costs of conversion from bulk to finished article for producers of print canvas products account for \*\*\* percent of the total cost of producing these items, while the equivalent conversion costs for producers of non-print products is \*\*\* percent. Table I-4A contains the same data as in table I-4, but with non-print converters' bulk canvas costs adjusted to reflect fair market value.<sup>39</sup>

**Table I-4**  
**Artists' canvas: U.S. converters' costs of conversion from bulk to finished canvas, 2005**

\* \* \* \* \*

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<sup>32</sup> On the basis of questionnaire data, \*\*\* percent of U.S. producers' total shipments of bulk canvas was accounted for by internal consumption (to produce finished canvas products) in 2005, while \*\*\* percent of commercial U.S. shipments was sold to converters (that produce finished products). See table I-3, above, and table III-5 in Part III.

<sup>33</sup> Petitioner's posthearing brief (responses to Commission questions), pp. 2, 5-9, and exh. 1. Table C-4 in app. C presents summary data with print converters excluded from U.S. producers' data.

<sup>34</sup> Respondents' posthearing brief, pp. 7-9. Table C-4 in app. C of this report presents summary data for artists' canvas with print converters excluded from U.S. producers' data.

<sup>35</sup> \*\*\* response to the producers' questionnaire, p. 6; email from \*\*\*, April 14, 2006.

<sup>36</sup> \*\*\*. Petitioner estimates that coating machinery of the type employed in the production of print canvas requires an investment of \$1 million to \$3 million. Petitioner's posthearing brief (responses to Commission questions), p. 6.

<sup>37</sup> \*\*\*. The production processes described by \*\*\* with the description of this process provided by petitioner in its posthearing brief (responses to Commission questions) at pp. 5-6.

<sup>38</sup> Two converters of digital print canvas reported data in response to the question relating to conversion costs; only one non-print converter responded to the Commission's producers' questionnaire, and this firm did not address the conversion costs question. Data for non-print converters presented in table I-4 is therefore derived from financial data provided by integrated producers, based on their reported costs of production for finished canvas products.

<sup>39</sup> Specifically, the bulk canvas costs for non-print converters in table I-4A are based on the unit value of reported commercial shipments of bulk canvas by integrated producers, applied to their reported quantity of internal consumption.

**Table I-4A**

**Artists' canvas: U.S. converters' costs of conversion from bulk to finished canvas, 2005**

\* \* \* \* \*

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

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

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

Practically all sales of assembled canvas go to retailers and distributors/wholesalers. Among the varieties of assembled canvas, side-stapled artists' canvas and canvas panels are considered the entry-level products and reportedly accounted for 21 percent of total artists' canvas sales in 2005.<sup>2</sup> Most sales of bulk canvas go to converters that produce assembled artists' canvas using bulk canvas or that specialize in coating.<sup>3</sup> Some sales of bulk canvas go to retailers and distributors.

When purchasers were asked about the interchangeability between assembled canvas and bulk canvas rolls, five of 15 purchasers reported that they are interchangeable because both forms are used as a painted surface. Ten purchasers reported that the interchangeability is limited because, in order for bulk canvas rolls to be transformed into a finished product, the consumer must possess the skills, tools, and time to cut stretcher bars and stretch and fit the canvas to the frame. Many purchasers reported that only professional or experienced artists buy bulk canvas and stretch it themselves, often in order to achieve non-traditional sizes or shapes. Assembled canvas, on the other hand, reportedly appeals more to students and hobbyists because it is ready-to-use.

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 six responding U.S. producers, five reported that they sell nationally while the other reported that it sells specifically in the northeast. Among importers of artists' canvas from China, all but one reported that they sold nationally. One reported that it sold specifically in the Midwest and on the east coast.

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 two days to as much as four weeks. For importers they ranged from one day to as much as 17 weeks.

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<sup>1</sup> Less than five percent of digital print canvas is used for photography. Petitioner's posthearing brief, responses to questions, p. 10.

<sup>2</sup> Petitioner's posthearing brief, responses to questions, p. 1.

<sup>3</sup> U.S. producers of assembled canvas (\*\*\*) coat their own canvas, \*\*\* coats bulk canvas rolls, and \*\*\* are coaters/converters of inkjet printable canvas. U.S. producer \*\*\* produces digital print canvas under a tolling agreement with \*\*\*.

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

#### *Industry capacity*

U.S. producers' annual capacity utilization rates for assembled artists' canvas increased from \*\*\* percent in 2002 to \*\*\* percent in 2005. U.S. producers' annual capacity utilization rates for bulk artists' canvas ranged from a low of \*\*\* percent in 2002 to a high of \*\*\* percent in 2005. These levels of capacity utilization indicate 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 of assembled artists' canvas by U.S. producers, as a share of total shipments, remained virtually unchanged from 2002 to 2003 at approximately \*\*\* percent, and then declined to \*\*\* percent in 2005. Total exports of bulk artists' canvas by U.S. producers, as a share of total shipments, increased from \*\*\* percent in 2002 to \*\*\* percent in 2005. 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 of assembled artists' canvas decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005. The ratio of end-of-period inventories to U.S. shipments of bulk artists' canvas decreased from \*\*\* percent in 2002 to \*\*\* percent in 2005. 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*

Three out of four U.S. producers reported that they do not use the actual machinery, equipment, and workers that produce artists' canvas in the production of other products.<sup>4</sup>

#### **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

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<sup>4</sup> One producer, \*\*\*, reported that artists' canvas accounts for \*\*\* percent of its production.

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 and limited inventories in conjunction with the availability of alternative markets.

### ***Industry capacity***

During the period of investigation, the capacity utilization rate for Chinese producers of assembled artists' canvas increased from \*\*\* percent in 2002 to \*\*\* percent in 2005; it is projected to reach \*\*\* percent in 2006 and 2007. The capacity utilization rate for Chinese producers of bulk artists' canvas increased from \*\*\* percent in 2002 to \*\*\* percent in 2005; it is projected to reach \*\*\* percent in 2006 and 2007.

### ***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 \*\*\* percent of total shipments in 2002 to \*\*\* percent in 2005. The share of China's shipments to export markets other than the United States increased from \*\*\* percent in 2002 to \*\*\* percent in 2005 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 2005. 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 40.0 percent of the quantity of total U.S. imports in 2005.

## **U.S. Demand**

### **Demand Characteristics**

Apparent U.S. consumption, in terms of quantity, increased by \*\*\* percent from 2002 to 2005. When asked how the overall demand for artists' canvas has changed since January 2002, four U.S. producers and all of the responding importers reported that it had increased. The increase in demand for assembled artists' canvas was most commonly attributed to the rapid growth of the home decor market, as well as growth in digital print canvas. One U.S. producer reported that demand has increased for back-stapled and splined artists' canvas relative to side-stapled artists' canvas because the former varieties can hang on a wall without a frame.<sup>5</sup> This producer and one other producer also reported that sales of low-priced, non-branded artists' canvas has increased overall demand for artists' canvas.<sup>6</sup> Another U.S. producer reported that growth in computer graphics may negatively impact demand for artists' canvas.

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<sup>5</sup> Hearing transcript, p. 111 (Straquadine).

<sup>6</sup> Hearing transcript, pp. 60-61 (Benator, Rathslag).

One U.S. producer reported that demand has shifted to China. Another producer reported that demand for bulk canvas is unchanged since 2002, but that it typically fluctuates from year to year.<sup>7</sup>

Two importers reported that consumer demand had increased due to the increasing availability of inexpensive assembled artists' canvas. Five importers reported that expanded size offerings has been a significant change in the industry since 2002. One of these firms, along with one other importer, also attributed the increased demand to the better marketing strategies of retailers, including strategic placement in stores, lower prices, and expanded offerings of shapes and sizes.<sup>8</sup> When purchasers were asked how demand for artists' canvas has changed since 2002, six of 12 responding firms reported that demand for bulk canvas was unchanged, four reported that it has decreased, and two reported that it increased.<sup>9</sup> Eighteen of 26 responding purchasers reported that demand for assembled canvas has increased. The increase was most commonly attributed to growth in the craft and home decor markets. Nine purchasers specifically noted that lower prices of canvas have led to the increased demand. Three purchasers, one of which is also an importer, reported that improved marketing by retailers has contributed to the increased demand.<sup>10</sup> Five purchasers reported that demand for assembled canvas has decreased since 2002, and three reported that demand is unchanged.

### **Substitute Products**

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 whether there are substitutes for artists' canvas, nearly all of the U.S. producers reported none. Most responding importers and purchasers cited one or more alternative materials. These alternatives include masonite panels, paper, clayboard, premium photo paper, wood boards, and other primed hard surfaces. None of the producers or importers said that changes in the prices of these substitutes would affect the price of artists' canvas.

## **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.

### **Factors Affecting Purchasing Decisions**

Available information indicates that a variety of factors are considered important in the purchasing decision for artists' canvas. While quality and price have been mentioned as being important factors in the sale of artists' canvas, other factors such as reliability of availability, supply, and delivery are also important considerations. Purchasers were asked to list the top three factors that they consider when choosing a supplier of artists' canvas. Table II-1 summarizes the responses.

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<sup>7</sup> This producer, \*\*\*, reported its sales outlook for bulk canvas in 2006 was not good.

<sup>8</sup> Hearing transcript, p. 212 (Stapleton).

<sup>9</sup> One of these firms reported that demand for printable canvas has declined because some consumers have experienced technical difficulties with printers when printing on canvas.

<sup>10</sup> Hearing transcript, pp. 175-178 (Kanter).

**Table II-1****Artists' canvas: Ranking of factors used in purchasing decisions as reported by U.S. purchasers**

Factor	Number of firms reporting		
	Number one factor	Number two factor	Number three factor
Price	2	11	10
Quality	11	6	5
Availability	6	2	7
Other <sup>1</sup>	8	7	3

<sup>1</sup> Other factors include five instances of "reliability or traditional supplier/brand" for number one factor; two instances of "delivery time" for number one factor; one instance of "customer requests" for number one factor; three instances of "reliability" for number two factor; three instances of "delivery time and consistency" for number two factor; one instances of "support" for number two factor; one instance of "product assortment" for number three factor; one instance of "reliability" for number three factor; and one instance of "delivery" for number three factor.

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

Price was named by two purchasers as the number one factor generally considered in deciding from whom to purchase artists' canvas, while 11 other purchasers indicated that it was the number two factor, and 10 responded it was the number three factor. As indicated in table II-2, 22 of 27 purchasers indicated that price was a "very important" factor in their purchasing decisions. One of the purchasers reported that the lowest price will "always" win a contract or sale. Fourteen purchasers reported that the lowest price will "sometimes" win a contract or sale, seven purchasers reported "usually," and three reported "never."

Quality was named by 11 purchasers as the number one factor generally considered in deciding from whom to purchase artists' canvas, while six other purchasers indicated that it was the number two factor and five responded it was the number three factor. All the responding purchasers indicated that product consistency was a "very important" factor in their purchasing decisions and nearly all purchasers indicated that quality meeting industry standards was a "very important" factor.

Availability was named by six purchasers as the number one factor generally considered in deciding from whom to purchase artists' canvas, while two other purchasers indicated that it was the number two factor and seven responded it was the number three factor. Nearly all responding purchasers indicated that availability was a "very important" factor in their purchasing decisions.

Reliability of supplier, or "traditional supplier", was named by five purchasers as the number one factor generally considered in deciding from whom to purchase artists' canvas, while three other purchasers indicated that it was the number two factor, and one responded it was the number three factor. All responding purchasers indicated that reliability of supply was a "very important" factor in their purchasing decisions.

Twelve responding purchasers reported that they require their suppliers to become certified. Seven purchasers reported that since 2002 one or more suppliers have failed in their attempts to qualify artists' canvas. Three domestic sources (\*\*\*), four suppliers of Chinese product (\*\*\*), and nonsubject Indian sources were named. \*\*\* was disqualified by one U.S. purchaser due to quality defects and limited supply and by another purchaser for quality defects, poor delivery, poor customer service, and high delivery charges. \*\*\* was disqualified by one purchaser for not meeting specifications. Chinese products from \*\*\* were disqualified due to quality not meeting industry standards.

Four of 29 responding purchasers indicated that either they or their customers make purchasing decisions involving artists' canvas based on the country of origin. Two of these purchasers reported that Chinese artists' canvas is preferred for its quality and low price. One purchaser reported that some customers prefer U.S. artists' canvas because of the high quality of the pine wood used in the stretcher

**Table II-2**  
**Artists' canvas: Importance of factors used in purchasing decisions, as reported by U.S. purchasers**

Factor	Number of firms reporting		
	Very important	Somewhat Important	Not important
Availability	25	2	0
Delivery terms	17	10	0
Delivery time	25	1	1
Discounts and rebates	14	9	4
Extension of credit	10	9	7
Price	22	5	0
Minimum qty requirements	9	14	4
Packaging	12	14	1
Product consistency	27	0	0
Quality meets industry standards	22	4	0
Quality exceeds industry standards	12	11	4
Product range	14	13	0
Reliability of supply	27	0	0
Technical support/service	6	15	6
U.S. transportation costs	11	14	2

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

bars. This purchaser also noted that some customers may prefer Chinese artists' canvas because it is cheaper. One purchaser reported that it purchases linen canvas from Belgium because of its high quality.

Also, ten purchasers indicated that some grades/types of artists' canvas are available from only certain sources. Three purchasers reported that watercolor canvas is only available from U.S. producer Tara. Two purchasers reported that some non-traditional sizes (including 8"x8", 12"x12", and 8"x20") are only available from Chinese import sources. Two purchasers reported that high-quality linen canvas is only available from European sources, especially Belgium. One purchaser reported that 12-ounce cotton canvas is only available from U.S. producer Masterpiece.

### **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, importers, and purchasers were asked whether the products can "always," "frequently," "sometimes," or "never" be used interchangeably. As indicated in table II-3, responses of producers that compared bulk canvas from China with that from the United States were mixed. The majority of importers and purchasers that compared bulk canvas from China with that from the United States reported that it is always or frequently interchangeable.

**Table II-3**

**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				Purchasers			
	A	F	S	N	A	F	S	N	A	F	S	N
<b>Bulk rolls:</b>												
U.S. vs. China	1	1	2	0	3	1	2	0	2	4	3	1
U.S. vs. nonsubject	1	1	2	0	3	1	2	0	1	2	4	0
China vs. nonsubject	1	1	2	0	3	1	2	0	1	3	2	0
<b>Assembled canvas:</b>												
U.S. vs. China	3	1	1	0	1	3	2	0	5	7	7	0
U.S. vs. nonsubject	3	1	1	0	1	2	1	0	3	4	4	0
China vs. nonsubject	3	1	1	0	1	3	2	0	2	4	3	0
Note: "A" = Always, "F" = Frequently, "S" = Sometimes, and "N" = Never.												
Source: Compiled from data submitted in response to Commission questionnaires.												

Moreover, the majority of U.S. producers that compared assembled canvas from China with that from the United States responded that it is always interchangeable. The one producer responding that assembled canvas from China is frequently interchangeable with that from the United States also noted that there is a wide range of quality variation in Chinese canvas and that a large portion of Chinese canvas is inferior to domestically produced artists' canvas. Another producer reported that knowledgeable artists would only accept high quality artists' canvas and that domestically produced artists' canvas is most interchangeable with European artists' canvas. The majority of importers and purchasers that compared assembled canvas from China with that from the United States reported that it is always or frequently interchangeable. The principal factor limiting interchangeability is quality. Two purchasers reported that the quality of U.S.-produced canvas is superior, citing the high quality of the priming coats and the wood used in the stretcher bars. One importer also reported that U.S.-produced assembled canvas is higher quality than that from China. Two purchasers reported that Chinese quality is superior. One of these firms noted that Chinese canvas is triple-primed and that the wood used in the stretcher bars is lighter-weight and sturdier than domestic stretcher bars.

As indicated in table II-4, the majority of U.S. producers indicated that the differences between U.S.-produced bulk roll canvas and imports of bulk roll canvas from China are always or frequently significant. Moreover, a majority of U.S. producers reported that the differences between U.S.-produced assembled canvas and imports of assembled canvas from China are at least sometimes significant. The majority of importers indicated that the differences between U.S.-produced artists' canvas and imports of artists' canvas from China are sometimes significant, for both bulk canvas rolls and assembled canvas.

**Table II-4**

**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
<b>Bulk rolls:</b>								
U.S. vs. China	2	1	2	0	0	0	2	1
U.S. vs. nonsubject	2	2	1	0	2	0	1	1
China vs. nonsubject	2	2	1	0	1	1	0	1
<b>Assembled canvas:</b>								
U.S. vs. China	1	1	2	1	1	0	2	2
U.S. vs. nonsubject	1	2	0	2	0	1	0	2
China vs. nonsubject	1	2	0	1	1	0	0	2

<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.

For the factors that almost all responding purchasers indicated were “very important” in their purchasing decisions (see table II-2), purchaser comparisons of U.S.-produced and subject imported artists’ canvas indicate that the domestic product is mostly comparable to the subject imported product. As indicated in table II-5, a number of the responding purchasers reported that with respect to the question of quality exceeding industry standards and technical support, U.S.-produced artists’ canvas was “superior” to artists’ canvas produced in China. With respect to lower price, nearly all responding purchasers indicated that U.S.-produced artists’ canvas was “inferior” (i.e., higher). With respect to availability, quality meeting industry standards, product consistency, and reliability of supply, a majority of responding purchasers indicated that U.S.-produced artists’ canvas was “comparable” to artists’ canvas produced in China.

**Other Country Comparisons**

In addition to comparisons between the U.S. product and imports from China, 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-3 and II-4. The responses of U.S. producers comparing both U.S.-produced and Chinese bulk canvas with nonsubject bulk canvas were mixed. The majority of importers and purchasers comparing both U.S.-produced and Chinese bulk canvas with nonsubject bulk canvas reported that they are always or frequently interchangeable. One importer reported that bulk canvas from other countries is superior in quality to that from China. One purchaser reported that the highest quality bulk linen canvas is from Belgium.

The majority of U.S. producers comparing both U.S.-produced and Chinese assembled canvas with nonsubject assembled canvas reported that they are always interchangeable. The majority of importers and purchasers comparing both U.S.-produced and Chinese assembled canvas with nonsubject assembled canvas reported that they are frequently or sometimes interchangeable.

**Table II-5**  
**Artists' canvas: Comparisons between U.S.-produced and subject imported product as reported by U.S. purchasers**

Factor	China		
	S	C	I
Availability	1	13	5
Delivery terms	1	15	4
Delivery time	5	7	8
Discounts offered	2	13	5
Extension of credit	1	15	4
Lower price <sup>1</sup>	0	3	17
Minimum quantity requirements	4	11	5
Packaging	2	15	3
Product consistency	4	12	4
Quality meets industry standards	2	14	4
Quality exceeds industry standards	5	12	3
Product range	4	10	5
Reliability of supply	2	15	3
Technical support/service	5	13	2
Lower U.S. transportation costs	2	12	6
<p><sup>1</sup> A rating of superior means that the price is generally lower. For example, if a firm reports "U.S. superior," this means that it rates the U.S. price generally lower than the subject import price.</p> <p>Note.--S=U.S. product is superior, C=U.S. product is comparable, I=U.S. product is inferior.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>			

## ELASTICITY ESTIMATES

This section discusses the elasticity estimates.

### U.S. Supply Elasticity<sup>11</sup>

The domestic supply elasticity for artists' canvas measures the sensitivity of the quantity supplied by U.S. producers to changes in the U.S. market price of artists' canvas. The elasticity of domestic supply depends on several factors including the level of excess capacity, the ease with which producers can alter capacity, producers' ability to shift to production of other products, the existence of inventories, and the availability of alternate markets for U.S.-produced artists' canvas. Analysis of these factors indicates that the U.S. industry is likely to be able to moderately increase or decrease shipments to the U.S. market; an estimate in the range of 3 to 5 is suggested.

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<sup>11</sup> A supply function is not defined in the case of a non-competitive market.

## **U.S. Demand Elasticity**

The U.S. demand elasticity for artists' canvas measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of artists' canvas. This estimate depends on factors discussed above such as the existence, availability, and commercial viability of substitute products. Based on the available information, the aggregate demand for artists' canvas is likely to be in the range of 2 to 4.

## **Substitution Elasticity**

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported products.<sup>12</sup> Product differentiation, in turn, depends upon such factors as quality (e.g., canvas weight, canvas tautness, stretcher bar durability, etc.) and conditions of sale (e.g., availability, sales terms/discounts, etc.). Based on available information, the elasticity of substitution between U.S.-produced artists' canvas and artists' canvas from China is likely to be in the range of 2 to 4.<sup>13</sup>

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<sup>12</sup> The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject products (or vice versa) when prices change.

<sup>13</sup> Respondents contend that staff's estimate of the elasticity of substitution is too high and does not take into account product mix differences between assembled artists' canvas and bulk rolled artists' canvas, specifically the fact that imports from China are concentrated in the assembled artists' canvas category. Respondents' prehearing brief, exh. 8. Staff has therefore slightly lowered the initial estimate from the prehearing staff report of 3 to 5. However, staff notes that the majority of purchasers reported that U.S.-produced artists' canvas and artists' canvas imported from China are comparable for nearly all of the factors listed in table II-5.

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

### U.S. PRODUCERS

Two types of firms produce artists' canvas subject to this investigation: "coaters"—firms that produce bulk canvas, and "converters"—firms that produce finished canvas products. Converters can be further divided between firms that produce assembled canvas products (such as stretched canvas, canvas panels, and canvas pads) and those that produce canvas suitable for use with digital printers ("print converters"). Three U.S. firms (\*\*\*) have been identified in this investigation as integrated producers, or firms that produce both bulk and finished canvas products. U.S. producer questionnaires in the final phase of this investigation were sent to 43 firms: three firms believed to be integrated producers, four firms believed to be producers of bulk canvas, and 36 potential U.S. producers of finished canvas products, including 26 potential print converters.<sup>1</sup> Responses were received from 33 firms, including all three integrated producers, all four coaters, and 26 purported artists' canvas converters, including 20 firms thought to produce digital print canvas.<sup>2</sup> Twenty responding firms certified that they had not produced subject artists' canvas during the period examined in this phase of the investigation (January 1, 2002 to December 31, 2005), and 10 of the 13 confirmed U.S. producers provided some production, shipments, and employment data in their questionnaire response.<sup>3</sup>

Table III-1 identifies the U.S. firms that provided trade and financial data to the Commission relating to their operations on artists' canvas.<sup>4</sup> The firms in this table are believed to account for over 93 percent of total U.S. production of bulk artists' canvas, and over 90 percent of U.S. production of finished canvas products.<sup>5</sup> As indicated in table III-1, on the basis of data submitted in responses to the Commission's questionnaires, petitioner Tara is the largest U.S. producer of bulk artists' canvas, accounting for \*\*\* percent of reported U.S. production of this product in 2005, as well as \*\*\* percent of

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<sup>1</sup> The U.S. producer questionnaire mailing list for this final-phase investigation was constructed on the basis of nine firms identified in the petition (*see* petition, exh. 1), four firms identified during the Commission's preliminary-phase investigation (*see* Staff Report of May 9, 2005, Memorandum INV-CC-064, table III-1), and 30 firms identified by respondents' counsel as potential U.S. producers of subject artists' canvas (*see* respondents' comments on draft questionnaires, December 1, 2005, att. 1; and email from D. Klett, December 16, 2005).

<sup>2</sup> A complete list of potential U.S. producers identified in this investigation, and the status and extent of their individual responses to the Commission's questionnaires, is presented in appendix E. Of the 10 firms that did not respond to the Commission's producers' questionnaire, three firms confirmed to staff that they did not produce artists' canvas subject to this investigation during the period examined. Five non-responding firms are known producers of subject canvas, and anecdotal information regarding the size of four of these firms' operations on artists' canvas is presented in appendix E. For only three remaining firms is there no record information regarding the extent of their production activities, one a confirmed producer of digital print canvas, and two potential producers (*see* table E-1).

<sup>3</sup> Three additional U.S. producers of bulk canvas, and one potential producer of print canvas, were identified during the course of this investigation, subsequent to the due date for the return of the Commission's questionnaires. The additional three confirmed producers of bulk canvas are believed to account for no more than 7 percent of the total reported value of U.S. shipments of U.S.-produced bulk canvas in 2005. *See* appendix E, table E-1.

<sup>4</sup> All firms listed in table III-1 provided full trade and financial data for the entire period of investigation, with two exceptions: \*\*\* provided only production and U.S. commercial shipments data (no export, employment, or financial data) and \*\*\* provided no data for 2002 and 2003 (the firm \*\*\*).

<sup>5</sup> As indicated in appendix E, the record in this investigation contains at least minimal anecdotal information regarding the production activities of all but three firms, one a confirmed print converter, and two potential converters (*see* table E-1).

**Table III-1**

**Artists' canvas: U.S. producers and shares of reported 2005 U.S. production**

Firm	Plant location(s)	Share of 2005 production (percent)		Position on petition
		Bulk	Finished	
Avondale Mills	Monroe, GA	***	***	***
BF Inkjet Media	Fayetteville, GA	***	***	Supports
Duro Art Industries	Chicago, IL	***	***	Supports
Holliston Mills, Inc.	Kingsport, TN	***	***	Supports
IJ Technologies	St. Louis, MO	***	***	Supports
Intelicoat Technologies	South Hadley, MA	***	***	***
MacDermid Colorspan	Eden Prairie, MN	***	***	***
Masterpiece	San Francisco, CA	***	***	Takes no position
Signature	Kansas City, MO	***	***	Supports
Tara Materials, Inc.	Lawrenceville, GA	***	***	Petitioner

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

reported production of finished canvas. \*\*\* is the second largest producer of bulk canvas, accounting for \*\*\* percent of reported production of this product, and \*\*\* percent of reported production of finished canvas products.

On the basis of reported production quantity, \*\*\*<sup>6</sup> is the largest U.S. producer of finished artists' canvas, accounting for \*\*\* percent of reported production of these products in 2005. Taken together, print converters account for \*\*\* percent of reported U.S. production of finished artists' canvas in 2005, with integrated producers accounting for \*\*\* percent, and \*\*\* accounting for the remaining \*\*\* percent.

No U.S. producers identified in this phase of the investigation reported any related firms, foreign or domestic, engaged in the production, export, or importation of artists' canvas from China, nor did any U.S. producers \*\*\*.<sup>7</sup>

### Tara's Mexico Operations

Founded in 1966, Tara is a privately held company, jointly owned by its president and his uncle.<sup>8</sup> In 1990, Tara purchased Hy-Jo Picture Frames, a California producer of wood-based frames, and its

<sup>6</sup> \*\*\*.

<sup>7</sup> In its response to the importers' questionnaire in the Commission's preliminary-phase investigation, \*\*\* reported importing \*\*\* square meters of artists' canvas from China in 2003, and \*\*\* square meters in 2004, equivalent to \*\*\* and \*\*\* percent of its reported production in 2003 and 2004, respectively. The company did not submit an importers' questionnaire response in the final phase of this investigation.

<sup>8</sup> Staff fieldwork report, February 24, 2006, p. 1.

Mexican subsidiary, Decoracion Colonial.<sup>9</sup> In \*\*\*, Tara began production of \*\*\* artists' canvas,<sup>10</sup> a \*\*\* product at Decoracion's facility in Tijuana. Tara expanded production of artists' canvas at its Mexican facility in \*\*\*, beginning with the production of \*\*\*.<sup>11</sup> Later in that year, as a result - according to company officials - of competition from imports from China,<sup>12</sup> Tara shifted a portion of the production of its core stretched canvas products to Mexico and eliminated \*\*\* jobs, over the course of three years, at its Georgia facility.

According to company officials, Tara's two production facilities (in Georgia and Tijuana, Mexico) function as \*\*\*.<sup>13</sup> Bulk canvas is produced \*\*\*. Stretched canvas products \*\*\*. The bulk of Tara's core stretched canvas products are \*\*\*.<sup>14</sup> Bulk rolls used in the production of stretched canvas products \*\*\*. According to company officials, \*\*\*.<sup>15</sup> A comparison of the capacity, production, and shipments for finished canvas at Tara's two production facilities is presented in table III-2.<sup>16</sup>

**Table III-2**  
**Finished artists' canvas: Tara's capacity, production, and shipments, 2002-05**

\* \* \* \* \*

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

U.S. producers' data relating to capacity and production of bulk and finished artists' canvas are presented in table III-3.<sup>17</sup> As indicated in this table, U.S. producers' reported bulk canvas capacity increased by \*\*\* percent during the period examined, from \*\*\* to \*\*\* square meters. This increase in capacity is \*\*\* attributable to \*\*\* percent of U.S. producers' total reported capacity to produce bulk artists' canvas in 2005.<sup>18</sup> U.S. producers' reported capacity to produce finished canvas exhibited a more varied pattern, decreasing by \*\*\* percent between 2002 and 2004, then increasing by \*\*\* percent in 2005. The decrease in reported capacity between 2002 and 2004 was also \*\*\* attributable to \*\*\*,<sup>19</sup> while the increase in 2005 reflects the \*\*\*, as well as capacity increases by \*\*\* and \*\*\*.<sup>20</sup> \*\*\* accounted for \*\*\* percent of reported finished canvas production capacity in 2005; \*\*\* accounted for \*\*\* percent.<sup>21</sup>

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<sup>9</sup> Conference transcript, p. 34 (Benator).

<sup>10</sup> \*\*\*. Staff fieldwork report, January 31, 2006, p. 1.

<sup>11</sup> Staff fieldwork report, February 24, 2006, p. 1; staff telephone interview with M. Benator, Tara president, March 2, 2006.

<sup>12</sup> Conference transcript, pp. 7 (Thompson), 12 (Delin), 36-37 (Benator), and 102-103 (Benator). *See also* petitioner's postconference brief, p. 18 and exh. 1-H (containing a Tara declaration on the reasons for, and timing of, its movement of some production operations to Mexico); and petitioner's posthearing brief, pp. 2-4.

<sup>13</sup> Staff fieldwork report, January 31, 2006, p. 2.

<sup>14</sup> \*\*\*.

<sup>15</sup> Staff fieldwork report, January 31, 2006, p. 2.

<sup>16</sup> \*\*\*.

<sup>17</sup> In an effort to avoid double-counting, capacity and production data for bulk and finished artists' canvas have not been aggregated.

<sup>18</sup> \*\*\*.

<sup>19</sup> \*\*\*.

<sup>20</sup> \*\*\*.

<sup>21</sup> As indicated in table III-3, \*\*\*, did not report its production capacity for finished canvas.

**Table III-3**  
**Artists' canvas: U.S. producers' capacity, production, and capacity utilization, 2002-05**

\* \* \* \* \*

U.S. producers' reported production of bulk artists' canvas increased by \*\*\* percent during the period examined, from \*\*\* to \*\*\* square meters. On the basis of these data, U.S. producers' capacity utilization for bulk canvas also increased throughout the period examined, from \*\*\* percent in 2002 to \*\*\* percent in 2005. Reported U.S. production of finished canvas exhibited a more varied pattern, decreasing a modest \*\*\* percent between 2002 and 2003, then increasing by \*\*\* percent between 2003 and 2005.<sup>22</sup> Capacity utilization on finished artists' canvas fluctuated during the period examined, and was \*\*\* percentage points higher in 2005 than in 2002.

### U.S. PRODUCERS' SHIPMENTS

Table III-4 presents reported data on U.S. producers' U.S. and export shipments of artists' canvas. Based on these data, U.S. producers' total shipments of artists' canvas increased by 47 percent between 2002 and 2005, from 8.6 million to 12.7 million square meters.<sup>23</sup> The unit value of U.S. producers' U.S. shipments decreased throughout the period, and was consistently higher than the unit value of reported export shipments.

Separate U.S. producers' shipments data for bulk and finished artists' canvas are presented in tables III-5 and III-6. As indicated in these tables, U.S. producers' reported U.S. shipments of bulk artists' canvas increased by \*\*\* percent between 2002 and 2005, from \*\*\* to \*\*\* square meters. The quantity of reported commercial U.S. shipments of bulk canvas increased throughout the period examined, while that of internal consumption decreased. Reported U.S. shipments of finished artists' canvas increased by \*\*\* percent between 2002 and 2005, from \*\*\* to \*\*\* million square meters, while the unit value of these shipments decreased by \*\*\* percent. By contrast, the unit value of U.S. shipments of bulk canvas exhibited a modest increase of \*\*\* percent.

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<sup>22</sup> \*\*\*.

<sup>23</sup> In an effort to eliminate double counting, internally consumed shipments of bulk canvas have not been included in the data for combined U.S. shipments of bulk and finished canvas (presented in table III-4). These data also exclude commercial shipments of bulk canvas to firms that have reported separately to the Commission their shipments of finished canvas products. See Staff Worksheet I: Double-Counting Adjustment.

**Table III-4**  
**Artists' canvas: U.S. producers' U.S. shipments and exports, 2002-05<sup>1</sup>**

Item	Calendar year			
	2002	2003	2004	2005
<b>Quantity (1,000 square meters)</b>				
U.S. commercial shipments:	6,622	6,319	6,934	8,987
Export shipments	2,017	2,502	3,393	3,734
Total shipments	8,639	8,821	10,327	12,721
<b>Value (\$1,000)</b>				
U.S. commercial shipments:	35,969	32,214	32,613	37,947
Export shipments	5,938	7,960	9,719	10,590
Total shipments	41,907	40,174	42,332	48,537
<b>Unit value (per square meter)</b>				
U.S. commercial shipments:	\$5.43	\$5.10	\$4.70	\$4.22
Export shipments	2.94	3.18	2.86	2.84
Total shipments	4.85	4.55	4.10	3.82
<b>Share of quantity (percent)</b>				
U.S. commercial shipments:	76.7	71.6	67.1	70.6
Export shipments	23.3	28.4	32.9	29.4
Total shipments	100.0	100.0	100.0	100.0
<p><sup>1</sup> In an effort to eliminate double counting, shipments of bulk canvas internally consumed in the production of finished canvas products have not been included in the above combined data for bulk and finished canvas. Where possible, U.S. coaters' commercial shipments of bulk canvas have also been subtracted, based on the shipments of finished products reported by their converter customers.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>				

**Table III-5**  
**Bulk artists' canvas: U.S. producers' U.S. shipments and exports, 2002-05**

\* \* \* \* \*

**Table III-6**  
**Finished artists' canvas: U.S. producers' U.S. shipments and exports, 2002-05**

\* \* \* \* \*

## U.S. PRODUCERS' INVENTORIES

Data relating to U.S. producers' inventories of artists' canvas are presented in table III-7. As indicated in table III-7, U.S. producers' reported inventories decreased between 2002 and 2005, relative to production and shipments. In quantity terms, reported inventories of bulk artists' canvas were lower at the end of 2005 than at the end of 2002, while inventories of finished canvas products were higher.

**Table III-7**

**Artists' canvas: U.S. producers' end-of-period inventories, 2002-05**

\* \* \* \* \*

## U.S. PRODUCERS' EMPLOYMENT, WAGES, AND PRODUCTIVITY

Data relating to U.S. producers' production and related workers ("PRWs") for artists' canvas are presented in table III-8. As indicated in the table, total reported U.S. employment of PRWs decreased in every year of the period examined, as did hours worked and aggregate wages paid. The reported data for bulk and finished canvas exhibited inverse trends, however: the number of PRWs, hours worked, and wages paid to PRWs producing bulk canvas increased during the period examined, while the same indicia for those producing finished canvas decreased.

**Table III-8**  
**Artists' canvas: U.S. producers' employment and related data, 2002-05**

Item	Calendar year			
	2002	2003	2004	2005
<b>Total (bulk and finished)</b>				
PRWs ( <i>number</i> )	448	396	394	382
Hours worked ( <i>1,000</i> )	916	817	803	752
Wages paid ( <i>\$1,000</i> )	11,065	10,087	9,788	9,484
Hourly wages	\$12.08	\$12.35	\$12.19	\$12.61
Productivity ( <i>sq. meters per hour</i> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )
Unit labor cost ( <i>per sq. meter</i> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )
<b>Bulk</b>				
PRWs ( <i>number</i> )	***	***	***	***
Hours worked ( <i>1,000</i> )	***	***	***	***
Wages paid ( <i>\$1,000</i> )	***	***	***	***
Hourly wages	***	***	***	***
Productivity ( <i>sq. meters per hour</i> )	***	***	***	***
Unit labor cost ( <i>per sq. meter</i> )	***	***	***	***
<b>Finished</b>				
PRWs ( <i>number</i> )	***	***	***	***
Hours worked ( <i>1,000</i> )	***	***	***	***
Wages paid ( <i>\$1,000</i> )	***	***	***	***
Hourly wages	***	***	***	***
Productivity ( <i>sq. meters per hour</i> )	***	***	***	***
Unit labor cost ( <i>per sq. meter</i> )	***	***	***	***
<sup>1</sup> Not applicable. (These indices are calculated as ratios to production. In order to avoid double-counting, production data for bulk and finished artists' canvas have not been aggregated.)				
Source: Compiled from data submitted in response to Commission questionnaires.				



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

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

Commission importers' questionnaires in this final-phase investigation were sent to all 13 firms identified in the petition as importers of artists' canvas.<sup>1</sup> Questionnaires were sent to a further 24 firms identified in proprietary Customs data as substantial importers of merchandise under the HTS subheadings covering artists' canvas,<sup>2</sup> as well as to six additional firms identified as potential importers of artists' canvas by petitioner's counsel.<sup>3</sup> Finally, importers' questionnaires were also sent to recipients of the Commission's producers' questionnaire. Importers' questionnaire responses were received from 41 firms, including eight of the 10 U.S. producers of artists' canvas identified in Part III (table III-1).<sup>4</sup> Twenty-one firms certified that they had not imported artists' canvas during the period examined in this investigation; the remaining 20 firms, including petitioner Tara,<sup>5</sup> provided data relating to their imports.

On the basis of data received in response to the Commission's questionnaires, respondent \*\*\* is the largest U.S. importer of artists' canvas, accounting for \*\*\* percent of reported subject imports, and \*\*\* percent of total reported imports from all sources in 2005. \*\*\* is the second largest U.S. importer of artists' canvas on the basis of questionnaire data, accounting for \*\*\* percent of total reported U.S. imports, and \*\*\* percent of reported nonsubject imports,<sup>6</sup> in 2005. \*\*\* was the third largest U.S. importer of artists' canvas in 2005, accounting for \*\*\* percent of total reported imports, and \*\*\* percent of reported subject imports. Remaining firms each accounted for \*\*\* percent of total reported imports.

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

Record evidence in this investigation suggests that the quantity of imports reported in official Commerce statistics for the HTS subheadings covering artists' canvas are significantly overstated.<sup>7</sup> Data presented in this section relating to the quantity and value of U.S. imports are therefore based on a combination of questionnaire data and official Commerce statistics. In light of petitioner's foreign conversion and import activities, data on U.S. imports of artists' canvas from Mexico are presented separately, and are based on questionnaire data \*\*\*.<sup>8</sup> Due to limited breadth of coverage of questionnaire

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<sup>1</sup> Petition, exh. 10.

<sup>2</sup> Importers' questionnaires were sent to firms identified as having imported more than \$500,000 under HTS subheadings 5901.90.20 and 5901.90.40, from any source, during January 2002 to August 2005.

<sup>3</sup> See fax from G. Thompson, counsel to petitioner, December 21, 2005.

<sup>4</sup> Only \*\*\* and \*\*\* failed to submit a response to the importers' questionnaire. A representative of the former confirmed that the firm does not import subject canvas. Staff telephone notes, April 12, 2006.

<sup>5</sup> \*\*\*.

<sup>6</sup> \*\*\*.

<sup>7</sup> Official Commerce statistics for \*\*\*, for instance, indicate that the company imported \*\*\* square meters of artists' canvas in 2005, whereas in its questionnaire response, \*\*\* reported importing only \*\*\* square meters. Commerce and questionnaire data for the value of \*\*\*'s 2005 imports were a 99-percent match. See also, Letter from \*\*\*, U.S. Census Bureau, June 6, 2005 (noting mistakenly reported quantity data on HTS subheading 5901.90.40).

<sup>8</sup> As alluded to above, between 2002 and 2005, the value of \*\*\*.

data for imports from other nonsubject countries, as well as for imports from China,<sup>9</sup> data on the value of U.S. imports for these sources are based on official Commerce statistics, while quantity data are derived from questionnaire responses.<sup>10</sup>

U.S. import data, compiled on the bases described above, are presented in table IV-1. As indicated in table IV-1, the quantity and value of U.S. imports of artists' canvas from China increased in every year of the period examined in this investigation. The rate of growth of imports from China (by quantity) was highest between 2003 and 2004 (at 155 percent), and lowest between 2004 and 2005 (at 79 percent). Imports from China accounted for a growing share of total U.S. imports over this period, while the share of nonsubject imports declined. The unit value of imports from China fluctuated during the period examined, and was 15 percent lower in 2005 than in 2002. With the exception of 2002, the unit value of imports from China was lower than that of total imports from nonsubject sources.

Table IV-1A presents official Commerce statistics for U.S. imports under the two HTS subheadings covering artists' canvas from the eight largest sources in 2005. On the basis of the data in this table, imports from Mexico, India, and Switzerland together accounted for 81 percent of the value of U.S. imports of artists' canvas from nonsubject sources in 2005, and 36 percent of imports from all sources. According to petitioner, \*\*\* is the "primary importer" of artists' canvas from India.<sup>11</sup> The questionnaire response of this firm indicates that it imported \*\*\* canvas from India, and that the unit value of its imports from India during the period examined were generally \*\*\* than that of U.S. shipments of this product, and \*\*\* than that of imports from other sources.<sup>12</sup> \*\*\* firms contacted in the final phase of this investigation reported importing subject artists' canvas from Switzerland during the period examined. All \*\*\* firms, \*\*\* are distributors of \*\*\* canvas, and all \*\*\* firms identified the Swiss company \*\*\* as the exporter of their imported canvas. The aggregate unit value of reported imports by these firms was generally higher than that of imports from other sources.<sup>13</sup>

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<sup>9</sup> Reported questionnaire data for "all other" countries equaled only 58 percent of the value of official Commerce statistics for imports of artists' canvas from these countries in 2005; reported import value for China equaled 73 percent of the value in official statistics (the reduction in value of reported imports from China in this report, compared to that presented in the prehearing report, result from a reporting revision by one \*\*\* importing firm (*see* \*\*\*)).

<sup>10</sup> Quantity data for China and "all other sources" have been derived by applying unit values calculated from importers' questionnaire data to import values contained in official Commerce statistics.

<sup>11</sup> Petitioner's posthearing brief (responses to Commission questions), p. 31.

<sup>12</sup> \*\*\*'s response to the importers' questionnaire. The unit value of this company's reported imports of \*\*\* canvas from India was \$\*\*\* in 2002, \$\*\*\* in 2003, \$\*\*\* in 2004, and \$\*\*\* in 2005. At the Commission's hearing, petitioner's vice president of sales noted that Tara had competed with imports from India "quite fairly." Hearing transcript, p. 93 (Straquadine).

<sup>13</sup> The unit value of total imports reported by \*\*\* was \$\*\*\* in 2002, \$\*\*\* in 2003, \$\*\*\* in 2004, and \$\*\*\* in 2005.

**Table IV-1**  
**Artists' canvas: U.S. imports, by principal sources, 2002-05**

Source	Calendar year			
	2002	2003	2004	2005
<b>Quantity (1,000 square meters)</b>				
China	202	500	1,276	2,286
Mexico	***	***	***	***
All other sources	353	322	499	872
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***
<b>Value (\$1,000)<sup>1</sup></b>				
China	1,562	3,390	8,974	15,079
Mexico	***	***	***	***
All other sources	1,527	1,800	3,747	5,840
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***
<b>Unit value (per square meter)</b>				
China	\$7.75	\$6.78	\$7.03	\$6.59
Mexico	***	***	***	***
All other sources	4.32	5.59	7.50	6.70
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***

*Table continued on next page.*

**Table IV-1--Continued**

**Artists' canvas: U.S. imports, by source, 2002-05**

Source	Calendar year			
	2002	2003	2004	2005
<b>Share of quantity (percent)</b>				
China	20.0	33.2	52.7	60.0
Mexico	***	***	***	***
All other sources	35.1	21.4	20.6	22.9
Subtotal nonsubject	***	***	***	***
Total imports	100.0	100.0	100.0	100.0
<b>Share of value (percent)</b>				
China	21.3	30.6	49.8	56.2
Mexico	***	***	***	***
All other sources	20.8	16.3	20.8	21.8
Subtotal nonsubject	***	***	***	***
Total imports	100.0	100.0	100.0	100.0
<b>Ratio to U.S. producers' U.S. shipments (percent)</b>				
China	3.0	7.9	18.4	25.4
Mexico	***	***	***	***
All other sources	5.3	5.1	7.2	9.7
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***
<sup>1</sup> Landed, duty-paid.  Source: Data for Mexico are compiled from data submitted by petitioner in response to Commission questionnaires; data for China and all other sources are calculated from data submitted in response to Commission questionnaires and official Commerce statistics.				

**Table IV-1A**  
**Artists' canvas: U.S. imports, by source, 2002-05**

Source	Calendar year			
	2002	2003	2004	2005
<b>Value (\$1,000)<sup>1</sup></b>				
China	1,562	3,390	8,974	15,079
Mexico	4,238	5,732	5,262	5,996
India	109	491	1,564	2,097
Switzerland	61	165	710	1,534
Czech Republic	0	1	0	622
Belgium	340	388	398	531
France	173	247	286	326
Canada	260	220	229	235
All other sources	587	290	560	496
Total nonsubject	5,768	7,534	9,009	11,837
All sources	7,327	10,922	17,983	26,915
<b>Share of value (percent)</b>				
China	21.3	31.0	49.9	56.0
Mexico	57.8	52.5	29.3	22.3
India	1.5	4.5	8.7	7.8
Switzerland	0.8	1.5	3.9	5.7
Czech Republic	0.0	0.0	0.0	2.3
Belgium	4.6	3.6	2.2	2.0
France	2.4	2.3	1.6	1.2
Canada	3.5	2.0	1.3	0.9
All other sources	8.0	2.7	3.1	1.8
Total nonsubject	78.7	69.0	50.1	44.0
All sources	100.0	100.0	100.0	100.0
<sup>1</sup> Landed, duty-paid. Source: Official Commerce statistics.				

## APPARENT U.S. CONSUMPTION AND MARKET SHARES

Data relating to apparent U.S. consumption of artists' canvas and the market shares of U.S. producers, subject imports, and nonsubject imports, are presented in tables IV-2 and IV-3. On the basis of these data, apparent U.S. consumption of artists' canvas increased by \*\*\* percent during the period examined, from \*\*\* square meters in 2002 to \*\*\* square meters in 2005 (the value of apparent U.S. consumption increased by \*\*\* percent over the same period). U.S. producers' shipments accounted for a decreasing share of the U.S. artists' canvas market throughout the period, accounting for \*\*\* percent of apparent consumption in 2002, and \*\*\* percent in 2005. In value terms, the decrease in U.S. producers' market share was more pronounced, going from \*\*\* percent in 2002, to \*\*\* percent in 2005. The market share of imports from China increased from \*\*\* to \*\*\* percent between 2002 and 2005, while the share of nonsubject imports increased from \*\*\* to \*\*\* percent.<sup>14 15</sup>

Respondents in this investigation have argued that a "large share" of U.S. production of artists' canvas is of types that do not compete with subject imports.<sup>16</sup> Reported data relating to U.S. producers' and importers' shipments of bulk and finished artists' canvas, by product type, are presented in table IV-4.

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<sup>14</sup> Based on official Commerce statistics, imports from India accounted for the largest share of nonsubject imports, after Mexico. Imports from these two countries accounted for two-thirds of nonsubject imports, by value, in 2005.

<sup>15</sup> In its final LTFV determination, Commerce determined that the country of origin for assembled artists' canvas exported by Hangzhou Foreign Economic Relations & Trade Service Co. produced using bulk canvas primed in India, is India, and therefore not subject to this investigation. *See Commerce's final determination*, (71 FR 16116, March 30, 2006). Reported data for imports of artists' canvas from China primed in India have therefore been removed from calculations of unit value and quantity for imports from China in table IV-1 (above), and included in the calculations for "all other sources."

<sup>16</sup> Respondents' prehearing brief, p. 30.

**Table IV-2**  
**Artists' canvas: Apparent U.S. consumption, 2002-05**

Item	Calendar year			
	2002	2003	2004	2005
<b>Quantity (1,000 square meters)</b>				
U.S. producers' U.S. shipments	***	***	***	***
U.S. imports from: China	202	500	1,276	2,286
Mexico	***	***	***	***
All other sources	353	322	499	872
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***
Apparent U.S. consumption	***	***	***	***
<b>Value (\$1,000)</b>				
U.S. producers' U.S. shipments	***	***	***	***
U.S. imports from: China	1,562	3,390	8,974	15,079
Mexico	***	***	***	***
All other sources	1,527	1,800	3,747	5,840
Subtotal nonsubject	***	***	***	***
Total imports	***	***	***	***
Apparent U.S. consumption	***	***	***	***
Note.—Due to rounding, figures in the above table may not add to the totals shown.				
Source: Compiled from data submitted in response to Commission questionnaires and from official Commerce statistics.				

**Table IV-3**  
**Artists' canvas: Apparent U.S. consumption and market shares, 2002-05**

\* \* \* \* \*

**Table IV-4**  
**Artists' canvas: U.S. producers' and importers' U.S. shipments, by product type, 2002-05**

\* \* \* \* \*

## RATIO OF SUBJECT IMPORTS TO U.S. PRODUCTION

The ratio of subject imports to U.S. production of artists' canvas is presented in table IV-5. Subject imports from China were equivalent to \*\*\* percent of U.S. production during 2002 and this ratio increased throughout the period of investigation, reaching \*\*\* percent in 2005.

**Table IV-5**  
**Artists' canvas: Ratio of U.S. imports from China to U.S. production, 2002-05**

\* \* \* \* \*

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

### **FACTORS AFFECTING PRICES**

#### **Raw Material Costs**

The two principal raw materials used in the production of artists' canvas are raw canvas and lumber.<sup>1</sup> Other raw materials may include staples; dyes and tannins; additives; shrink film or other packaging materials; and labels. One domestic producer, \*\*\*, reported that its raw materials costs increased by \*\*\* percent in 2005.<sup>2</sup> The two principal processing steps include coating and sheeting/cutting, plus the additional steps of stretching and framing/trimming for assembled artists' canvas. 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 26.9 percent of the customs value during 2005. This estimate is derived from official Commerce statistics.<sup>3</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 U.S. producers, reported costs were 10 percent of the delivered price. For importers from China, the costs ranged from 1 percent to as much as 7 percent of the delivered price.

#### **Exchange Rate**

The nominal value of the Chinese yuan relative to the U.S. dollar has remained virtually unchanged from January 2002 to December 2005.<sup>4</sup> A real value is unavailable.

### **PRICING PRACTICES**

#### **Pricing Methods**

When questionnaire respondents were asked how they determined the prices that they charge for artists' canvas, five producers and five importers reported the use of price lists. Two importers also

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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.

<sup>2</sup> Petitioner's posthearing brief, responses to questions, p. 18

<sup>3</sup> The estimated cost was obtained by subtracting the customs value from the c.i.f. value of the imports for 2005 and then dividing by the customs value. This calculation used import data for 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.

<sup>4</sup> China's currency was pegged to the U.S. dollar during most of the period for which data were collected, so it neither appreciated nor depreciated nominally. On July 21, 2005, China re-evaluated its currency to allow narrow fluctuations based on a basket of foreign currencies.

reported that prices are at least partly determined by customer-by-customer negotiations. One producer reported that its price increases are based on raw material and labor costs.<sup>5</sup>

Prices may vary widely depending on the specific attributes of the artists' canvas. Side-stapled artists' canvas, canvas pads, and canvas panels, which are marketed as entry-level products, tend to be priced lower than artists' canvas with special features such as back-stapling, splines, or irregular shapes.<sup>6</sup>

Prices of artists' canvas are most commonly quoted on an f.o.b. basis rather than a delivered basis. One 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 \$\*\*\*.<sup>7</sup> This producer also offers faster delivery during retailers' back-to-school promotional periods. One producer offers free freight on orders over \$\*\*\*, while another offers free freight on shipments over \$\*\*\*. Nearly all of the responding importers quote on an f.o.b. basis. Four of seven responding importers offer free freight on minimum orders between \$\*\*\* and \$\*\*\* and the remaining three importers offer free freight on minimum orders of \$\*\*\* to \$\*\*\*. When asked what percentage of their sales qualified for free freight in 2005, importers reported a range of \*\*\* to \*\*\* percent.

### 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 2005. Among producers, three firms reported that they sell entirely on a spot basis, one reported that it sells mostly on a long-term contract basis, and one producer reported that it sells exclusively on a short-term contract basis.<sup>8</sup> Nearly all responding importers reported that they sell exclusively on a spot basis. One importer reported that it sells exclusively on a long-term contract basis. For the one U.S. producer selling on a long-term contract basis, the contract duration is three years and neither price nor quantity are fixed during this period. For the one U.S. producer selling on a short-term contract basis and the one importer selling on a long-term contract basis, neither price nor quantity are fixed and there is no meet-or-release provision.

Discount policies on sales of artists' canvas vary widely. Six of seven producers reported that they offer discounts based on volumes or dollar values of the order and that they may vary by type of customer (i.e., retailer or distributor). One of these producers reported that typically it offers discounts of \*\*\* to \*\*\* percent, but recently these have increased to \*\*\* percent. One producer also reported the use of more aggressive discounts in cases where it must compete head-to-head with Chinese imports. Four importers reported the use of discounts based on volume or dollar values of the order. These discounts mostly range from \*\*\* percent. One of these importers reported that its discounts are built into its set price lists and two reported that they may offer additional discounts to larger customers.

One domestic producer reported that certain importers of artists' canvas may list a suggested retail price of the Chinese product at an inflated price of 10 to 25 percent higher than the retail price of domestic artists' canvas. The importer may then reportedly offer an "every day" discount of 70 percent off the Chinese imports and/or retailers can offer discounts of 40 to 50 percent off the Chinese artists'

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<sup>5</sup> Petitioner's posthearing brief, responses to questions, p. 19.

<sup>6</sup> Petitioner's posthearing brief, responses to questions, pp. 1 and 21-22. Hearing transcript, p. 78 (Straquadine). MacPherson's, an importer, estimated that the price for a "wrapped" canvas may be 15 to 20 percent higher than a side-stapled canvas. Hearing transcript, p. 214 (Stapleton).

<sup>7</sup> This freight program was introduced by \*\*\* in \*\*\*.

<sup>8</sup> One producer, \*\*\*.

canvas in stores and still make a profit due to the low price of the imports.<sup>9</sup> This U.S. producer also reported that domestic artists' canvas is typically not discounted at retail more than 20 to 25 percent.<sup>10</sup> One importer also reported that large discounts on artists' canvas at the retail level serve to promote the product and increase consumer demand.<sup>11</sup>

## 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>12</sup> Data were requested for the period January 2002-December 2005 on the following products:

***Product 1.***—8x10 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), side-stapled.

***Product 2.***—16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), side-stapled.

***Product 3.***—16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), stapled on back.

***Product 4.***—16x20 stretched canvas, medium-weight, 100% unbleached cotton duck, double-primed acrylic, standard stretcher strips (1-5/8" x 11/16"), with spline.

***Product 5.***—12x12 stretched canvas, gallery (or deep) stretcher bars (1-7/16" x 1-7/16" or 1-1/2" x 1-1/2"), 100% unbleached cotton duck, double-primed acrylic, stapled on back.

***Product 6.***—8x10 canvas panel (non-archival) with chipboard core, polyester/cotton canvas.

***Product 7.***—Double-primed, medium-weight, 100% unbleached cotton duck, 73" x 6 yd. roll.

***Product 8.***—Inkjet printer canvas with top-coat for ink receptivity, polyester/cotton canvas, 36" x 40' roll.

Five U.S. producers and six 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 \*\*\* percent of the value of U.S. producers' commercial shipments of artists' canvas during January 2002-December 2005 and \*\*\* percent of the value of U.S. imports from China over the same period.

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<sup>9</sup> The U.S. producer also stated that discounts can vary widely by retailer. Hearing transcript, pp. 26-27 (Straquadine).

<sup>10</sup> Hearing transcript, pp. 123-4 (Delin).

<sup>11</sup> Hearing transcript, p. 212 (Stapleton).

<sup>12</sup> These sales prices are broken out by channel of distribution (i.e., converter, distributor, or retailer) in app. F. Purchase prices of direct imports from China and of domestic products are presented in app. G.

## Price Trends

Weighted-average prices reported for U.S. producers and importers are presented in tables V-1 through V-8 and in figures V-1 through V-8 on a quarterly basis during January 2002-December 2005.

The weighted-average sales price of U.S.-produced product 1 decreased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005. The weighted-average sales price of product 1 imported from China decreased by \*\*\* percent over the same period.<sup>13</sup>

The weighted-average sales price of U.S.-produced product 2 decreased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005. The weighted-average sales price of product 2 imported from China decreased by \*\*\* percent over the same period.<sup>14</sup>

The weighted-average sales price of U.S.-produced product 3 fluctuated over the period of investigation, decreasing overall by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005.<sup>15</sup> The weighted-average sales price of product 3 imported from China increased by \*\*\* percent from the first quarter of 2003 to the fourth quarter of 2005.<sup>16</sup>

The weighted-average sales price of U.S.-produced product 4 increased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005.<sup>17</sup> The weighted-average sales price of product 4 imported from China increased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005.

The weighted-average sales price of U.S.-produced product 5 fluctuated over the period of investigation, but remained virtually unchanged from the first quarter of 2002 to the fourth quarter of 2005. The weighted-average sales price of product 5 imported from China decreased by \*\*\* percent from the first quarter of 2003 to the fourth quarter of 2005.<sup>18</sup>

The weighted-average sales price of U.S.-produced product 6 decreased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005. The weighted-average sales price of product 6 imported from China decreased by \*\*\* percent from the first quarter of 2003 to the fourth quarter of 2005.

The weighted-average sales price of U.S.-produced product 7 fluctuated over the period of investigation, but remained virtually unchanged from the first quarter of 2002 to the fourth quarter of 2005. There were no sales reported of product 7 imported from China.

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<sup>13</sup> Pricing data for sales prices of product 1 imported from China as reported by \*\*\* were only reported on an annual basis. The annual data were converted into quarterly averages.

<sup>14</sup> Pricing data for sales prices of product 2 imported from China as reported by \*\*\* were only reported on an annual basis. The annual data were converted into quarterly averages.

<sup>15</sup> U.S. producer Tara began producing this product in the first quarter of 2005 (when it switched its best-selling canvas lines from side-stapled to back-stapled canvas). Petitioner's posthearing brief, responses to questions, p. 24. Tara accounts for \*\*\* percent of the reported quantity of product 3 in 2005 and the decrease in the weighted-average price of product 3 in 2005 is therefore mostly attributable to Tara's entry into this product line. One value for sales of U.S.-produced product 3 as reported by \*\*\* was excluded because it was deemed to be an outlier.

<sup>16</sup> Eight values for sales of product 3 imported from China as reported by \*\*\* were excluded because they were deemed to be outliers.

<sup>17</sup> Sales of U.S.-produced product 4 originally reported by \*\*\* were excluded because \*\*\* misreported sales of product 4 that were \*\*\*.

<sup>18</sup> One value for sales of product 5 imported from China as reported by \*\*\* was excluded as it was deemed to be an outlier. Pricing data for sales prices of product 5 imported from China as reported by \*\*\* were only reported on an annual basis. The annual data were converted into quarterly averages.

**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-December 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-December 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-December 2005**

\* \* \* \* \*

**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-December 2005**

\* \* \* \* \*

**Table V-5**

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 5 and margins of underselling/(overselling), by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table V-6**

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 6 and margins of underselling/(overselling), by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table V-7**

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 7 and margins of underselling/(overselling), by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table V-8**

**Artists' canvas: Weighted-average f.o.b. prices and quantities of domestic and imported product 8 and margins of underselling/(overselling), by quarters, January 2002-December 2005**

\* \* \* \* \*

**Figure V-1**

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

\* \* \* \* \*

**Figure V-2**

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

\* \* \* \* \*

**Figure V-3**

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

\* \* \* \* \*

**Figure V-4**

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

\* \* \* \* \*

**Figure V-5**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 5, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Figure V-6**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic and imported product 6, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Figure V-7**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic product 7, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Figure V-8**

**Artists' canvas: Weighted-average f.o.b prices and quantities of domestic product 8, by quarters, January 2002-December 2005**

\* \* \* \* \*

The weighted-average sales price of U.S.-produced product 8 decreased by \*\*\* percent from the first quarter of 2002 to the fourth quarter of 2005.<sup>19</sup> There were no sales reported of product 8 imported from China.

### Price Comparisons

Margins of underselling and overselling for the period are presented by product category in tables V-9 and V-10 below. Prices of imports from China were lower than the U.S. producer prices in 78 out of 83 quarterly comparisons, by margins ranging from 0.7 percent to 72.1 percent. For products 1-5, the prices of imports from China were lower than the U.S. producer prices in all 71 quarterly comparisons. In seven of 12 comparisons related to product 6, the imported product was priced lower than the U.S. producer prices. In the remaining five instances, the imported product was priced above the comparable domestic product; margins of overselling ranged from 1.2 to 16.6 percent.

**Table V-9**  
**Artists' canvas: Margins of underselling/(overselling) by product, quarterly, January 2002-December 2005**

\* \* \* \* \*

**Table V-10**  
**Artists' canvas: Instances of underselling/overselling and the range and average of margins for products 1-8, January 2002-December 2005**

\* \* \* \* \*

### 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 December 2005. The results are summarized in tables V-11 and V-12 and are discussed below. \*\*\* 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 \*\*\*. These \*\*\* lost sales allegations totaled at least \$\*\*\* and the \*\*\* lost revenue \*\*\* totaled \$\*\*\*. Staff contacted the \*\*\* purchasers cited in the allegations; \*\*\* responded.

**Table V-11**  
**Artists' canvas: U.S. producers' lost sales allegations**

\* \* \* \* \*

**Table V-12**  
**Artists' canvas: U.S. producers' lost revenue allegations**

\* \* \* \* \*

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<sup>19</sup> Sales of U.S.-produced product 8 as reported by \*\*\* consist of artists' canvas that is produced under a toll agreement and sold by \*\*\*.

One U.S. producer, \*\*\*, made additional allegations that it had lost sales valued at \$\*\*\* with \*\*\* and \$\*\*\* with \*\*\*, but it did not provide adequate information in order for staff to verify the allegations. One U.S. producer reported that it has not been able to increase prices in the last three years, but it was uncertain as to whether it was due to imports from China or not.

Another U.S. producer, \*\*\*, reported that while it has lost sales with some retailers (including \*\*\*), it has experienced increased sales with at least one retailer, \*\*\*, that purchases both Chinese imports and domestic product. Moreover, \*\*\* reported that it had planned a price increase to take effect in \*\*\*, which was effectively offset when it implemented a \*\*\* in response to a \*\*\* offered by its main domestic competitor, \*\*\*.

Aaron Bros. was named in a lost sale allegation involving artists' canvas valued at \$\*\*\* allegedly occurring in \*\*\*. Aaron Bros. reported that it had quality problems with splined artists' canvas as supplied by domestic producer \*\*\* and that \*\*\* did not support Aaron Bros.' marketing strategy.<sup>20</sup> Moreover, Aaron Bros. contends that it did not displace U.S. sales when it switched to Chinese imports because its previous purchases from domestic producer \*\*\* were comprised of over \*\*\* percent splined artists' canvas, which was produced at \*\*\*.<sup>21</sup> Aaron Bros. also reported that Chinese suppliers met their requirements in terms of product offerings, price, and quality.<sup>22</sup>

\*\*\* 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 imports. It stated, however, that it also continues to buy 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.

\*\*\* was cited in a lost sales allegation allegedly occurring in \*\*\* and it agreed. However, it reported that it increased its purchases of Chinese imports in order to expand its product offerings beyond that which its domestic source carried. Moreover, \*\*\* reported that its domestic supplier was often late in delivering orders and that the Chinese imports served as a back-up in those instances.

\*\*\* 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 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 its imports from China were a "wrapped" canvas that was not offered by its U.S. supplier at the time.

Michael's was named in \*\*\* lost sale allegations involving artists' canvas valued at \$\*\*\*. Michael's reported that while it did switch some purchases to Chinese imports, its major source of artists' canvas continues to be domestic producer \*\*\*. Michael's also contends that sales of its artists' canvas imported from China complement sales of domestic product.<sup>23</sup>

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<sup>20</sup> Hearing transcript, p. 177 (Kanter). Aaron Bros. also reported that it switched to Chinese imports in part because there was no other domestic supply of splined artists' canvas in 2003. Hearing transcript, p. 179 (Kanter). Staff notes, however, that domestic producer \*\*\* reported sales of splined canvas in \*\*\* in the pricing data it submitted in response to Commission questionnaires.

<sup>21</sup> Respondents' posthearing brief, exh. 1, at question 4, p. 2. \*\*\* reported that \*\*\* percent of its sales to \*\*\* were domestically produced. Petitioner's posthearing brief, responses to questions, p. 15.

<sup>22</sup> Hearing transcript, p. 179 (Kanter).

<sup>23</sup> Hearing transcript, pp. 172-174 (Marek).

\*\*\* 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.

Utrecht 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 Tara to both a different domestic source, \*\*\*, a Chinese source, as well as nonsubject sources in Belgium and India. Utrecht also reported that its new domestic source had limited capacity and was unable to replace all of the artists' canvas Utrecht had previously purchased from Tara.<sup>24</sup> Utrecht stated that price was only one of many factors that resulted in its decision. Utrecht reported that it had experienced many quality problems with Tara over a long period of time, that Tara had \*\*\*, that Tara did not upgrade its quality or offer innovative styles, and that Tara did not have a proactive marketing strategy. Tara reported that it made efforts to address the quality concerns. Moreover, Tara contends that Utrecht's quality complaints were mostly limited to linen artists' canvas, but that Utrecht replaced the entire product line with Chinese imports.<sup>25</sup>

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>26</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 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>27</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>24</sup> Respondents' posthearing brief, exh. 1, at question 4, p. 4.

<sup>25</sup> Hearing transcript, pp. 22-23.

<sup>26</sup> Hearing transcript, p. 120 (Straquadine).

<sup>27</sup> Hearing transcript, pp.160-162, 165. (Stapleton).



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

### BACKGROUND

Eight producers<sup>1</sup> provided financial results for their operations on artists' canvas.<sup>2</sup> \*\*\* were three producers which reported on operations for both bulk and finished canvas. \*\*\* reported transfers of bulk to related firms and its transfers accounted for approximately \*\*\* percent of the combined sales value of 2005.

The questionnaire data of Tara were verified with company records at its corporate facilities. The verification adjustments were incorporated into this report. The financial data of Tara were changed to reflect the \*\*\*. However, the combined COGS remain the same. The adjustments for Tara resulted in \*\*\*.

### OPERATIONS ON ARTISTS' CANVAS

Results of operations of the U.S. producers on their artists' canvas operations (both bulk and 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. For financial data of both bulk and finished combined, net sales quantities, net sales values, and COGS were adjusted for bulk canvas purchased from domestic producers by converters, whenever possible, in order to eliminate possible double counting. These eliminations were \*\*\* percent or less of total sales values every period. Aggregate income-and-loss data for producers on their bulk canvas operations are presented in table VI-2, while those data on finished canvas are separately shown in table VI-3.

The financial results of the producers on their artists' canvas operations fluctuated from 2002 to 2005. While the quantity sold increased continuously between 2002 and 2005, net sales value decreased from 2002 to 2003 and increased between 2003 and 2005. Operating income increased from 2002 to 2003, due mainly to the decrease of total costs/expenses, and decreased substantially from 2003 to 2004, largely the result of a substantial decrease in the average unit selling price (from \$4.72 to \$4.30 per square meter). Sales value and operating income increased from 2004 to 2005, due primarily to a decrease in the average unit total cost (from \$4.15 to \$3.80) and higher sales volume, in spite of a decrease in the average unit sales value (from \$4.30 to \$3.95 per square meter).

The financial results and trends of bulk sales were different from those for finished canvas sales. \*\*\* reported sales of both bulk and finished canvas. Average unit sales values and total costs between bulk and finished canvas were quite different, for instance, \$\*\*\* vs. \$\*\*\* for sales values<sup>3</sup> and \$\*\*\* vs. \$\*\*\* for total costs, respectively, in 2005. While the average unit selling prices and total costs for finished canvas were naturally consistently higher compared to those for bulk canvas for all periods, average unit operating income for finished canvas decreased to a much greater degree than was the case for bulk canvas in 2004 and 2005 compared to 2003. Therefore, separate unit sales value data for each producer for the combined products and each product group are also presented in table VI-4.

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<sup>1</sup> The producers with fiscal years ending other than December 31 are \*\*\*.

<sup>2</sup> \*\*\*, has not provided response in the final phase of the investigation, even though it submitted response in the preliminary phase of the investigation and went out of business recently. \*\*\*.

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

Table VI-1

## Artists' canvas: Results of operations of U.S. producers, fiscal years 2002-05

Item	Fiscal year			
	2002	2003	2004	2005
	<b>Quantity (1,000 square meters)</b>			
Net sales	7,996	8,335	9,273	10,992
	<b>Value (\$1,000)</b>			
Net sales <sup>1</sup>	40,833	39,322	39,853	43,427
COGS	32,019	30,358	30,745	33,858
Gross profit	8,814	8,964	9,108	9,569
SG&A expenses	6,946	6,333	7,706	7,868
Operating income	1,868	2,631	1,402	1,701
Interest expense	130	150	149	199
Other expense	9	57	61	141
Other income	144	230	198	64
Net income	1,873	2,654	1,390	1,425
Depreciation/amortization	1,472	1,197	920	944
Cash flow	3,345	3,851	2,310	2,369
	<b>Value (per square meter)</b>			
Net sales	\$5.11	\$4.72	\$4.30	\$3.95
COGS	4.00	3.64	3.32	3.08
Gross profit	1.10	1.08	0.98	0.87
SG&A expenses	0.87	0.76	0.83	0.72
Operating income	0.23	0.32	0.15	0.15
	<b>Ratio to net sales (percent)</b>			
COGS	78.4	77.2	77.1	78.0
Gross profit	21.6	22.8	22.9	22.0
SG&A expenses	17.0	16.1	19.3	18.1
Operating income	4.6	6.7	3.5	3.9
	<b>Number of firms reporting</b>			
Operating losses	***	***	***	***
Data	7	7	8	8
<p>Note.-Data in tables VI-2 and VI-3 do not add to the combined data in this table due to the elimination of bulk purchased from a domestic producer by converters. The value of these eliminations were *** percent or less every period.</p> <p><sup>1</sup> Transfers are approximately *** percent of the combined companies' net sales value in 2005 and are not shown separately.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>				

**Table VI-2**  
**Bulk artists' canvas: Results of operations of U.S. producers, fiscal years 2002-05**

\* \* \* \* \*

**Table VI-3**  
**Finished artists' canvas: Results of operations of U.S. producers, fiscal years 2002-05**

\* \* \* \* \*

**Table VI-4**  
**Artists' canvas: Results of operations of U.S. producers, by firm, fiscal years 2002-05**

\* \* \* \* \*

Selected financial data, by firm, are presented in table VI-4. While \*\*\*<sup>4</sup> showed an improved profitability in terms of operating income margin over the period, the remaining producers showed mixed results. The converters of digital print canvas experienced relatively sound operating income and margin and were profitable over the period, compared to the producers of both bulk and finished canvas. Average operating income margins increased from 2002 to 2003 and decreased in 2004, but increased slightly from 2004 to 2005.

Selected aggregate per-square meter cost data of the producers on their operations, i.e., 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 2005. However, due to the two different types of product, bulk and finished canvas, product mix may have a significant impact on the average unit sales values and costs. Unit COGS, by firm, are also presented in table VI-6.

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-7. The analysis is summarized at the bottom of the table. The analysis indicates that the decrease in operating income (\$0.2 million) between 2002 and 2005 was attributable mainly to the negative effect of decreased price (\$12.7 million) which was partially offset by the positive effects of decreased costs/expenses (\$11.8 million) and increased sales volume (\$0.7 million).

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<sup>4</sup> \*\*\*.

**Table VI-5**  
**Artists' canvas: Average unit costs of U.S. producers, fiscal years 2002-05**

Item	Fiscal year			
	2002	2003	2004	2005
COGS:	Value (per square meter)			
Raw materials	\$2.12	\$2.06	\$1.86	\$1.89
Direct labor	0.87	0.70	0.58	0.51
Factory overhead	1.01	0.88	0.87	0.68
Total COGS	4.00	3.64	3.32	3.08
SG&A expenses:				
Selling expenses	0.28	0.24	0.25	0.23
G&A expenses	0.59	0.52	0.58	0.49
Total SG&A expenses	0.87	0.76	0.83	0.72
Total cost	4.87	4.40	4.15	3.80
Source: Compiled from data submitted in response to Commission questionnaires.				

**Table VI-6**  
**Artists' canvas: Unit COGS of U.S. producers, by firm, fiscal years 2002-05**

\* \* \* \* \*

### 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-8. \*\*\* that reported substantial amounts of capital expenditures during the period examined. In addition, four other producers, \*\*\*, reported small amounts of capital expenditures. Four producers, \*\*\*, reported R&D expenses, and the amounts reported by \*\*\*. Capital expenditures, by firm, are presented in table VI-9. Capital expenditures increased steadily during 2002-05.

**Table VI-7****Artists' canvases: Variance analysis of operations of U.S. producers, fiscal years 2002-05**

Item	Between fiscal years			
	2002-05	2002-03	2003-04	2004-05
	Value (\$1,000)			
Net sales:				
Price variance	(12,706)	(3,242)	(3,894)	(3,814)
Volume variance	15,300	1,731	4,425	7,388
Total net sales variance	2,594	(1,511)	531	3,574
Cost of sales:				
Cost variance	10,158	3,018	3,029	2,586
Volume variance	(11,997)	(1,357)	(3,416)	(5,699)
Total cost variance	(1,839)	1,661	(387)	(3,113)
Gross profit variance	755	150	144	461
SG&A expenses:				
Expense variance	1,681	907	(660)	1,267
Volume variance	(2,603)	(294)	(713)	(1,429)
Total SG&A variance	(922)	613	(1,373)	(162)
Operating income variance	(167)	763	(1,229)	299
Summarized as:				
Price variance	(12,706)	(3,242)	(3,894)	(3,814)
Net cost/expense variance	11,839	3,926	2,369	3,853
Net volume variance	700	79	296	260
Note.--Unfavorable variances are shown in parentheses; all others are favorable. The data are comparable to changes in operating income as presented in table VI-1.				
Source: Compiled from data submitted in response to Commission questionnaires.				

**Table VI-8****Artists' canvases: Capital expenditures and R&D expenses by U.S. producers, fiscal years 2002-05**

\* \* \* \* \*

**Table VI-9****Artists' canvases: Capital expenditures by U.S. producers, by firms, fiscal years 2002-05**

\* \* \* \* \*

## 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-10.

The value of total assets steadily increased over the period while the return on investment fluctuated during the same period. The trend of ROI over the period was similar to the trend of the operating income margin shown in table VI-1.

**Table VI-10**

**Artists' canvas: Value of assets and return on investment of U.S. producers, fiscal years 2002-05**

Item	Fiscal year			
	2002	2003	2004	2005
<b>Value of assets</b>	<b>Value (\$1,000)</b>			
1. Current assets:				
A. Cash and equivalents	769	1,279	986	710
B. Trade receivables (net)	4,369	4,475	5,473	6,640
C. Inventories	6,594	9,215	9,386	10,318
D. All other current <sup>1</sup>	5,705	6,507	9,922	16,479
Total current <sup>1</sup>	17,437	21,476	25,767	34,147
2. Non-current assets:				
A. Fixed assets (cost)	22,889	22,343	23,189	24,707
B. Fixed assets (net)	7,410	6,658	6,349	6,854
C. Other non-current	5,719	4,036	3,677	3,563
Total non-current <sup>1</sup>	13,129	10,694	10,026	10,417
<b>Total assets</b>	30,566	32,170	35,793	44,564
	<b>Value (\$1,000)</b>			
<b>Operating income</b>	1,868	2,631	1,402	1,701
	<b>Ratio of operating income to total assets (percent)</b>			
<b>Return on investment</b>	6.1	8.2	3.9	3.8
<sup>1</sup> MacDermid provided only total current and non-current assets without further details.				
Source: Compiled from data submitted in response to Commission questionnaires.				

## **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 H.



## PART VII: THREAT CONSIDERATIONS

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

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of the subject merchandise, the Commission shall consider, among other relevant economic factors<sup>1</sup>--

(I) if a countervailable subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement), and whether imports of the subject merchandise are likely to increase,

(II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,

(III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,

(IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices, and are likely to increase demand for further imports,

(V) inventories of the subject merchandise,

(VI) the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products,

(VII) in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission

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<sup>1</sup> Section 771(7)(F)(ii) of the Act (19 U.S.C. § 1677(7)(F)(ii)) provides that “The Commission shall consider [these factors] . . . as a whole in making a determination of whether further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted under this title. The presence or absence of any factor which the Commission is required to consider . . . shall not necessarily give decisive guidance with respect to the determination. Such a determination may not be made on the basis of mere conjecture or supposition.”

under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both),

(VIII) the 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

(IX) any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).<sup>2</sup>

Information on the volume and pricing of imports of the subject merchandise was presented in Parts IV and V, respectively, of this report; information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts was presented in Part VI. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows.

### THE INDUSTRY IN CHINA

The petition for this investigation identified five "known" producers of artists' canvas in China.<sup>3</sup> Commission questionnaires in this final-phase investigation were sent to these five firms, to four additional firms identified by U.S. importers in the preliminary phase of this investigation, and to three firms identified by petitioner's counsel as potential producers of subject merchandise.<sup>4</sup> Responses were received from four firms: Hangzhou Haili Electronic Equipment Co., Ltd. ("Hangzhou");<sup>5</sup> Ningbo Conda Import & Export Co., Ltd. ("Ningbo Conda"); Wuxi Phoenix Artist Material Co., Ltd. ("Wuxi"); and Yiwu Kaibo Painting Materials Co., Ltd. ("Yiwu Kaibo"). \*\*\* is solely an exporter of subject merchandise; the remaining three firms both produce and export artists' canvas. Three of these firms, Hangzhou, Ningbo Conda, and Wuxi, are parties to this investigation.<sup>6</sup>

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<sup>2</sup> Section 771(7)(F)(iii) of the Act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other WTO member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

<sup>3</sup> Petition, exh. 8.

<sup>4</sup> Fax from G. Thompson, counsel to petitioner, December 21, 2005.

<sup>5</sup> Hangzhou reportedly only produces and exports assembled canvas using bulk canvas primed in India. The Department of Commerce has determined that the country of origin for such exports is India, and are therefore not subject to the instant investigation (*see Commerce's final determination*, 71 FR 16116, March 30, 2006). *See also*, fn. 9, below.

<sup>6</sup> Petitioner notes that, as a result of questionnaire responses not received from potential producers of subject merchandise, the Commission's record regarding the Chinese industry "appears to be incomplete." Petitioner's prehearing brief, p. 42. According to respondents, the Chinese firm \*\*\*, for which data were received, is the "dominant exporter" of subject merchandise from China. Respondents' posthearing brief, p. 14. (\*\*\*) accounted for two-thirds of 2005 reported exports to the United States.)

## Chinese Producers' Capacity, Production, and Shipments

### Bulk

Data on Chinese producers' capacity, production, and shipments of bulk canvas, based on the questionnaire responses of the four firms identified above, are presented in table VII-1. On the basis of these data, Chinese producers' capacity to produce bulk canvas increased in every year of the period examined, and was \*\*\* times higher in 2005 than in 2002. Chinese producers' bulk canvas capacity is projected to increase by a further \*\*\* percent between 2005 and 2007, from \*\*\* to \*\*\* square meters.<sup>7</sup>

**Table VII-1**  
**Bulk artists' canvas: Chinese producers' capacity, production, and shipments, 2002-05, and 2006-07 projections**

\* \* \* \* \*

Chinese producers' reported production of bulk canvas increased annually by an average \*\*\* percent between 2002 and 2005, and was over \*\*\* times higher in 2005 than in 2002. Chinese producers' production of bulk canvas is projected to increase by \*\*\* square meters, or by \*\*\* percent, between 2005 and 2007.<sup>8</sup> Based on these data, Chinese producers' capacity utilization increased in every year of the period examined, and is projected to approach \*\*\* percent in 2006 and 2007.

Over \*\*\* percent of Chinese producers' reported shipments of bulk artists' canvas during 2002-05 were accounted for by internal consumption.

### Finished

Reported data on Chinese producers' capacity, production, and shipments of finished artists' canvas are presented in table VII-2. As indicated in this table, Chinese producers' reported capacity increased by a factor of \*\*\* during the period examined, while production increased by a factor of \*\*\*. Chinese producers' capacity utilization increased in every year of the period examined, and is projected to reach \*\*\* in 2006.<sup>9</sup>

**Table VII-2**  
**Finished artists' canvas: Chinese producers' capacity, production, and shipments, 2002-05, and 2006-07 projections**

\* \* \* \* \*

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<sup>7</sup> Only one of the three responding Chinese producers was able to estimate its share of bulk artists' canvas production in 2005: \*\*\* estimated that it accounted for \*\*\* percent of total production of bulk artists' canvas in China in 2005, suggesting total production in China of \*\*\* square meters.

<sup>8</sup> This calculation is based on a total Chinese production of \*\*\* square meters in 2005. As noted in table VII-1, one Chinese firm did not report its projected production data for 2006 and 2007. This firm, \*\*\*, reported \*\*\* square meters of bulk canvas production in 2005. This quantity has been subtracted from Chinese producers' total reported 2005 production in the calculation of the projected increase in production above.

<sup>9</sup> Capacity and production data presented in table VII-2 are \*\*\* lower than those reported in the same table in the prehearing report, owing to the removal of data reported by Hangzhou (*see* fn. 5, above). Prior to its removal, Hangzhou accounted for \*\*\* percent of reported Chinese production capacity for finished canvas in 2005, \*\*\* percent of production, and \*\*\* percent of exports to the United States.

Exports accounted for an increasing share of Chinese producers' shipments during the period examined, from \*\*\* percent of total shipments in 2002 to \*\*\* percent in 2005. Exports to the United States accounted for \*\*\* percent of total reported shipments of finished canvas in 2005, compared to \*\*\* percent in 2002. Exports to the United States, as a share of Chinese producers' total reported shipments, are projected to decrease by \*\*\* percentage points between 2005 and 2007.

No Chinese producers reported maintaining any inventories of finished artists' canvas at the end of 2005.

## Total

Data relating to Chinese firms' reported shipments of all artists' canvas (bulk and finished) are presented in table VII-3. On the basis of these data, Chinese firms' total shipments of artists' canvas increased \*\*\* during the period examined, from \*\*\* square meters in 2002 to \*\*\* million square meters in 2005.<sup>10</sup> Home market sales accounted for a declining share of total shipments during this period, while the share of shipments accounted for by exports increased. Exports to the United States accounted for \*\*\* percent of total reported shipments in 2005, compared to \*\*\* percent in 2002. This share is projected to decline to \*\*\* percent by 2007.<sup>11</sup> The share of shipments accounted for by exports to third-country markets is projected to increase in 2006 and 2007.<sup>12</sup>

**Table VII-3**  
**Artists' canvas (bulk and finished): Chinese producers' shipments, 2002-05, and 2006-07 projections**

\* \* \* \* \*

## Product Shifting and Dumping in Third-Country Markets

None of the three Chinese producers of artists' canvas that responded to the Commission's questionnaires reported producing products other than artists' canvas on the equipment and machinery used in the production of artists' canvas. None of the four responding Chinese exporters of artists' canvas reported that subject merchandise exported by their firm is subject to antidumping findings or remedies in any WTO member-country.

## U.S. IMPORTERS' INVENTORIES AND IMPORTS AFTER 2005

U.S. importers' reported inventories of artists' canvas from China are presented in table VII-4. Reported inventories of subject imports increased in quantity terms during the period examined in this investigation, but decreased relative to the quantity of imports from China.

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<sup>10</sup> Shipments data in tables VII-1-VII-3 do not reconcile with production data owing to the inclusion in the data of \*\*\*, an exporter of subject merchandise that does not produce artists' canvas. Total shipments data reported in table VII-3 are lower than data reported in the same table of the prehearing report, owing to adjustments made to eliminate double counting (*see* fn. 2 in table VII-3).

<sup>11</sup> Two of the four responding Chinese firms reported that they anticipated growth in the Chinese market, and/or third-country markets, for their artists' canvas shipments in 2006 and 2007. Foreign producers'/exporters' questionnaire responses of \*\*\* and \*\*\*, p. 5.

<sup>12</sup> Chinese firms most often identified countries in \*\*\* (specifically, \*\*\*) as their principle non-U.S. export market. \*\*\* were also identified. *See* responses to the Foreign Producers'/Exporters' questionnaire, pp. 6-7.

**Table VII-4**  
**Artists' canvas from China: U.S. importers' end-of-period inventories, 2002-05**

\* \* \* \* \*

\*\*\* U.S. importers reported that they had imported or arranged to import subject artists' canvas after the end of the period examined in this investigation (i.e., December 31, 2005). These importers reported importing (or arranging to import) \*\*\* square meters of artists' canvas and \*\*\* "pieces" of finished artists' canvas between January and May 2006.<sup>13</sup>

### **U.S.-China Textile Agreement**

On January 1, 2005, the United States eliminated quotas on imports of textiles and apparel from World Trade Organization ("WTO") countries, as obligated under the WTO Agreement on Textiles and Clothing ("ATC"). The ATC, which came into effect with the WTO Uruguay Round Agreements in 1995, required that WTO countries eliminate quantitative restrictions on textile and apparel articles in four stages over 10 years.<sup>14</sup> Category 229,<sup>15</sup> covering special purpose fabrics including artists' canvas,<sup>16</sup> was liberalized in stage two of the integration, effective January 1, 1998. China became eligible for quota liberalization for all categories integrated in phases one and two of the integration, as well as items scheduled for future integration, upon its accession to the WTO in 2001. Under the provisions of China's accession agreement, the United States and other WTO countries may invoke temporary "safeguards" (or quotas) on imports of Chinese textiles and apparel that are, owing to market disruption, threatening to impede the orderly development of trade in such goods.<sup>17</sup> The China textile safeguard provision is available until December 31, 2008. While the United States has initiated a number of safeguard cases against imports of textile and apparel products from China, a case has never been initiated nor requested for goods under category 229.

Following a number of safeguard cases initiated and implemented against various other Chinese textile and apparel items during 2003-05, the United States and China began negotiations for a broad agreement on trade in textiles and apparel. On November 8, 2005, the United States and China signed a memorandum of understanding ("MOU") that limits U.S. imports of selected textile and apparel products from China through December 2008, at which time the right to invoke the WTO textile-specific safeguard expires. The U.S.-China MOU reestablished quantitative limits on Chinese-origin products in 34

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<sup>13</sup> Two of the \*\*\* U.S. importers that reported having imported or arranged to import artists' canvas from China after December 31, 2005 did not specify the quantities involved.

<sup>14</sup> The ATC superseded the Multifiber Arrangement ("MFA"), an arrangement negotiated under the auspices of the General Agreement on Tariffs and Trade ("GATT" 1947) that governed world trade in textiles and apparel and permitted importing countries to establish quotas on such goods outside normal GATT rules during 1974-94. The United States continues to maintain quotas on non-WTO countries.

<sup>15</sup> To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified in the HTS. The category system was designed to simplify monitoring of textile and apparel imports by aggregating several thousand statistical reporting numbers into larger, more manageable categories.

<sup>16</sup> Category 229 covers special purpose fabrics classified in 65 separate 10-digit statistical reporting numbers in the HTS. Only two of these statistical reporting numbers, 5901.90.2000 and 5901.90.4000, cover imports of artists' canvas (as well as tracing cloth and stiffened textile fabrics used for hat foundations). In 2005, U.S. imports from China of goods classified under HTS statistical reporting numbers 5901.90.2000 and 5901.90.4000 accounted for 6.6 percent of the total value and 12.5 percent of the total quantity of U.S. imports from China of all special purpose fabrics under category 229.

<sup>17</sup> The safeguard provision covers all products subject to the ATC as of January 1, 1995.

different categories, including all items classified under category 229, effective January 1, 2006. The bilateral agreement specifies the annual import levels for covered goods from China, with the specific limits for category 229 as follows: total imports of 33,162,019 kilograms allowed in 2006 (representing 12.6 percent growth over 2005 imports); total imports of 38,467,942 kilograms allowed in 2007 (representing 16 percent growth over the 2006 limit); and total imports of 45,007,492 kilograms allowed in 2008 (representing 17 percent growth over the 2007 limit).<sup>18</sup> In 2004, total imports from China of goods in category 229 totaled 19,085,044 kilograms, while imports in 2005 totaled 28,693,311 kilograms; preliminary data for 2006 show imports of 3,750,663 kilograms for January through March.<sup>19</sup> In 2005, U.S. imports from China of goods classified under HTS statistical reporting numbers 5901.90.2000 and 5901.90.4000, which cover artists' canvas, accounted for 6.6 percent of the total value and 12.5 percent of the total quantity in kilograms of U.S. imports from China of all special purpose fabrics under category 229.<sup>20</sup> Monthly official Commerce statistics for imports from China under these HTS numbers (on a weight basis) for January 2002 through February 2006<sup>21</sup> are presented in table VII-5 and figure VII-1.

In administering quantitative limits on imports of textile and apparel goods, the United States Customs and Border Protection ("CBP") charges the weight of imported items under category 229 against the quota amounts listed above.<sup>22</sup> For artists' canvas, the weight of the product is the weight of the article as it is used; that is, the total weight of the packaged, finished canvas, including stretcher strips and staples. According to CBP officials, the practice of measuring the weight of artists' canvas in this fashion is a longstanding practice that has not been changed or amended during the period of investigation.<sup>23</sup> Although the United States administers the overall quota levels specified in the bilateral agreement, China determines how to allocate each category's quota across the specific products in the category and among individual Chinese producers. According to publicly available information, 70 percent of the 2006 quota levels are to be allocated to firms based on export performance in 2005, with the remaining 30 percent offered for public bidding.<sup>24</sup>

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<sup>18</sup> See "Memorandum of Understanding Between the Governments of the United States of America and the People's Republic of China Concerning Trade in Textile and Apparel Products," November 8, 2005, at [http://www.ustr.gov/assets/World\\_Regions/North\\_Asia/China/asset\\_upload\\_file91\\_8344.pdf](http://www.ustr.gov/assets/World_Regions/North_Asia/China/asset_upload_file91_8344.pdf).

<sup>19</sup> Official statistics available at <http://otexa.ita.doc.gov>, updated April 12, 2006.

<sup>20</sup> According to data obtained from the USITC's Dataweb on April 4, 2006.

<sup>21</sup> February 2006 is the latest month for which official import statistics are presently available.

<sup>22</sup> The bilateral agreement with China reestablished an electronic visa information system, which aids in the monitoring and maintenance of quota limits. The electronic visa information system ("ELVIS"), developed by CBP, was used under the ATC to prevent shipments of textile goods over the quota limits. A visa acts as an approval or endorsement by the Chinese government authorizing the export of textile and apparel goods to the United States. The visa describes the shipment, certifies the country of origin, and authorizes the United States to charge the shipment against the quotas established in the agreement. CBP will not allow shipments to enter the United States without an ELVIS transmission.

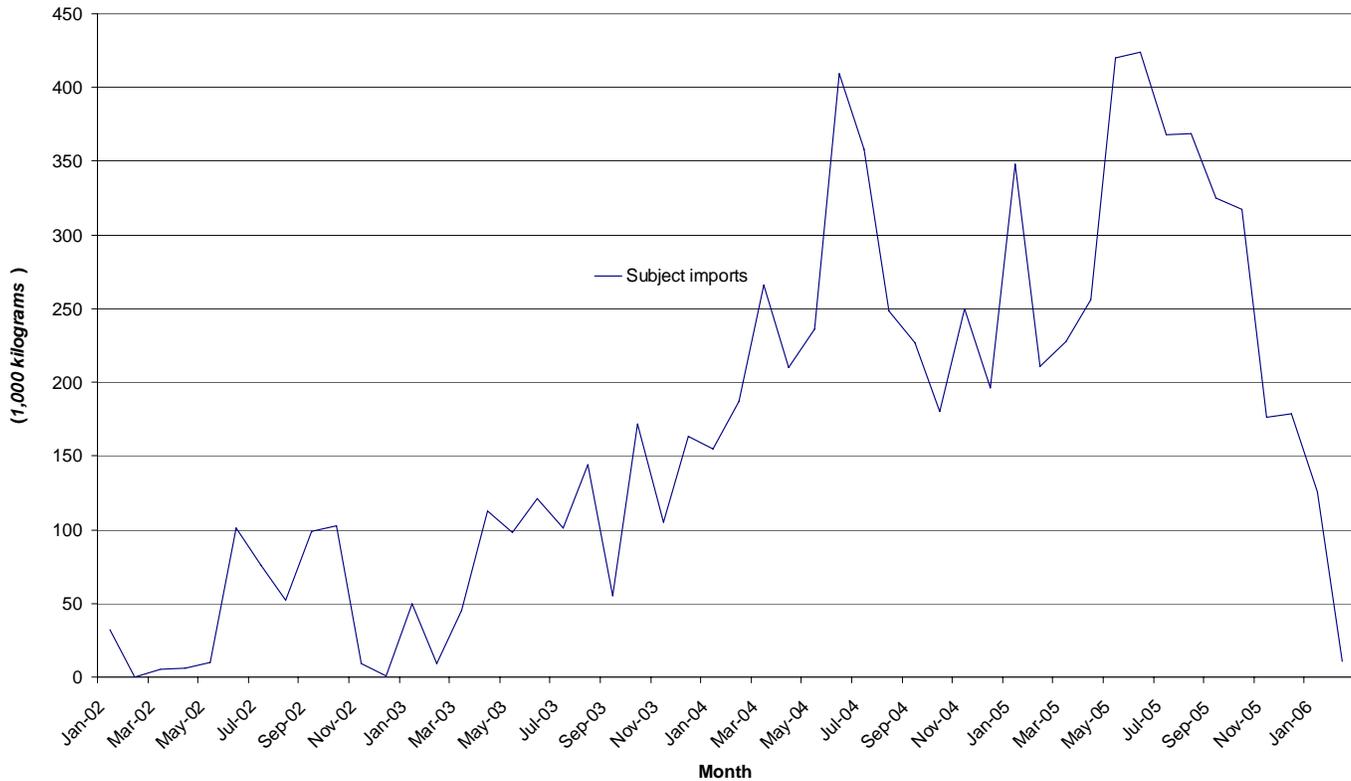
<sup>23</sup> CBP official, e-mail correspondence to USITC staff, March 29, 2006. See also respondents' posthearing brief, exh. 1 (attachments in response to question 10), CBP, Telex VBT-89-64, May 26, 1989.

<sup>24</sup> People's Daily Online, "Intense Bidding for U.S. Export Quotas," December 7, 2005, found at [http://english.people.com.cn/200512/07/eng20051207\\_226253.html](http://english.people.com.cn/200512/07/eng20051207_226253.html) (retrieved March 29, 2006); Sandler, Travis & Rosenberg, P.A., ST&R News Release, "ST&R-TAP Publishes China Textile Quota Prices," January 24, 2006, found at <http://www.strtrade.com/advisory.asp?id=248> (retrieved March 29, 2006); and China Internet Information Center, "Textile Firms Bid for U.S. Export Quotas," December 8, 2006, found at <http://www.china.org.cn/english/2005/Dec/151120.htm> (retrieved April 5, 2006).

**Table VII-5**  
**Artists' canvas: U.S. monthly imports from China, 2002-05**

<b>Month</b>	<b>Quantity (1,000 kilograms)</b>	<b>Month</b>	<b>Quantity (1,000 kilograms)</b>
<b>2002:</b>		<b>2004:</b>	
January	32	January	155
February	0	February	187
March	5	March	266
April	6	April	210
May	10	May	236
June	101	June	409
July	76	July	358
August	52	August	248
September	99	September	227
October	103	October	180
November	9	November	250
December	1	December	196
<b>Total</b>	<b>494</b>	<b>Total</b>	<b>2,922</b>
<b>2003:</b>		<b>2005:</b>	
January	50	January	348
February	9	February	211
March	45	March	228
April	113	April	256
May	98	May	420
June	121	June	424
July	101	July	368
August	144	August	369
September	55	September	325
October	172	October	317
November	105	November	176
December	163	December	179
<b>Total</b>	<b>1,176</b>	<b>Total</b>	<b>3,621</b>
<b>2006</b>		<b>2006</b>	
January	126	February	11
Source: Official Commerce statistics.			

**Figure VII-1**  
**Artists' canvas: U.S. monthly imports from China, 2002-05**



Source: Table VII-5.

Respondents state that \*\*\*.<sup>25</sup> Petitioner asserts that sublimits for products covered under the restricted categories are not in the text of the MOU; therefore, even if the Chinese government has allocated a specific amount of the quantitative limit for category 229 to artists' canvas producers for 2006, a long-term impediment to U.S. imports cannot be established, given that the Chinese government may alter such limits at any time.<sup>26</sup> Further, petitioner argues that since only 4.2 percent of the annual quota for category 229 was used in first quarter 2006, it is likely that significant excess quota will be available for purchase during the year.<sup>27</sup>

<sup>25</sup> Respondents' posthearing brief, exh. 1, response to question 10. *See also*, respondents' submission of April 5, 2006 (pertaining to Wuxi's quota allocation).

<sup>26</sup> Petitioner's posthearing brief, p. 29.

<sup>27</sup> Petitioner's posthearing brief, p. 30.

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



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. This investigation was initiated on April 28, 2005. See *Initiation of Antidumping Duty Investigation: Certain Artist Canvas from the People's Republic of China*, 70 FR 21996 (April 28, 2005) ("Notice of Initiation"). Additionally, in the *Notice of Initiation*, the Department applied the modified process by which exporters and producers may obtain separate-rate status in NME investigations. The new process requires exporters and producers to submit a separate-rate status application. See *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/policy/bull05-1.pdf>. However, 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.

On April 28, 2005, the Department requested quantity and value ("Q&V") information from a total of six producers of artist canvas in the PRC which were identified in the petition and for which the Department was able to locate contact information. On April 28, 2005, the Department also sent the Government of the PRC a letter requesting assistance in locating all known Chinese producers/exporters of artist canvas who exported artist canvas to the United States during the POI, July 1, 2004, through December 31, 2004. In addition, on May 11, 2005, in response to a request from ColArt Americas Inc. ("ColArt"), the Department requested Q&V information from ColArt.

On May 16, 2005, the Department received Q&V responses from four Chinese producers/exporters of artist canvas: Hangzhou Haili Electronic Equipment Co., Ltd. ("Haili"); ColArt; Ningbo Conda Import & Export Co., Ltd. ("Ningbo Conda"); and Wuxi Phoenix Artist Materials Co., Ltd. ("Phoenix Materials"). On May 16, 2005, the Department also received a Q&V response from Textus Industries stating that it is a U.S. importer and it is not a producer or exporter of subject merchandise. The Government of the

PRC did not respond to the Department's April 28, 2005, letter requesting assistance in identifying producers and exporters of the subject merchandise in the PRC. On June 2, 2005, the Department requested clarifying Q&V information from Haili, ColArt, Ningbo Conda and Phoenix Materials. On June 6, 2005, we received responses from Haili, ColArt, Ningbo Conda and Phoenix Materials clarifying their Q&V information.

On May 13, 2005, the Department requested comments from all interested parties on proposed control numbers ("CONNUMs") to be assigned the subject merchandise. On May 23, 2005, we received comments from: Michaels Stores, Inc., Aaron Brothers, Macpherson's ColArt Americas Inc., Crafts, Etc!., Ltd./Hobby Lobby Stores, Inc., and Jerry's Artarama, Inc. (collectively, "Importers"); Petitioner; and Phoenix Materials.

On May 24, 2005, the United States International Trade Commission ("ITC") issued its affirmative preliminary determination that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from the PRC of certain artist canvas. The ITC's determination was published in the **Federal Register** on May 24, 2005. See *Investigation Nos. 731-TA-1091 (Preliminary), Artists' Canvas from China*, 70 FR 29781 (May 24, 2005).

On May 25, 2005, the Department determined that India, Indonesia, Sri Lanka, the Philippines, and Egypt are countries comparable to the PRC in terms of economic development. See *Memorandum from Ron Lorentzen, Acting Director, Office of Policy to Robert Bolling, Program Manager, China/NME Group, Office 8: Antidumping Duty Investigation of Certain Artist Canvas from the People's Republic of China (PRC): Request for a List of Surrogate Countries*, dated May 25, 2005 ("Office of Policy Surrogate Countries Memorandum").

On May 27, 2005, the Department requested that the parties submit comments on surrogate country selection. On June 24, 2005, we received comments regarding the selection of a surrogate country from the Petitioner and from the Importers. Both the Petitioner and Importers argued that India is the appropriate surrogate country.

On May 27, 2005, we received separate rate applications from Hangzhou Foreign Relation & Trade Service Co. Ltd. ("HFERTS") and Jiangsu Animal By-products Import & Export Group Corp. ("Jiangsu By-products"). On June 16, 2005, we

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## DEPARTMENT OF COMMERCE

### International Trade Administration

A-570-899

#### Preliminary Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China

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

**EFFECTIVE DATE:** November 7, 2005.

**SUMMARY:** We preliminarily determine that artist canvas from the People's Republic of China ("PRC") is being, or is likely to be, sold in the United States at less than fair value ("LTFV"), as provided in section 733 of the Tariff Act of 1930, as amended ("the Act"). The estimated margins of sales at LTFV are shown in the "Preliminary Determination" section of this notice.

**FOR FURTHER INFORMATION CONTACT:** Jon Freed or Michael Holton, AD/CVD Operations, Office 8, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC, 20230; telephone: (202) 482-3818 or 482-1324, respectively.

#### SUPPLEMENTARY INFORMATION:

##### Case History

On March 31, 2005, the Department of Commerce ("Department") received a Petition on imports of certain artist canvas from the PRC ("Petition") filed in proper form by Tara Materials Inc. ("Tara" or "Petitioner") on behalf of the domestic industry and workers producing certain artist canvas. 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

requested additional information from HFERTS regarding its separate rate application.

On June 9, 2005, the Department issued its respondent-selection memorandum, selecting the following two companies as mandatory respondents in this investigation: Ningbo Conda and Phoenix Materials. See *Memorandum from Wendy J. Frankel, Director, AD/CVD Enforcement, Office 8, to Edward Yang, Senior Enforcement Coordinator, China/NME Group, Selection of Respondents for the Antidumping Duty Investigation of Artist Canvas from the People's Republic of China ("Respondent Selection Memo")*, dated June 9, 2005.

On June 13, 2005, the Department issued its Sections A, C, D, and E, questionnaire to Ningbo Conda and Phoenix Materials. On June 13, 2005, we also issued a Sections A, C, D, and E questionnaire to the Chinese Government (*i.e.*, Ministry of Commerce).

On June 27, 2005, Phoenix Materials requested that it be excused from submitting the factors of production spreadsheet contained in Appendix VI to the Department's original questionnaire. On July 14, 2005, we informed Ningbo Conda and Phoenix Materials that we had revised the factors of production spreadsheet, and created a spreadsheet for this investigation that both respondents are required to complete.

On July 1, 2005, we provided a one-week extension until July 11, 2005, to Ningbo Conda for its response to our Section A questionnaire. Additionally, on July 5, 2005, we provided a two-business day extension until July 7, 2005, to Phoenix Materials for its response to our Section A questionnaire. Further, on July 13, 2005, we provided an extension until July 25, 2005, to all mandatory respondents to respond to Sections C, D, and E of the questionnaire. For a detailed discussion on specific mandatory respondent extensions, please see the company-specific section for each mandatory respondent below.

On July 29, 2005, the Department determined that India was the appropriate surrogate country to use in this investigation. See *Memorandum to Wendy J. Frankel, Director, AD/CVD Enforcement, Office 8, from Michael Holton, Case Analyst, through Robert Bolling, Program Manager: Antidumping Duty Investigation on Certain Artist Canvas from the People's Republic of China ("Surrogate-Country Memorandum")*, dated July 29, 2005. We received comments from interested parties regarding our selection of India

as the surrogate country. For a detailed discussion of the comments regarding the surrogate country, please see the "Surrogate Country" section below. Additionally, on July 13, 2005, we extended the time period for interested parties to provide surrogate values for the factors of production until August 1, 2005. On July 29, 2005, we received a request from the Importers to further extend the deadline for supplying surrogate-value information. On August 1, 2005, we informed all interested parties that we were again extending the time period to provide surrogate-value information until August 5, 2005.

On August 5, 2005, Petitioner, Ningbo Conda, and Phoenix Materials submitted surrogate-value information. On September 2, 2005, Petitioner submitted comments on respondents' surrogate-value information.

On August 11, 2005, Petitioner made a timely request pursuant to 19 CFR §351.205(e) for a twenty-nine day postponement of the preliminary determination, until October 7, 2005. On August 19, 2005, the Department published a postponement of the preliminary antidumping duty determination on artist canvas from the PRC. See *Notice of Postponement of the Preliminary Determination of Certain Artist Canvas from the People's Republic of China Antidumping Duty Investigation*, 70 FR 48667 (August 19, 2005). Additionally, on September 29, 2005, Petitioner made another timely request pursuant to 19 CFR §351.205(e) for an additional twenty-one day postponement of the preliminary determination, until October 28, 2005. On October 13, 2005, the Department published a postponement of the preliminary antidumping duty determination on artist canvas from the PRC. See *Notice of Postponement of the Preliminary Determination of Certain Artist Canvas from the People's Republic of China Antidumping Duty Investigation*, 70 FR 59718 (October 13, 2005).

#### Company-Specific Chronology

As described above, the Department staggered its issuance of sections of the antidumping questionnaire to the mandatory respondents. Upon receipt of the various responses, the Petitioners provided comments and the Department issued supplemental questionnaires. The chronology of this stage of the investigation varies by respondent. Therefore, the Department has separated by company the following discussion of its information-gathering process after issuance of the questionnaire.

#### Ningbo Conda

On May 27, 2005, Ningbo Conda submitted a separate rate application. On July 11, 2005, Ningbo Conda submitted its response to Section A of the questionnaire. On July 25, 2005, Ningbo Conda submitted its response to Sections C and D of the questionnaire. On August 3, 2005, the Department issued a Supplemental Section A questionnaire covering Ningbo Conda's July 11, 2005, Section A response. On July 28, 2005, Petitioners submitted deficiency comments on the Section A response of Ningbo Conda. On August 19, 2005, Ningbo Conda submitted its response to the Supplemental Section A questionnaire. On August 15, 2005, Petitioners submitted deficiency comments on the Sections C and D responses of Ningbo Conda. On August 18, 2005, the Department issued a Supplemental Sections C and D questionnaire covering Ningbo Conda's July 25, 2005, Sections C and D response. On September 9, 2005, Ningbo Conda submitted its response to the Department's August 18, 2005, Supplemental Sections C and D questionnaire. On September 14, 2005, the Department issued a Supplemental Sections A and C questionnaire requesting financial information and a new U.S. sales database. On September 21, 2005, Ningbo Conda submitted its response to the Department's September 14, 2005, Supplemental Sections A and C questionnaire. On September 21, 2005, the Department issued a Supplemental Sections A, C, and D questionnaire covering Ningbo Conda's responses. On September 28, 2005, Ningbo Conda submitted its response to the Department's Supplemental Sections A, C, and D questionnaire. On October 3, 2005, Petitioners submitted comments regarding Ningbo Conda's September 28, 2005, response. On October 3, 2005, the Department issued a Supplemental Sections A, C, and D questionnaire covering Ningbo Conda's responses. On October 7, 2005, the Department issued a Supplemental Sections C questionnaire covering Ningbo Conda's responses. On October 4, 2005, Ningbo Conda's U.S. affiliate submitted a response to the Department's September 21, 2005, Supplemental Sections A, C, and D questionnaire. On October 19, 2005, Ningbo Conda submitted a response to the Department's October 3, 2005, Supplemental Sections A, C, and D questionnaire. On October 19, 2005, Ningbo Conda submitted a response to the Department's Supplemental Sections C questionnaire.

### Phoenix Materials

On July 7, 2005, Phoenix Materials submitted its response to Section A of the questionnaire. On July 25, 2005, Phoenix Materials submitted its response to Sections C and D of the questionnaire. On July 25, 2005, the Department issued a Supplemental Section A questionnaire covering Phoenix Materials' July 7, 2005, Section A response. On July 28, 2005, Petitioners submitted deficiency comments on the Section A responses of Phoenix Materials. On August 10, 2005, Phoenix Materials submitted its response to the Supplemental Section A questionnaire. On August 15, 2005, Petitioners submitted deficiency comments on the Sections C and D responses of Phoenix Materials. On August 19, 2005, the Department issued a Supplemental Section A–D questionnaire covering Phoenix Materials' July 28, 2005, Sections C and D response and its August 10, 2005, response to the Supplemental Section A questionnaire. On September 9, 2005, Phoenix Materials submitted its response to the Supplemental Sections A–D questionnaire issued on August 19, 2005. On September 20, 2005, the Department issued a Second Supplemental A–D questionnaire to Phoenix Materials. On September 30, 2005, Phoenix Materials submitted its response to the Second Supplemental A–D questionnaire.

### Postponement of Final Determination

Section 735(a) of the Act provides that a final determination may be postponed until no later than 135 days after the date of the publication of the preliminary determination if, in the event of an affirmative preliminary determination, a request for such postponement is made by exporters who account for a significant proportion of exports of the subject merchandise or, in the event of a negative preliminary determination, a request for such postponement is made by the Petitioners. The Department's regulations at 19 CFR 351.210(e)(2) require that requests by respondents for postponement of a final determination be accompanied by a request for an extension of the provisional measures from a four-month period to not more than six months.

On October 5, 2005, Ningbo Conda requested that, in the event of an affirmative preliminary determination in this investigation, the Department postpone its final determination by 60 days until 135 days after the publication of the preliminary determination. As well, on October 26, 2005, Phoenix

Materials requested that, in the event of an affirmative preliminary determination, the Department postpone its final determination by 60 days until 135 days after the publication of the preliminary determination. Additionally, Ningbo Conda and Phoenix Materials requested that the Department extend the provisional measures under Section 733(d) of the Act. Accordingly, because we have made an affirmative preliminary determination and the requesting parties account for a significant proportion of the exports of the subject merchandise, pursuant to 735(a)(2) of the Act, we have postponed the final determination until no later than 135 days after the date of publication of the preliminary determination and are extending the provisional measures accordingly.

### Period of Investigation

The POI is July 1, 2004 through December 31, 2004. This period corresponds to the two most recent fiscal quarters prior to the month of the filing of the petition (March 31, 2005). See 19 CFR 351.204(b)(1).

### Scope of Investigation

The products covered by this investigation are artist canvases regardless of dimension and/or size, whether assembled or unassembled, 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 canvas and stretcher strips (whether or not made of wood and whether or not assembled) included within a kit or set are covered by this proceeding.

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, "paint-by-number" or "paint-it-yourself" artist canvases with a copyrighted preprinted outline, pattern, or design, whether or not included in a

painting set or kit.<sup>1</sup> Also excluded are 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 or set. While HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this proceeding is dispositive.

### Scope Comments

In accordance with the preamble to our regulations (*see Antidumping Duties; Countervailing Duties*, 62 FR 27296, 27323 (May 19, 1997)), we set aside a period of time for parties to raise issues regarding product coverage and encouraged all parties to submit comments within 20 calendar days of publication of the *Notice of Initiation* (*see* 70 FR at 21996).

The Department received numerous scope comments from a variety of interested parties. On May 18, 2005, the Importers provided scope comments concerning three product categories that they believe should be excluded from the scope of the investigation: (1) kits; (2) bleached canvas; and (3) splined canvas. Additionally, on May 18, 2005, Phoenix Materials requested confirmation that two products were outside the scope of the investigation: (1) artist canvas panels that are pre-printed with copyrighted "paint-by-number" outlines; and (2) artist canvas panels that are pre-printed with copyrighted "paint-by-number" outlines that are sold within a boxed "painting set."

On May 26, 2005, Petitioner responded to the above-mentioned comments stating that the Department should reject the exclusion requests of the Importers and Phoenix Materials. Additionally, on May 18, 2005, Design Ideas, Ltd. ("Design Ideas") (a U.S. Importer) provided scope comments arguing that the artist canvas it imports from the PRC produced by Hangzhou Haili is outside the scope of the investigation because India, not the PRC is the country of origin of the product. On June 2, 2005, Petitioner provided a rebuttal to Design Ideas' May 18th submission wherein Petitioner stated that the Department should deny Design Ideas' exclusion request for artist canvas produced by Hangzhou Haili. On July 1, 2005, Design Ideas responded to Petitioners' June 2nd submission, stating that it is clear from the record that India is the country of origin of its imported artist canvas. On July 25,

<sup>1</sup> Artist canvases with a non-copyrighted preprinted outline, pattern, or design are included in the scope, whether or not included in a painting set or kit.

2005, Petitioner responded to Design Ideas' July 1st submission stating that this submission provided no support or citation for granting Design Ideas' exclusion request and Petitioner stated that the Department should deny Hangzhou Haili's exclusion request. On August 10, 2005, Design Ideas responded to Petitioners' July 25th submission, stating that it is clear from the record that the artist canvases produced by Hangzhou Haili in the PRC using gesso primed canvas from India and imported into the United States are not within the scope of the investigation. On August 17, 2005, the Importers responded to both Design Ideas and Petitioner comments stating that it supports Design Ideas' request that artist canvases produced by Hangzhou Haili from gesso primed canvas produced in India should be excluded from the scope of the investigation. On September 2, 2005, Petitioner responded to both the August 10th and 17th submissions, wherein Petitioner stated that it continues to believe there is no basis to grant Design Ideas' request.

Further, as part of this process, the Department has fully summarized and addresses all of the comments received to date in a memorandum to the file. See *Memorandum to the File from Michael Holton, Case Analyst, to Wendy Frankel, Office Director, Antidumping Duty Investigation of Certain Artist Canvases from the People's Republic of China: Summary on Comments to the Scope*, dated October 28, 2005 ("Scope Memorandum").

For this preliminary determination, the Department has made determinations with respect to artist canvas kits, paint-by-number artist canvas, bleached canvas, and splined canvas in the *Scope Memorandum*. However, the Department has not yet determined whether artist canvas primed in India but processed and exported from the PRC is within the scope of this investigation. Nonetheless, the Department intends to issue a preliminary finding on whether artist canvas primed in India but processed and exported from the PRC is within the scope of this investigation. We will afford interested parties an opportunity to provide comments on our preliminary finding on this issue in their pre-hearing briefs.

#### Selection of Respondents

Section 777A(c)(1) of the Act directs the Department to calculate individual weighted-average dumping margins for each known exporter and producer of the subject merchandise. Section 777A(c)(2) of the Act gives the

Department discretion, when faced with a large number of exporters/producers, to limit its examination to a reasonable number of such companies if it is not practicable to examine all companies. Where it is not practicable to examine all known producers/exporters of subject merchandise, this provision permits the Department to investigate either (1) a sample of exporters, producers, or types of products that is statistically valid based on the information available to the Department at the time of selection or (2) exporters/producers accounting for the largest volume of the merchandise under investigation that can reasonably be examined. After consideration of the complexities expected to arise in this proceeding and the resources available to it, the Department determined that it was not practicable in this investigation to examine all known producers/exporters of subject merchandise. Instead, we limited our examination to the two exporters and producers accounting for the largest volume of the subject merchandise pursuant to section 777A(c)(2)(B) of the Act. Ningbo Conda and Phoenix Materials, the exporters accounting for the largest volume of exports to the United States, account for a significant percentage of all exports of the subject merchandise from the PRC during the POI and were selected as mandatory respondents. See *Respondent Selection Memo* at 4.

#### Non-Market-Economy Country

For purposes of initiation, the Petitioners submitted LTFV analyses for the PRC as a non-market economy. See *Notice of Initiation* 70 FR at 21997. In every case conducted by the Department involving the PRC, the PRC has been treated as an Non-Market Economy ("NME") country. In accordance with section 771(18)(C)(i) of the Act, any determination that a foreign country is an NME country shall remain in effect until revoked by the administering authority. See also *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, ("TRBs") From the People's Republic of China: Preliminary Results 2001-2002 Administrative Review and Partial Rescission of Review*, 68 FR 7500 (February 14, 2003), unchanged in *Final Results of 2001-2002 Administrative Review: TRBs from the People's Republic of China*, 68 FR 70488 (December 18, 2003). Therefore, we have treated the PRC as an NME country for purposes of this preliminary determination.

#### Surrogate Country

When the Department is investigating imports from an NME, section 773(c)(1)

of the Act directs it to base normal value, in most circumstances, on the NME producer's factors of production valued in a surrogate market-economy country or countries considered to be appropriate by the Department. In accordance with section 773(c)(4) of the Act, in valuing the factors of production, the Department shall utilize, to the extent possible, the prices or costs of factors of production in one or more market-economy countries that are at a level of economic development comparable to that of the NME country and are significant producers of comparable merchandise. The sources of the surrogate values we have used in this investigation are discussed under the normal value section below.

The Department determined that India, Indonesia, Sri Lanka, the Philippines, and Egypt are countries comparable to the PRC in terms of economic development. See *Office of Policy Surrogate Countries Memorandum*. Once the countries that are economically comparable to the PRC have been identified, we select an appropriate surrogate country by determining whether an economically comparable country is a significant producer of subject merchandise and whether the data for valuing factors of production is both available and reliable.

On June 24, 2005, the Department received arguments from interested parties on the surrogate country. Petitioner argues that India is the appropriate surrogate country for this investigation because India is at a comparable level of economic development with the PRC based on the Department's repeated use of India as a surrogate. Petitioner argues that India is a significant producer of identical and comparable merchandise. Additionally, Petitioner contends that India provides publicly available information on which to base surrogate values.

Also, on June 24, 2005, the Importers argue that India is the only country that appears to meet the Department's criteria for a surrogate country based on economic comparability, significant production of comparable merchandise, and the availability of factor data. See the *Selection of a Surrogate Country Memorandum* dated August 3, 2004, for a complete description of the interested parties surrogate country arguments.

Consequently, we have made the following determination about the use of India as a surrogate country: (1) it is a significant producer of comparable merchandise; (2) it is at a similar level of economic development pursuant to 773(c)(4) of the Act; and (3) we have reliable data from India that we can use

to value the factors of production. See *Selection of a Surrogate Country Memorandum*. Thus, we have calculated normal value using Indian prices when available and appropriate to value the factors of production of the artist canvas producers. We have obtained and relied upon publicly available information wherever possible. See *Memorandum to the File from Jon Freed, Case Analyst, through Robert Bolling, Program Manager, and Wendy Frankel, Office Director: Certain Artist Canvas from the People's Republic of China: Factors Valuation Memorandum for the Preliminary Determination*, dated October 7, 2005 ("Factor-Valuation Memorandum").

In accordance with 19 CFR 351.301(c)(3)(i), for the final determination in an antidumping investigation, interested parties may submit publicly available information to value the factors of production within 40 days after the date of publication of the preliminary determination.

#### Affiliation

Section 771(33) of the Act states that the Department considers the following entities to be affiliated: (A) Members of a family, including brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants; (B) Any officer or director of an organization and such organization; (C) Partners; (D) Employer and employee; (E) Any person directly or indirectly owning, controlling, or holding with power to vote, 5 percent or more of the outstanding voting stock or shares of any organization and such organization; (F) Two or more persons directly or indirectly controlling, controlled by, or under common control with, any person; and (G) Any person who controls any other person and such other person.

For purposes of affiliation, section 771(33) of the Act states that a person shall be considered to control another person if the person is legally or operationally in a position to exercise restraint or direction over the other person. In order to find affiliation between companies, the Department must find that at least one of the criteria listed above is applicable to the respondents.

The Statement of Administrative Action accompanying the Uruguay Round Agreements Act ("SAA"), H.R. Doc. 103-316 (1994), indicates that stock ownership is not the only evidentiary factor that the Department may consider to determine whether a person is in a position to exercise restraint or direction over another person, e.g., control may be established

through corporate or family groupings, or joint ventures and other means as well. See SAA at 838. See also *Certain Fresh Cut Flowers from Colombia; Final Results of Antidumping Duty Administrative Review*, 61 FR 42833, 42853 (August 19, 1996); and *Certain Welded Carbon Steel Pipes and Tubes from Thailand: Final Results of Antidumping Duty Administrative Review*, 62 FR 53808, 53810 (October 16, 1997).

To the extent that the affiliation provisions in section 771(33) of the Act do not conflict with the Department's application of separate rates and the statutory NME provisions in section 773(c) of the Act, the Department will determine that exporters and/or producers are affiliated if the facts of the case support such a finding. See *Certain Preserved Mushrooms From the People's Republic of China: Preliminary Results of Sixth New Shipper Review and Preliminary Results and Partial Rescission of Fourth Antidumping Duty Administrative Review*, 69 FR 10410, 10413 (March 5, 2004) ("Mushrooms"), unchanged in *Final Results and Final Rescission, in Part, of Antidumping Duty Administrative Review: Certain Preserved Mushrooms From the People's Republic of China*, 70 FR 54361 (September 14, 2005).

#### Ningbo Conda

Following these guidelines, we preliminarily determine that members of the Ningbo Conda Group (i.e., Ningbo Conda and Conda (Ningbo) Painting Material Mfg. ("Conda Painting")) are affiliated pursuant to Section 771(33) of the Act. We also preliminarily determine that the Ningbo Conda Group should be treated as a single entity for the purposes of the antidumping investigation of certain artist canvas from the PRC.

Further, based on our examination of the evidence presented in Ningbo Conda's questionnaire responses, we preliminarily find that Jinhua Universal Canvas Manufacturing Co., Ltd. ("Jinhua Universal") is affiliated with the Ningbo Conda Group pursuant to sections 771(33)(B), (E), (F) and (G) of the Act and should be treated as a single entity with the Ningbo Conda Group for purposes of calculating a dumping margin in this investigation. See *Mushrooms*, 69 FR 10410, 10413 (March 5, 2004), see also, *Hontex Enterprises, Inc. v. United States*, 248 F. Supp. 2d 1323, 1339-1345 (CIT 2003). We made this determination based on record evidence from Ningbo Conda's questionnaire responses that stated that Ningbo Conda, Conda Painting, and Jinhua Universal share the same director

and the same director directly or indirectly owns and controls more than five percent of outstanding stock of each of these companies.

Further, evidence presented in Ningbo Conda's questionnaire responses indicates that during the POI the Ningbo Conda Group sold subject merchandise to a U.S. reseller. The Department preliminary determines that under sections 771(33)(E), (F), and (G) of the Act, this reseller is affiliated with several other entities all owned and controlled by the parent corporation. These entities are referred to as Group A in the affiliation memorandum. For the purposes of this analysis, we have treated Group A as a single entity.

Additionally, we have determined that Group A and Jinhua Universal are affiliated parties, consistent with record evidence, the Department's practice and sections 771(33)(E) and (F) of the Act. We made this determination based on record evidence from Ningbo Conda's questionnaire responses that stated that Group A's parent corporation directly or indirectly owns and controls more than five percent of outstanding stock of Jinhua Universal.

Furthermore, we have determined that the Ningbo Conda Group and Group A are affiliated under sections 771(33)(F) of the Act. We made this determination based on record evidence from Ningbo Conda's questionnaire responses that stated that Ningbo Conda's and Group A's ownership of Jinhua Universal result in Ningbo Conda's and Group A's direct or indirect control of Jinhua Universal. Accordingly, we are using Group A's U.S. downstream sales to the first U.S. unaffiliated customer in our margin calculation. See *Memorandum to Wendy Frankel, Director, Office 8, NME/China Group, through Robert Bolling, Program Manager, From Michael Holton, Case Analyst, Antidumping Duty Investigation of Certain Artist Canvas from the People's Republic of China: Affiliation of Ningbo Conda*, dated October 28, 2005 ("Affiliation Memorandum").

#### Phoenix Materials

Following these guidelines, we preliminarily determine that Phoenix Materials, Wuxi Phoenix Stationary Co. Ltd ("Phoenix Stationary"), and Shuyang Phoenix Artist Materials Co. Ltd. ("Shuyang Phoenix"), collectively, ("Phoenix Group") are affiliated pursuant to sections 771(33)(E) and (G) of the Act and that these companies should be treated as a single entity for the purposes of the antidumping investigation of artist canvas from the PRC. Based on our examination of the

evidence presented in Phoenix Materials' questionnaire responses, we have determined that: (1) Phoenix Materials controls a majority of Phoenix Stationary based on stock-ownership, and Phoenix Materials controls Shuyang Phoenix; (2) Phoenix Materials, Phoenix Stationary, and Shuyang Phoenix have overlapping managers and directors; and (3) Phoenix Materials and Phoenix Stationary share production facilities and production records. See *Memorandum to Wendy Frankel, Director, Office 8, NME/China Group, through Robert Bolling, Program Manager, From Jon Freed, Case Analyst, Antidumping Duty Investigation of Certain Artist Canvas from the People's Republic of China: Phoenix Affiliation and Treatment as a Single Entity of Phoenix Materials and its Members*, dated October 28, 2005 ("Affiliation/Single Entity Treatment Memorandum").

### Separate Rates

In proceedings involving NME countries, the Department begins with a rebuttable presumption that all companies within the country are subject to government control and, thus, should be assigned a single antidumping duty deposit rate. It is the Department's policy to assign all exporters of merchandise subject to investigation in an NME country this single rate unless an exporter can demonstrate that it is sufficiently independent so as to be entitled to a separate rate. The two mandatory respondents and the two Separate Rate Applicants have provided company-specific information and each has stated that it meets the standards for the assignment of a separate rate.

We have considered whether each of the four companies referenced above is eligible for a separate rate. The Department's separate-rate test to determine whether the exporters are independent from government control does not consider, in general, macroeconomic/border-type controls, e.g., export licenses, quotas, and minimum export prices, particularly if these controls are imposed to prevent dumping. The test focuses, rather, on controls over the investment, pricing, and output decision-making process at the individual firm level. See *Certain Cut-to-Length Carbon Steel Plate from Ukraine: Final Determination of Sales at Less than Fair Value*, 62 FR 61754, 61758 (November 19, 1997); and *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, from the People's Republic of China: Final Results of Antidumping Duty*

*Administrative Review*, 62 FR 61276, 61279 (November 17, 1997).

To establish whether a firm is sufficiently independent from government control of its export activities to be entitled to a separate rate, the Department analyzes each entity exporting the subject merchandise under a test arising from the *Final Determination of Sales at Less Than Fair Value: Sparklers from the People's Republic of China*, 56 FR 20588 (May 6, 1991) ("Sparklers"), as amplified by *Final Determination of Sales at Less Than Fair Value: Silicon Carbide from the People's Republic of China*, 59 FR 22585 (May 2, 1994) ("Silicon Carbide"). In accordance with the separate-rates criteria, the Department assigns separate rates in NME cases only if respondents can demonstrate the absence of both *de jure* and *de facto* governmental control over export activities.

#### 1. Absence of *De Jure* Control

The Department considers the following *de jure* criteria in determining whether an individual company may be granted a separate rate: (1) an absence of restrictive stipulations associated with an individual exporter's business and export licenses; (2) any legislative enactments decentralizing control of companies; and (3) other formal measures by the government decentralizing control of companies. See *Sparklers*, 56 FR at 20589.

Our analysis shows that the evidence on the record supports a preliminary finding of the absence of *de jure* governmental control for Ningbo Conda Group (Ningbo Conda and its affiliated exporters, Conda Painting and Jinhua Universal), Phoenix Materials (and its affiliated exporter Phoenix Stationary), HFERTS, and Jiangsu By-products based on the criteria listed above. See *Memorandum to Wendy Frankel, Office Director, China/NME Group, through Robert Bolling, Program Manager, from Jon Freed and Michael Holton, Case Analysts, Certain Artist Canvas from the People's Republic of China: Separate Rates Memorandum* ("Separate-Rates Memorandum"), dated October 7, 2005.

#### 2. Absence of *De Facto* Control

Typically the Department considers the following four factors in evaluating whether each respondent is subject to *de facto* governmental control of its export functions: (1) whether the export prices are set by or are subject to the approval of a governmental agency; (2) whether the respondent has authority to negotiate and sign contracts and other agreements; (3) whether the respondent has autonomy from the government in making decisions regarding the selection of management; and (4)

whether the respondent retains the proceeds of its export sales and makes independent decisions regarding disposition of profits or financing of losses. See *Silicon Carbide*, 59 FR at 22586-87; see also *Final Determination of Sales at Less Than Fair Value: Furfuryl Alcohol From the People's Republic of China*, 60 FR 22544, 22545 (May 8, 1995). The Department has determined that an analysis of *de facto* control is critical in determining whether respondents are, in fact, subject to a degree of governmental control which would preclude the Department from assigning separate rates.

We preliminarily determine that, for Ningbo Conda (and its affiliated exporters, Conda Painting and Jinhua Universal), Phoenix Materials (and its affiliated exporter Phoenix Stationary), HFERTS, and Jiangsu By-products, the evidence on the record supports a preliminary finding of *de facto* absence of governmental control based on record statements and supporting documentation showing the following: (1) each exporter sets its own export prices independent of the government and without the approval of a government authority; (2) each exporter retains the proceeds from its sales and makes independent decisions regarding disposition of profits or financing of losses; (3) each exporter has the authority to negotiate and sign contracts and other agreements; and (4) each exporter has autonomy from the government regarding the selection of management.

Therefore, the evidence placed on the record of this investigation by Ningbo Conda (and its affiliated exporters, Conda Painting and Jinhua Universal), Phoenix Materials (and its affiliated exporter Phoenix Stationary), HFERTS, and Jiangsu By-products demonstrates an absence of government control, both in law and in fact, with respect to each of the exporter's exports of the merchandise under investigation in accordance with the criteria identified in *Sparklers* and *Silicon Carbide*. However, although HFERTS has demonstrated an absence of government control, both in law and in fact, with respect to its exports of artist canvas, the Department has not determined the country of origin of the merchandise exported by HFERTS. Until the Department determines that HFERTS had exports of subject merchandise, HFERTS is not entitled to a separate rate. As a result, for the purposes of this preliminary determination, we have granted separate, company-specific rates to the mandatory respondents and their affiliates and to one of the separate rate applicants (Jiangsu By-products)

which shipped subject artist canvas to the United States during the POI. For a full discussion of this issue, please see the *Separate-Rates Memorandum*. If the Department determines that the merchandise exported by HFERTS is artist canvas from the PRC, the Department intends to assign HFERTS a separate rate.

#### PRC-Wide Rate

The Department has data that indicate there were more exporters of artist canvas from the PRC during the POI than those which responded to the Q&V questionnaire. See *Respondent Selection Memorandum* at 1. Although we issued the Q&V questionnaire to six known Chinese exporters of the subject merchandise, from these six we received four Q&V questionnaire responses, and one unsolicited Q&V questionnaire. Also, on June 13, 2005, we issued our complete questionnaire to the Chinese Government (*i.e.*, Ministry of Commerce). Although all exporters were given an opportunity to provide information showing they qualify for separate rates, not all of these other exporters provided a response to either the Department's Q&V questionnaire or its separate rate application. Therefore, the Department determines preliminarily that there were exports of the merchandise under investigation from PRC producers/exporters that did not respond to the Department's questionnaire. We treated these PRC producers/exporters as part of the countrywide entity. Further, the Government of the PRC did not respond to the Department's questionnaire.

Section 776(a)(2) of the Act provides that, if an interested party (A) withholds information that has been requested by the Department, (B) fails to provide such information in a timely manner or in the form or manner requested, subject to subsections 782(c)(1) and (e) of the Act, (C) significantly impedes a proceeding under the antidumping statute, or (D) provides such information but the information cannot be verified, the Department shall, subject to subsection 782(d) of the Act, use facts otherwise available in reaching the applicable determination.

Pursuant to section 782(e) of the Act, the Department shall not decline to consider submitted information if all of the following requirements are met: (1) the information is submitted by the established deadline; (2) the information can be verified; (3) the information is not so incomplete that it cannot serve as a reliable basis for reaching the applicable determination; (4) the interested party has demonstrated that it acted to the best of its ability; and (5)

the information can be used without undue difficulties.

Information on the record of this investigation indicates that there are numerous producers/exporters of artist canvas in the PRC. As described above, all exporters were given the opportunity to respond to the Department's questionnaire. Based upon our knowledge of the volume of imports of subject merchandise from the PRC and the fact that information indicates that the responding companies did not account for all imports into the United States from the PRC, we preliminarily determine that certain PRC exporters of artist canvas failed to respond to our questionnaires. Additionally, in this case, the Government of the PRC did not respond to the Department's questionnaire. As a result, use of facts available pursuant to section 776(a)(2)(A) of the Act is appropriate. See *Preliminary Determination of Sales at Less Than Fair Value, Affirmative Preliminary Determination of Critical Circumstances and Postponement of Final Determination: Certain Frozen Fish Fillets from the Socialist Republic of Vietnam*, 68 FR 4986 (January 31, 2003), unchanged in *Final Determination of Sales at Less Than Fair Value and Affirmative Critical Circumstances: Certain Frozen Fish Fillets from the Socialist Republic of Vietnam*, 68 FR 37116 (June 23, 2003).

Section 776(b) of the Act provides that if an interested party fails to cooperate by not acting to the best of its ability to comply with requests for information, the Department may employ adverse inferences. See *Final Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Flat-Rolled Carbon-Quality Steel Products from the Russian Federation*, 65 FR 5510, 5518 (February 4, 2000). See also SAA at 870. We find that, because the PRC-wide entity did not respond to our request for information, it has failed to cooperate to the best of its ability. Therefore, the Department preliminarily finds that, in selecting from among the facts available, an adverse inference is appropriate.

In selecting from among the facts available, Section 776(b) of the Act authorizes the Department to use adverse-facts-available ("AFA") information derived from the petition, the final determination from the LTFV investigation, a previous administrative review, or any other information placed on the record. As AFA, we have assigned to the PRC-wide entity a margin based on information in the petition, because the margins derived from the petition are higher than the calculated margins for the selected

respondents. In this case, we have applied a rate of 264.09 percent.

Section 776(c) of the Act provides that, when the Department relies on secondary information rather than on information obtained in the course of an investigation as facts available, it must, to the extent practicable, corroborate that information from independent sources reasonably at its disposal. Secondary information is described in the SAA as "information derived from the petition that gave rise to the investigation or review, the final determination concerning subject merchandise, or any previous review under section 751 concerning the subject merchandise." See SAA at 870. The SAA provides that to "corroborate" means simply that the Department will satisfy itself that the secondary information to be used has probative value. See *id.* The SAA also states that independent sources used to corroborate may include, for example, published price lists, official import statistics and customs data, and information obtained from interested parties during the particular investigation. See *id.* As explained in *Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, from Japan, and Tapered Roller Bearings, Four Inches or Less in Outside Diameter, and Components Thereof, from Japan; Preliminary Results of Antidumping Duty Administrative Reviews and Partial Termination of Administrative Reviews*, 61 FR 57391, 57392 (November 6, 1996), unchanged in *Final Results of Antidumping Duty Administrative Reviews and Termination in Part: Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From Japan, and Tapered Roller Bearings, Four Inches or Less in Outside Diameter, and Components Thereof, From Japan*, 62 FR 11825 (March 13, 2005), to corroborate secondary information, the Department will, to the extent practicable, examine the reliability and relevance of the information used.

The Petitioners' methodology for calculating the export price and normal value in the petition is discussed in the initiation notice. See *Notice of Initiation*, 70 FR at 21996-21997. To corroborate the AFA margin we have selected, we compared that margin to the margins we found for the respondents.

As discussed in the Memorandum to the File regarding the corroboration of the AFA rate, dated October 28, 2005, we found that the margin of 264.09 percent has probative value. See *Memorandum to The File Through Robert Bolling, Program Manager*,

*China/NME Group, Corroboration for the Preliminary Determination of Certain Artist Canvas from the People's Republic of China*, dated October 28, 2005, ("Corroboration Memo"). Accordingly, we find that the rate of 264.09 percent is corroborated within the meaning of section 776(c) of the Act.

Consequently, we are applying a single antidumping rate the PRC-wide rate to producers/exporters that failed to respond to the Q&V questionnaire or the separate rate application. This rate will also apply to exporters which did not demonstrate entitlement to a separate rate. *See, e.g., Final Determination of Sales at Less Than Fair Value: Synthetic Indigo from the People's Republic of China*, 65 FR 25706, 25707 (May 3, 2000). The PRC-wide rate applies to all entries of the merchandise under investigation except for entries from the two mandatory respondents and one of the separate rate applicants. In addition, for the preliminary determination, the PRC-wide rate does not apply to artist canvas that is produced from bulk roll canvas coated in a third country and exported from the PRC.

The Department will consider all margins on the record at the time of the final determination for the purpose of determining the most appropriate AFA rate for the PRC-wide entity. *See Preliminary Determination of Sales at Less Than Fair Value: Saccharin from the People's Republic of China*, 67 FR 79049, 79054 (December 27, 2002), unchanged in *Final Determination of Sales at Less Than Fair Value: Saccharin From the People's Republic of China*, 68 FR 27530 (May 20, 2003).

#### **Margin for the Separate Rate Applicants**

HFERTS and Jiangsu By-products, both exporters of artist canvas from the PRC, were not selected as mandatory respondents in this investigation but have applied for a separate rate and provided information to the Department for this purpose. However, as stated above, the Department has not yet determined whether HFERTS had exports of subject merchandise and, therefore, we are not assigning HFERTS a separate rate. We have established a weighted-average margin for Jiangsu By-products based on the rates we calculated for the two mandatory respondents, excluding any rates that are zero, *de minimis*, or based entirely on adverse facts available. That rate is 70.28 percent. Jiangsu By-products is identified by name in the "Preliminary Determination" section of this notice.

#### **Date of Sale**

Section 351.401(i) of the Department's regulations state that, "in identifying the date of sale of the subject merchandise or foreign like product, the Secretary normally will use the date of invoice, as recorded in the exporter or producer's records kept in the normal course of business." However, the Secretary may use a date other than the date of invoice if the Secretary is satisfied that a different date better reflects the date on which the exporter or producer establishes the material terms of sale." 19 CFR 351.401(i); *See also Allied Tube and Conduit Corp. v. United States*, 132 F. Supp. 2d 1087, 1090-1093 (CIT 2001).

After examining the questionnaire responses and the sales documentation that Ningbo Conda and the Phoenix Group placed on the record, we preliminarily determine that invoice date is the most appropriate date of sale for Ningbo Conda and the Phoenix Group. We made this determination based on record evidence which demonstrates that Ningbo Conda and the Phoenix Group invoices establish the material terms of sale to the extent required by our regulations. Thus, the record evidence does not rebut the presumption that invoice date is the proper date of sale. *See Preliminary Determination of Sales at Less Than Fair Value: Saccharin From the People's Republic of China*, 67 FR 79054 (December 27, 2002).

#### **Fair Value Comparisons**

To determine whether sales of artist canvas to the United States by the two mandatory respondents were made at less than fair value, we compared export price ("EP") or constructed export price ("CEP") to normal value ("NV"), as described in the "U.S. Price," and "Normal Value" sections of this notice.

#### **U.S. Price**

In accordance with section 772(a) of the Act, we used EP for both Ningbo Conda and the Phoenix Group, as appropriate, because the subject merchandise was first sold (or agreed to be sold) before the date of importation by the producer or exporter of the subject merchandise outside the United States to an unaffiliated purchaser in the United States or to an unaffiliated purchaser for exportation to the United States and because the use of CEP was not otherwise indicated. In accordance with section 772(b) of the Act, we used CEP for certain of Ningbo Conda's sales because the subject merchandise was sold in the United States after the date of importation by a U.S. reseller

affiliated with the Ningbo Conda Group and Jinhua Universal.

We calculated EP and CEP based on the packed F.O.B., C.I.F., or delivered price to unaffiliated purchasers in, or for exportation to, the United States. We made deductions, as appropriate, for any movement expenses (*e.g.*, foreign inland freight from the plant to the port of exportation, domestic brokerage, ocean freight, marine insurance, U.S. brokerage, and inland freight from warehouse to unaffiliated U.S. customer) in accordance with section 772(c)(2)(A) of the Act. For a detailed description of all adjustments, *see Memorandum to The File Through Robert Bolling, Program Manager, China/NME Group, from Michael Holton, Case Analyst, Analysis for the Preliminary Determination of Certain Artist Canvas from the People's Republic of China: ColArt, Ningbo Conda Import & Export Co., Ltd.*, dated October 28, 2005, and *Memorandum to the File Through Robert Bolling, Program Manager, China/NME Group, From Jon Freed, Case Analyst, Analysis for the Preliminary Determination of Certain Artist Canvas from the People's Republic of China: Wuxi Phoenix Artist Materials Co., Ltd.*, dated October 28, 2005.

In accordance with section 772(d)(1) of the Act and 19 CFR 351.402(b), we calculated the CEP by deducting selling expenses associated with economic activities occurring in the United States for Ningbo Conda.

We compared NV to weighted-average EPs and CEPs in accordance with section 777A(d)(1) of the Act. Where appropriate, for Ningbo Conda, in accordance with sections 772(d)(3) and 772(f) of the Act, we deducted CEP profit. For a detailed description of all adjustments, *see the Company-Specific Analysis Memoranda* dated October 28, 2005.

#### **Normal Value**

Section 773(c)(1) of the Act provides that the Department shall determine the NV using a factors-of-production methodology if the merchandise is exported from an NME and the information does not permit the calculation of NV using home-market prices, third-country prices, or constructed value under section 773(a) of the Act. The Department bases NV on the factors of production because the presence of government controls on various aspects of these economies renders price comparisons and the calculation of production costs invalid under its normal methodologies.

The Department's questionnaire requires that the respondent provide

information regarding the weighted-average factors of production across all of the company's plants that produce the subject merchandise, not just the factors of production from a single plant. This methodology ensures that the Department's calculations are as accurate as possible. See e.g., *Final Determination of Sales at Less Than Fair Value and Critical Circumstances: Certain Malleable Iron Pipe Fittings From the People's Republic of China*, 68 FR 61395 (Oct. 28, 2003); Issues and Decision Memorandum, Comment 19 (Oct. 20, 2003). Therefore, for the Phoenix Group, the Department calculated the factors of production using the weighted-average factor values for all of the facilities involved in producing the subject merchandise. For Ningbo Conda, the Department calculated normal values for each CONNUM based on the factors of production reported from each of Ningbo Conda's suppliers and then averaged the supplier-specific normal values together weighted by production quantity to derive a single, weighted-average normal value for each CONNUM exported by Ningbo Conda.

#### Factor Valuations

In accordance with section 773(c) of the Act, we calculated NV based on factors of production reported by respondents for the POI. To calculate NV, we multiplied the reported per-unit factor-consumption rates by publicly available Indian surrogate values. In selecting the surrogate values, we considered the quality, specificity, and contemporaneity of the data. As appropriate, we adjusted input prices by including freight costs to make them delivered prices. Specifically, we added to Indian import surrogate values a surrogate freight cost using the shorter of the reported distance from the domestic supplier to the factory or the distance from the nearest seaport to the factory where appropriate. This adjustment is in accordance with the Court of Appeals for the Federal Circuit's decision in *Sigma Corp. v. United States*, 117 F. 3d 1401, 1407-1408 (Fed. Cir. 1997).

For this preliminary determination, in accordance with past practice, we used data from the Indian Import Statistics or *Chemical Weekly* in order to calculate surrogate values for the mandatory respondents' material inputs. In selecting the best available information for valuing factors of production in accordance with section 773(c)(1) of the Act, the Department's practice is to select, to the extent practicable, surrogate values which are non-export average values, most contemporaneous

with the POI, product-specific, and tax-exclusive. See e.g., *Notice of Preliminary Determination of Sales at Less Than Fair Value, Negative Preliminary Determination of Critical Circumstances and Postponement of Final Determination: Certain Frozen and Canned Warmwater Shrimp From the Socialist Republic of Vietnam*, 69 FR 42672, 42682 (July 16, 2004), unchanged in *Final Determination of Sales at Less Than Fair Value: Certain Frozen and Canned Warmwater Shrimp from the Socialist Republic of Vietnam*, 69 FR 71005 (December 8, 2004). The record shows that data in the Indian Import Statistics and *Chemical Weekly* represents import data that is, contemporaneous with the POI, product-specific, and tax-exclusive. Where we could not obtain publicly available information contemporaneous to the POI with which to value factors, we adjusted the surrogate values using, where appropriate, the Indian Wholesale Price Index as published in the *International Financial Statistics* of the International Monetary Fund.

Furthermore, with regard to the Indian import-based surrogate values, we have disregarded import prices that we have reason to believe or suspect may be subsidized. We have reason to believe or suspect that prices of inputs from Indonesia, South Korea, and Thailand may have been subsidized. We have found in other proceedings that these countries maintain broadly available, non-industry-specific export subsidies and, therefore, it is reasonable to infer that all exports to all markets from these countries are subsidized. See *Amended Final Determination of Sales at Less than Fair Value: Automotive Replacement Glass Windshields from the People's Republic of China*, 67 FR 11670 (March 15, 2002), see also *Notice of Final Determination of Sales at Less Than Fair Value and Negative Final Determination of Critical Circumstances: Certain Color Television Receivers From the People's Republic of China*, 69 FR 20594 (April 16, 2004) ("*CTVs from the PRC*"). We are also directed by the legislative history not to conduct a formal investigation to ensure that such prices are not subsidized. See H.R. Rep. 100-576 at 590 (1988). Rather, Congress directed the Department to base its decision on information that is available to it at the time it makes its determination. Therefore, we have not used prices from these countries in calculating the Indian import-based surrogate values. In instances where a market-economy input was obtained solely from suppliers located in these countries, we used Indian import-based

surrogate values to value the input. See *Final Determination of Sales at Less Than Fair Value: Certain Automotive Replacement Glass Windshields From The People's Republic of China*, 67 FR 6482 (February 12, 2002), and accompanying Issues and Decision Memorandum at Comment 1.

The Department used the Indian Import Statistics to value the following raw material inputs, energy, and packing materials that Ningbo Conda and the Phoenix Group used to produce the subject merchandise during the POI: Linen Canvas, Cotton Canvas (bleached), Cotton Canvas (unbleached), Paulownia, Pine, Beech, Foam board, Three-ply board, Carton Roll, Fiberboard, Paint, Glue, Staple, Nail, Plastic, Paper, Sand Paper, Acrylic Polymer Resin, Amine PH Adjuster, Cellulose, Cinnamene (monomer of polystyrene), Lithopone, Octyl Phenol emulsifying agent, Paraffin, Polyvinyl Alcohol, Polyvinyl chloride (PVC), Talcum Powder, Thickening Agent, Tributyl phosphate (TBP), VAE Latex (Vinyl acetate ethylene), Zinc Sulfide, Paper Label, Plastic sheet (shrink wrap), Wooden Peg, Plastic Peg, Labor, Electricity, Coal, Water, Box, Cardboard, Plastic Strap, Rubber band, and Tape. For a detailed description of all surrogate values used for respondents, see *Factor-Valuation Memorandum*.

The Department used *Chemical Weekly* to value the following material inputs used by Ningbo Conda and the Phoenix Group: Calcium Carbonate, Crylic acid, Dispersant, Isobutyl Methacrylate, Methacryl acid methyl, Polyethylene Resin, Propylene Glycol, Sodium Benzoate, Sodium Hydroxide/Caustic Soda, Stearic Acid, and Titanium Dioxide/Titanium Pigment, see *Factor-Valuation Memorandum*.

For direct, indirect, and packing labor, consistent with 19 CFR 351.408(c)(3), we used the PRC regression-based wage rate as reported on Import Administration's home page, Import Library, Expected Wages of Selected NME Countries, revised in August 2005, <http://ia.ita.doc.gov/wages/index.html>. The source of these wage-rate data on the Import Administration's web site is the Yearbook of Labour Statistics 2002, ILO (Geneva: 2002), Chapter 5B: Wages in Manufacturing. Because this regression-based wage rate does not separate the labor rates into different skill levels or types of labor, we have applied the same wage rate to all skill levels and types of labor reported by the respondent. See *Factor-Valuation Memorandum*.

To value electricity, we used data from the International Energy Agency *Key World Energy Statistics* (2003

edition). Because the value was not contemporaneous with the POI, we adjusted the rate for inflation. *See Factor-Valuation Memorandum.*

The Department valued water using data from the Maharashtra Industrial Development Corporation ([www.midcindia.org](http://www.midcindia.org)) since it includes a wide range of industrial water tariffs. This source provides 386 industrial water rates within the Maharashtra province from June 2003: 193 for the “inside industrial areas” usage category and 193 for the “outside industrial areas” usage category. Because the value was not contemporaneous with the POI, we adjusted the rate for inflation. *See Factor-Valuation Memorandum.*

The Department valued steam coal using the 2003/2004 Tata Energy Research Institute’s Energy Data Directory & Yearbook (“TERI Data”). The Department was able to determine, through its examination of the 2003/2004 TERI Data, that a) the annual TERI Data publication is complete and comprehensive because it covers all sales of all types of coal made by Coal India Limited and its subsidiaries, and b) the annual TERI Data publication prices are exclusive of duties and taxes. Because the value was not contemporaneous with the POI, we adjusted the rate for inflation. *See Factor-Valuation Memorandum.*

We used Indian transport information in order to value the freight-in cost of the raw materials. The Department determined the best available information for valuing truck freight to be from [www.infreight.com](http://www.infreight.com). This source provides daily rates from six major points of origin to five destinations in India during the POI. The Department obtained a price quote on the first day of each month of the POI from each point of origin to each destination and averaged the data accordingly. *See Factor-Valuation Memorandum.*

The Department used two sources to calculate a surrogate value for domestic brokerage expenses. The Department averaged December 2003–November 2004 data contained in Essar Steel’s February 28, 2005, public version

response submitted in the AD administrative review of Hot-Rolled Carbon Steel Flat Products from India with October 2002–September 2003 data contained in Pidilite Industries’ March 9, 2004, public version response submitted in the AD investigation of Carbazole Violet Pigment 23 from India. The brokerage expense data reported by Essar Steel and Pidilite Industries in their public versions is ranged data. The Department first derived an average per-unit amount from each source. Then the Department adjusted each average rate for inflation. Finally, the Department averaged the two per-unit amounts to derive an overall average rate for the POI. *See Factor-Valuation Memorandum.*

To value marine insurance, the Department obtained a price quote from <http://www.rjgconsultants.com/insurance.html>, a market-economy provider of marine insurance. *See Factor-Valuation Memorandum.*

To value international freight, the Department obtained price quotes from <http://www.maersksealand.com/HomePage/appmanager/>, a market-economy provider of international freight services. *See Factor-Valuation Memorandum.*

To value factory overhead, selling, general, and administrative expenses, and profit, we used the audited financial statements for the fiscal year ending March 31, 2005, from Camlin Ltd., an Indian producer of artist canvas from India. *See Factor-Valuation Memorandum* for a full discussion of the calculation of the ratios from this financial statement.

**Currency Conversion**

We made currency conversions into U.S. dollars, in accordance with section 773A(a) of the Act, based on the exchange rates in effect on the dates of the U.S. sales as certified by the Federal Reserve Bank.

**Verification**

As provided in section 782(i)(1) of the Act, we intend to verify the information

upon which we will rely in making our final determination.

**Combination Rates**

In the *Notice of Initiation*, the Department stated that it would calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. *See Notice of Initiation*, 70 FR 21996, 21999. This change in practice 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/>. The *Policy Bulletin 05.1*, 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.”

*Policy Bulletin 05.1*, at page 6.

**Preliminary Determination**

The weighted-average dumping margins are as follows:

**ARTIST CANVAS FROM THE PRC - WEIGHTED-AVERAGE DUMPING MARGINS**

Exporter	Producer	Weighted-Average Deposit Rate
NingboConda .....	Jinhua Universal	55.78
Ningbo Conda .....	Wuxi Silver Eagle Cultural Goods Co. Ltd.	55.78
Conda Painting .....	Wuxi Pegasus Cultural Goods Co. Ltd.	55.78
Jinhua Universal .....	Jinhua Universal	55.78
Phoenix Materials .....	Phoenix Materials	73.66
Phoenix Materials .....	Phoenix Stationary	73.66
Phoenix Materials .....	Shuyang Phoenix	73.66
Pheonix Stationary .....	Phoenix Materials	73.66
Pheonix Stationary .....	Phoenix Stationary	73.66
Pheonix Stationary .....	Shuyang Phoenix	73.66

ARTIST CANVAS FROM THE PRC - WEIGHTED-AVERAGE DUMPING MARGINS—Continued

Exporter	Producer	Weighted-Average Deposit Rate
Jiangsu By-products .....	Jiangsu By-products	70.28
China-Wide Rate .....		264.09

**Disclosure**

We will disclose the calculations performed within five days of the date of publication of this notice to parties in this proceeding in accordance with 19 CFR 351.224(b).

**Suspension of Liquidation**

In accordance with section 733(d) of the Act, we will instruct U.S. Customs and Border Protection (“CBP”) to suspend liquidation of all entries of subject merchandise, entered, or withdrawn from warehouse, for consumption on or after the date of publication of this notice in the **Federal Register**. We will instruct CBP to require a cash deposit or the posting of a bond equal to the weighted-average amount by which the normal value exceeds U.S. price, as indicated above. The suspension of liquidation will remain in effect until further notice.

**International Trade Commission Notification**

In accordance with section 733(f) of the Act, we have notified the ITC of our preliminary affirmative determination of sales at less than fair value. Because we have postponed the deadline for our final determination to 135 days from the date of publication of this preliminary determination, section 735(b)(2) of the Act requires the ITC to make its final determination as to whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports of artist canvas, or sales (or the likelihood of sales) for importation, of the subject merchandise within 45 days of our final determination.

**Public Comment**

Case briefs or other written comments may be submitted to the Assistant Secretary for Import Administration no later than seven days after the date of the final verification report is issued in this proceeding and rebuttal briefs limited to issues raised in case briefs no later than five days after the deadline date for case briefs. A list of authorities used and an executive summary of issues should accompany any briefs submitted to the Department. This summary should be limited to five pages total, including footnotes.

In accordance with section 774 of the Act, we will hold a public hearing, if

requested, to afford interested parties an opportunity to comment on arguments raised in case or rebuttal briefs. If a request for a hearing is made, we intend to hold the hearing three days after the deadline of submission of rebuttal briefs at the U.S. Department of Commerce, 14th Street and Constitution Ave, NW, Washington, DC 20230, at a time and location to be determined. Parties should confirm by telephone the date, time, and location of the hearing two days before the scheduled date.

Interested parties who wish to request a hearing, or to participate if one is requested, must submit a written request to the Assistant Secretary for Import Administration, U.S. Department of Commerce, Room 1870, within 30 days after the date of publication of this notice. See 19 CFR 351.310(c). Requests should contain the party’s name, address, and telephone number, the number of participants, and a list of the issues to be discussed. At the hearing, each party may make an affirmative presentation only on issues raised in that party’s case brief and may make rebuttal presentations only on arguments included in that party’s rebuttal brief.

We will make our final determination no later than 135 days after the date of publication of this preliminary determination, pursuant to section 735(a)(2) of the Act.

This determination is issued and published in accordance with sections 733(f) and 777(i)(1) of the Act.

Dated: October 28, 2005.

**Joseph A. Spetrini,**

*Acting Assistant Secretary for Import Administration.*

[FR Doc. 05-22149 Filed 11-4-05; 8:45 am]

**BILLING CODE 3510-DS-S**

731-TA-1091 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) (the Act) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of less-than-fair-value imports from China of artists' canvas, provided for in subheadings 5901.90.20.00 and 5901.90.40.00 of the Harmonized Tariff Schedule of the United States.<sup>1</sup>

For further information concerning the conduct of this phase of the investigation, hearing procedures, 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 C (19 CFR part 207).

**EFFECTIVE DATE:** November 7, 2005.

**FOR FURTHER INFORMATION CONTACT:** Jai Motwane (202-205-3176), 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.* The final phase of this investigation is being scheduled as a result of an affirmative preliminary determination by the Department of Commerce that imports of artists' canvas from China are being sold in the United States at less than fair value within the meaning of section 733 of the Act (19 U.S.C. 1673b). The investigation was requested in a petition filed on April 1, 2005, by Tara Materials, Inc., Lawrenceville, GA.

*Participation in the investigation and public service list.* Persons, including industrial users of the subject merchandise and, if the merchandise is sold at the retail level, representative

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**INTERNATIONAL TRADE  
COMMISSION**

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

**Artists' Canvas from China**

**AGENCY:** International Trade Commission.

**ACTION:** Scheduling of the final phase of an antidumping investigation.

**SUMMARY:** The Commission hereby gives notice of the scheduling of the final phase of antidumping investigation No.

<sup>1</sup> For purposes of this investigation, the Department of Commerce has defined the subject merchandise as "artist canvases regardless of dimension and/or size, whether assembled or unassembled, 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." 70 FR 67412, November 7, 2005.

consumer organizations, wishing to participate in the final phase of this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in section 201.11 of the Commission's rules, no later than 21 days prior to the hearing date specified in this notice. A party that filed a notice of appearance during the preliminary phase of the investigation need not file an additional notice of appearance during this final phase. The Secretary will maintain a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation.

**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 the final phase of this investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made no later than 21 days prior to the hearing date specified in this notice. Authorized applicants must represent interested parties, as defined by 19 U.S.C. 1677(9), who are parties to the investigation. A party granted access to BPI in the preliminary phase of the investigation need not reapply for such access. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

**Staff report.** The prehearing staff report in the final phase of this investigation will be placed in the nonpublic record on March 14, 2006, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules.

**Hearing.** The Commission will hold a hearing in connection with the final phase of this investigation beginning at 9:30 a.m. on March 28, 2006, at the U.S. International Trade Commission Building. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission on or before March 23, 2006. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the hearing. All parties and nonparties desiring to appear at the hearing and make oral presentations may be required to attend a prehearing conference to be held at 9:30 a.m. on March 22, 2006, at the U.S. International Trade Commission Building. Oral testimony and written materials to be submitted at the public hearing are governed by sections 201.6(b)(2), 201.13(f), and 207.24 of the

Commission's rules. Parties must submit any request to present a portion of their hearing testimony *in camera* no later than 7 business days prior to the date of the hearing.

**Written submissions.** Each party who is an interested party shall submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.23 of the Commission's rules; the deadline for filing is March 21, 2006. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.24 of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.25 of the Commission's rules. The deadline for filing posthearing briefs is April 4, 2006; witness testimony must be filed no later than three days before the hearing. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation, including statements of support or opposition to the petition, on or before April 4, 2006. On April 19, 2006, the Commission will make available to parties all information on which they have not had an opportunity to comment. Parties may submit final comments on this information on or before April 21, 2006, but such final comments must not contain new factual information and must otherwise comply with section 207.30 of the Commission's rules. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain BPI must also 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). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II(C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

Additional written submissions to the Commission, including requests pursuant to section 201.12 of the Commission's rules, shall not be accepted unless good cause is shown for accepting such submissions, or unless the submission is pursuant to a specific request by a Commissioner or Commission staff.

In accordance with sections 201.16(c) and 207.3 of the Commission's 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 207.21 of the Commission's rules.

Issued: November 14, 2005.

By order of the Commission.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-22800 Filed 11-16-05; 8:45 am]

**BILLING CODE 7020-02-P**

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

[A-570-899]

**Notice of Amended Preliminary Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China**

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

**EFFECTIVE DATE:** December 15, 2005.

**FOR FURTHER INFORMATION CONTACT:** Jon Freed or Michael Holton, AD/CVD Operations, Office 8, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC, 20230; telephone: (202) 482-3818 or 482-1324, respectively.

**SUMMARY:** On November 7, 2005, the Department of Commerce ("the Department") published its affirmative preliminary determination in this proceeding. *See Notice of Preliminary Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China*, 70 FR 67412 (November 7, 2005) ("Preliminary Determination"). While the Department did not receive any allegations of ministerial errors in the *Preliminary Determination*, the Department inadvertently stated an inaccurate manufacturer/producer name in the provided combination rate, and inadvertently failed to include one combination rate.

In the *Preliminary Determination*, the Department stated it would calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. Thus, we granted Jiangsu Animal By-products Import & Export Group Corp. ("Jiangsu By-products") (*i.e.*, a separate rate applicant) a separate rate and calculated a combination rate for Jiangsu By-products. However, in our Weighted-

Average Dumping Margins section, the Department inadvertently stated an inaccurate manufacturer/producer name in the provided combination rate for Jiangsu By-products, and inadvertently failed to include one combination rate for Jiangsu By-products. Therefore, we are correcting the Weighted-Average Dumping Margins section to include the additional combination rate and to correct the manufacturer/producer name.

**SUPPLEMENTARY INFORMATION:****Scope**

The products covered by this investigation are artist canvases regardless of dimension and/or size, whether assembled or unassembled, 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 canvas and stretcher strips (whether or not made of wood and whether or not assembled) included within a kit or set are covered by this proceeding.

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, "paint-by-number" or "paint-it-yourself" artist canvases with a copyrighted preprinted outline, pattern, or design, whether or not included in a painting set or kit.<sup>1</sup> Also excluded are 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 or set. While HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this proceeding is dispositive.

**Amended Preliminary Determination**

As a result of our correction to the *Preliminary Determination*, we have determined that the following

<sup>1</sup> Artist canvases with a non-copyrighted preprinted outline, pattern, or design are included in the scope, whether or not included in a painting set or kit.

weighted-average percentage dumping margins apply to imports of certain artist canvas from the PRC exported by Jiangsu By-products.

ARTIST CANVAS FROM THE PRC - WEIGHTED-AVERAGE DUMPING MARGINS

Exporter	Producer	Weighted-Average Deposit Rate
Jiangsu Animal By-products Import & Export Group Corp. ..	Wuxi Yinying Stationery and Sports Products Co. Ltd. Corp.	70.28
Jiangsu Animal By-products Import & Export Group Corp. ..	Su Yang Yinying Stationery and Sports Products Co., Ltd. Corp..	70.28
China-Wide Rate .....	.....	264.09

The collection of bonds or cash deposits and suspension of liquidation will be revised accordingly in accordance with section 733(d) of the Tariff Act of 1930, as amended ("the Act"). For all other imports of certain artist canvas from the PRC, the cash deposit rates remain as listed in the Preliminary Determination.

**International Trade Commission Notification**

In accordance with section 733(f) of the Act, we have notified the International Trade Commission ("ITC") of our amended preliminary determination. If our final determination is affirmative, the ITC will determine before the later of 120 days after the date of the original preliminary determination or 45 days after our final determination whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports, or sales (or the likelihood of sales) for importation, of the subject merchandise.

This determination is issued and published in accordance with sections 733(f) and 777(i)(1) of the Act and 19 CFR 351.224(e).

Dated: December 9, 2005.

**Joseph A. Spetrini,**

*Acting Assistant Secretary for Import Administration.*

[FR Doc. E5-7400 Filed 12-14-05; 8:45 am]

**BILLING CODE 3510-DS-S**

2004. The investigation covers two manufacturers/exporters which are mandatory respondents and two separate-rate status applicants. On February 17, 2006, we issued a preliminary scope ruling with regard to cut and stretched artist canvas made in the PRC from bulk roll canvas woven and primed in India. We invited interested parties to comment on our preliminary determination of sales at LTFV and our preliminary scope ruling. Based on our analysis of the comments we received, we have made changes to our calculations for the mandatory respondents. The final dumping margins for this investigation are listed in the "Final Determination Margins" section below.

**EFFECTIVE DATE:** March 30, 2006.

**FOR FURTHER INFORMATION CONTACT:** Michael Holton or Robert Bolling, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue N.W., Washington, DC 20230; telephone: (202) 482-1324 and (202) 482-3434, respectively.

**SUPPLEMENTARY INFORMATION:**

#### FINAL DETERMINATION

We determine that artist canvas from the PRC is being, or is likely to be, sold in the United States at LTFV as provided in section 735 of Tariff Act of 1930, as amended ("the Act"). The estimated margins of sales at LTFV are shown in the "Final Determination Margins" section of this notice.

#### Case History

The Department published its preliminary determination of sales at LTFV on November 7, 2005. See *Notice of Preliminary Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China*, 70 FR 67412 (November 7, 2005) ("Preliminary Determination"). The Department conducted verification of both mandatory respondents in both the PRC and the United States (where applicable), and one separate-rate status applicant. See the "Verification" section below for additional information. On February 9, 2006, the Department solicited comments from all interested parties regarding changes to its calculation of financial ratios and the expected wage rate (*i.e.*, \$0.97) for the PRC which are based on 2003 income data. On February 17, 2006, the Department issued a memorandum finding that primed bulk rolls of artist canvas produced, coated, and shipped from India to the PRC and stretched and framed in the PRC are not substantially transformed in the PRC and, therefore,

not covered by the scope of this investigation. See *Preliminary Decision Regarding the Country of Origin of Artist Canvas Exported by Hangzhou Foreign Economic Relations & Trade Service Co., Ltd., - Certain Artist Canvas from the People's Republic of China from Jon Freed to Wendy Frankel*, dated February 17, 2006 ("Scope Memorandum").

We invited parties to comment on the *Preliminary Determination* and *Scope Memorandum*. We received comments from the Petitioner, the mandatory respondents, the separate-rate status applicant, and other interested parties to this investigation.

On February 27, 2006, parties submitted case briefs. On March 1, 2006, parties submitted rebuttal briefs. On December 7, 2005, Wuxi Phoenix Artist Materials Co., Ltd. ("Phoenix Materials") requested the Department hold a public hearing in this proceeding. On March 1, 2006, Phoenix Materials withdrew its request for a public hearing.

#### Analysis of Comments Received

All issues raised in the case and rebuttal briefs by parties to this investigation are addressed in the *Issues and Decision Memorandum*, dated March 22, 2006, which is hereby adopted by this notice ("*Issues and Decision Memorandum*"). A list of the issues which parties raised and to which we respond in the *Issues and Decision Memorandum* is attached to this notice as an Appendix. The *Decision Memorandum* is a public document and is on file in the Central Records Unit ("CRU"), Main Commerce Building, Room B-099, and is accessible on the Web at <http://ia.ita.doc.gov>. The paper copy and electronic version of the memorandum are identical in content.

#### Changes Since the Preliminary Results

Based on our analysis of comments received, we have made changes in the margin calculation for Phoenix Materials. See *Issues and Decision Memorandum* at Comments 3, 4, and 6.

#### Phoenix Materials

- In the *Preliminary Determination*, the Department used facts available for the distance from Phoenix Material's factory to two of its coal suppliers. As facts available, the Department used the distance to the nearest port as the distance from the factory to the coal suppliers. However, based on information found at verification, for the final determination, we have used the actual distances between the producer and its two coal suppliers.

## DEPARTMENT OF COMMERCE

### International Trade Administration

[A-570-899]

#### Final Determination of Sales at Less Than Fair Value: Certain Artist Canvas from the People's Republic of China

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

**SUMMARY:** On November 7, 2005, the Department of Commerce ("the Department") published its preliminary determination of sales at less than fair value ("LTFV") in the antidumping investigation of artist canvas from the People's Republic of China ("PRC"). The period of investigation ("POI") is July 1, 2004, through December 31,

*See Issues and Decision*

*Memorandum* at Comment 6 for a thorough discussion of this issue and “Analysis Memorandum for the Final Determination in the Investigation of Artist Canvas from the People’s Republic of China: Wuxi Phoenix Artist Materials Co., Ltd.” from Michael Holton, Case Analyst through Robert Bolling, Program Manager, to the File, dated March 22, 2006 (“*Phoenix Materials Final Analysis Memorandum*”).

- For the final determination, the Department has updated the surrogate value for labor and made changes to the surrogate financial ratio calculation. *See Phoenix Materials Final Analysis Memorandum.*
- One of Phoenix Material’s affiliated suppliers (*i.e.*, Shuyang Phoenix Artist Materials Co. Ltd. (“Shuyang Phoenix”)) presented minor corrections to its reported labor consumption at verification. For the final determination, the Department has incorporated this change into the margin calculation program. *See Phoenix Materials Final Analysis Memorandum.*
- Due to the change in labor consumption, a resulting change in the allocation of electricity was also required for Shuyang Phoenix. *See Phoenix Materials Final Analysis Memorandum.*
- At verification, Phoenix Materials presented a minor correction to its reported coal consumption. For the final determination, the Department has incorporated this change into its margin calculation program. *See Phoenix Materials Final Analysis Memorandum.*
- At verification, the Department found that Phoenix Materials had not reported all of its indirect labor hours (*i.e.*, supervisors, office cleaners, security guards, and doormen). For the final determination, the Department has incorporated all of Phoenix Material’s indirect labor hours into its margin calculation program. *See Phoenix Materials Final Analysis Memorandum.*
- At verification, the Department found that Phoenix Materials did not report diesel as a factor of production. For the final determination, the Department has applied the diesel consumption factor in the margin calculation program. *See Phoenix Materials Final Analysis Memorandum.*

**Scope of Investigation**

The products covered by this investigation are artist canvases regardless of dimension and/or size, whether assembled or unassembled, 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 canvas and stretcher strips (whether or not made of wood and whether or not assembled) included within a kit or set are covered by this proceeding.

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, “paint-by-number” or “paint-it-yourself” artist canvases with a copyrighted preprinted outline, pattern, or design, whether or not included in a painting set or kit.<sup>1</sup> Also excluded are 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 or set. While the HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this proceeding is dispositive.

Additionally, we have determined that canvas woven and primed in India but cut and stretched in the PRC and exported from the PRC is not subject to the investigation covering artist canvas from the PRC.

**Verification**

As provided in section 782(i) of the Act, we verified the information submitted by the mandatory respondents and one separate-rate status applicant for use in our final determination. *See* the Department’s verification reports on the record of this investigation in the CRU with respect to Ningbo Conda Import & Export Co., Ltd. (“Ningbo Conda”), Jinhua Universal Canvas Manufacturing Co., Ltd. (“Jinhua

<sup>1</sup> Artist canvases with a non-copyrighted preprinted outline, pattern, or design are included in the scope, whether or not included in a painting set or kit.

Universal”), Wuxi Silver Eagle Cultural Goods Co. Ltd., Wuxi Pegasus Cultural Goods Co. Ltd., ColArt Americas Inc. (“ColArt US”), Hangzhou Foreign Relation & Trade Service Co. Ltd. (“HFERTS”), and Phoenix Materials. For all verified companies, we used standard verification procedures, including examination of relevant accounting and production records, as well as original source documents provided by respondents.

**Surrogate Country**

In the *Preliminary Determination*, we stated that we had selected India as the appropriate surrogate country to use in this investigation for the following reasons: (1) It is a significant producer of comparable merchandise; (2) it is at a similar level of economic development pursuant to 773(c)(4) of the Act; and (3) we have reliable data from India that we can use to value the factors of production. *See Preliminary Determination*, 70 FR at 67415–16. For the final determination, we made no changes to our findings with respect to the selection of a surrogate country.

**Separate Rates**

In proceedings involving non-market-economy (“NME”) countries, the Department begins with a rebuttable presumption that all companies within the country are subject to government control and, thus, should be assigned a single antidumping duty deposit rate. It is the Department’s policy to assign all exporters of merchandise subject to investigation in an NME country this single rate unless an exporter can demonstrate that it is sufficiently independent so as to be entitled to a separate rate.

In the *Preliminary Determination*, we found that Ningbo Conda and its affiliated exporters, Conda (Ningbo) Painting Material Mfg. (“Conda Painting”) and Jinhua Universal; Phoenix Materials and its affiliated exporter Wuxi Phoenix Stationary Co. Ltd (“Phoenix Stationary”); and Jiangsu Animal By-products Import & Export Group Corp. (“Jiangsu By-products”) demonstrated their eligibility for separate-rate status. For the final determination, we continue to find that the evidence placed on the record of this investigation by Ningbo Conda and its affiliated exporters, Phoenix Materials and its affiliated exporter, and Jiangsu By-products demonstrate an absence of government control, both in law and in fact, with respect to their respective exports of the merchandise under investigation, and, thus are eligible for separate rate status.

Additionally, in the *Preliminary Determination*, because the Department found that Jiangsu By-products demonstrated its eligibility for a rate separate from the PRC-wide rate, but was not a mandatory respondent, the margin we established in the *Preliminary Determination* for Jiangsu By-products was based on a weighted-average of the margins calculated for the two mandatory respondents. Because we are applying facts available to one of the selected mandatory respondents for the final determination, we have recalculated the rate applicable to Jiangsu By-products based on the rate calculated for the remaining mandatory respondent.

Further, in the *Preliminary Determination*, although we determined that HFERTS demonstrated an absence of government control, both in law and in fact, with respect to its exports of artist canvas, we had not yet determined the country of origin of the merchandise exported by HFERTS, and thus had not made a determination with respect to whether HFERTS was eligible to apply for a separate rate. For the final determination, we have determined that the merchandise that HFERTS exported to the United States is not of Chinese origin. Thus, HFERTS did not export subject merchandise and, therefore, is not eligible for a separate rate.

#### Adverse Facts Available

Sections 776(a)(1) and (2) of the Act provide that the Department shall apply "facts otherwise available" if necessary information is not on the record or an interested party or any other person (A) withholds information that has been requested, (B) fails to provide information within the deadlines established, or in the form and manner requested by the Department, subject to subsections (c)(1) and (e) of section 782, (C) significantly impedes a proceeding, or (D) provides information that cannot be verified as provided by section 782(i) of the Act.

Where the Department determines that a response to a request for information does not comply with the request, section 782(d) of the Act provides that the Department will so inform the party submitting the response and will, to the extent practicable, provide that party the opportunity to remedy or explain the deficiency. If the party fails to remedy the deficiency within the applicable time limits and subject to section 782(e) of the Act, the Department may disregard all or part of the original and subsequent responses, as appropriate. Section 782(e) of the Act provides that the Department "shall not decline to

consider information that is submitted by an interested party and is necessary to the determination but does not meet all applicable requirements established by the administering authority" if the information is timely, can be verified, is not so incomplete that it cannot be used, and if the interested party acted to the best of its ability in providing the information. Where all of these conditions are met, the statute requires the Department to use the information if it can do so without undue difficulties.

Section 776(b) of the Act further provides that the Department may use an adverse inference in applying the facts otherwise available when a party has failed to cooperate by not acting to the best of its ability to comply with a request for information. Section 776(b) of the Act also authorizes the Department to use as adverse facts available ("AFA"), information derived from the petition, the final determination, a previous administrative review, or other information placed on the record.

Section 776(c) of the Act provides that, when the Department relies on secondary information rather than on information obtained in the course of an investigation or review, it shall, to the extent practicable, corroborate that information from independent sources that are reasonably at its disposal. Secondary information is defined as "[i]nformation derived from the petition that gave rise to the investigation or review, the final determination concerning the subject merchandise, or any previous review under section 751 concerning the subject merchandise." See Statement of Administrative Action ("SAA") accompanying the Uruguay Round Agreements Act, H. Doc. No. 316, 103d Cong., 2d Sess. Vol. 1 at 870 (1994). Corroborate means that the Department will satisfy itself that the secondary information to be used has probative value. See SAA at 870. To corroborate secondary information, the Department will, to the extent practicable, examine the reliability and relevance of the information to be used. The SAA emphasizes, however, that the Department need not prove that the selected facts available are the best alternative information. See SAA at 869.

The Department finds that the information necessary to calculate an accurate and otherwise reliable margin is not available on the record with respect to Ningbo Conda. As the Department finds that Ningbo Conda failed to act to the best of its ability, withheld information, failed to provide information requested by the Department in a timely manner and in the form required, and significantly

impeded the proceeding, (e.g., provided unverifiable information, failed to reported certain U.S. sales and certain factors of production, and failed to substantiate an unaffiliated supplier's reported factor consumption rates, etc.). Therefore, pursuant to sections 776(a)(2)(A), (B), (C) and (D) of the Act, the Department is resorting to facts otherwise available. In addition, in accordance with section 776(b) of the Act, the Department is applying an adverse inference in selecting the facts available rate as it has determined that Ningbo Conda did not act to the best of its ability to cooperate with the Department in this investigation.

#### Corroboration

At the *Preliminary Determination*, in accordance with section 776(c) of the Act, we corroborated our AFA margin using information submitted by both mandatory respondents. See *Memorandum to The File Through Robert Bolling, Program Manager, China/NME Group, Corroboration for the Preliminary Determination of Certain Artist Canvas from the People's Republic of China*, dated October 28, 2005, ("*Corroboration Memo*"). For the final determination, we are no longer using the information submitted by Ningbo Conda (see "Adverse Facts Available" section above).

To assess the probative value of the total AFA rate it has chosen for Ningbo Conda and the PRC-wide entity, the Department compared the final margin calculations of Phoenix Materials in this investigation with the rate of 264.09 percent from the petition. We find that the rate is within the range of the highest margins we have determined in this investigation. See *Final Determination in the Investigation of Artist Canvas from the People's Republic of China, Corroboration Memorandum from Michael Holton, Analyst, through Robert Bolling, Program Manager, ("Final Corroboration Memo")*, dated March 22, 2006. Since the record of this investigation contains margins within the range of the petition margin, we determine that the rate from the petition continues to be relevant for use in this investigation. As discussed therein, we found that the margin of 264.09 percent has probative value. See *Final Corroboration Memo*. Accordingly, we find that the rate of 264.09 percent is corroborated within the meaning of section 776(c) of the Act.

#### The PRC-Wide Rate

Because we begin with the presumption that all companies within a NME country are subject to

government control and because only the companies listed under the “Final Determination Margins” section below have overcome that presumption, we are applying a single antidumping rate - the PRC-wide rate - to all other exporters of subject merchandise from the PRC. Such companies did not demonstrate entitlement to a separate rate. See, e.g., *Final Determination of Sales at Less Than Fair Value: Synthetic Indigo from the People’s Republic of China*, 65 FR 25706 (May 3, 2000). The PRC-wide rate applies to all entries of subject merchandise except for entries from the respondents which are listed in the “Final Determination Margins” section below (except as noted).

**Combination Rates**

In the *Notice of Initiation*, the Department stated that it would calculate combination rates for certain respondents that are eligible for a separate rate in this investigation. See *Notice of Initiation*, 70 FR 21996, 21999.

This change in practice 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/>. The *Policy Bulletin 05.1*, 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.”

*Policy Bulletin 05.1*, at page 6.

Therefore, for the final determination, we have assigned a combination rate to respondents that are eligible for a separate rate. See *Final Determination Margins*, below.

**Final Determination Margins**

We determine that the following percentage weighted-average margins exist for the POI:

**ARTIST CANVAS FROM THE PRC - WEIGHTED-AVERAGE DUMPING MARGINS**

Exporter	Producer	Weighted-Average Deposit Rate
Ningbo Conda .....	Jinhua Universal	264.09
Ningbo Conda .....	Wuxi Silver Eagle Cultural Goods Co. Ltd.	264.09
Conda Painting .....	Wuxi Pegasus Cultural Goods Co. Ltd.	264.09
Jinhua Universal .....	Jinhua Universal	264.09
Phoenix Materials .....	Phoenix Materials	77.90
Phoenix Materials .....	Phoenix Stationary	77.90
Phoenix Materials .....	Shuyang Phoenix	77.90
Phoenix Stationary .....	Phoenix Materials	77.90
Phoenix Stationary .....	Phoenix Stationary	77.90
Phoenix Stationary .....	Shuyang Phoenix	77.90
Jiangsu By-products .....	Wuxi Yinying Stationery and Sports Products Co. Ltd. Corp.	77.90
Jiangsu By-products Su Yang .....	Yinying Stationery and Sports Products Co. Ltd. Corp.	77.90
China-Wide Rate .....	.....	264.09

**Continuation of Suspension of Liquidation**

Pursuant to section 735(c)(1)(B) of the Act, we will instruct U.S. Customs and Border Protection (“CBP”) to continue to suspend liquidation of all entries of subject merchandise from the PRC entered, or withdrawn from warehouse, for consumption on or after November 7, 2005, the date of publication of the *Preliminary Determination*. CBP shall continue to require a cash deposit or the posting of a bond equal to the estimated amount by which the normal value exceeds the U.S. price as shown above. These instructions suspending liquidation will remain in effect until further notice.

**Disclosure**

We will disclose the calculations performed within five days of the date of publication of this notice to parties in this proceeding in accordance with 19 CFR 351.224(b).

**ITC Notification**

In accordance with section 735(d) of the Act, we have notified the ITC of our final determination of sales at LTFV. As our final determination is affirmative, in accordance with section 735(b)(2) of the Act, within 45 days the ITC will determine whether the domestic industry in the United States is materially injured, or threatened with material injury, by reason of imports or sales (or the likelihood of sales) for importation of the subject merchandise. If the ITC determines that material

injury or threat of material injury does not exist, the proceeding will be terminated and all securities posted will be refunded or canceled. If the ITC determines that such injury does exist, the Department will issue an antidumping duty order directing CBP to assess antidumping duties on all imports of the subject merchandise entered, or withdrawn from warehouse, for consumption on or after the effective date of the suspension of liquidation (i.e., November 7, 2005).

**Notification Regarding APO**

This notice also serves as a reminder to parties subject to administrative protective order (“APO”) of their responsibility concerning the disposition of proprietary information disclosed under APO in accordance

with 19 CFR 351.305. Timely notification of return or destruction of APO materials or conversion to judicial protective order is hereby requested. Failure to comply with the regulations and the terms of an APO is a sanctionable violation.

This determination and notice are issued and published in accordance with sections 735(d) and 777(i)(1) of the Act.

Dated: March 22, 2006.

**Stephen J. Claeys,**

*Acting Assistant Secretary for Import Administration.*

[FR Doc. E6-4657 Filed 3-29-06; 8:45 am]

**BILLING CODE: 3510-DS-S**

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**APPENDIX B**  
**HEARING WITNESSES**



## CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

**Subject:** Artists' Canvas from China  
**Inv. No.:** 731-TA-1091 (Final)  
**Date and Time:** March 28, 2006 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

### **OPENING REMARKS:**

Petitioners (**George W. Thompson**, Neville Peterson LLP)  
Respondents (**Philip S. Gallas**, Sonnenschein Nath & Rosenthal LLP)

### **In Support of the Imposition of Antidumping Duties:**

Neville Peterson LLP  
Washington, D.C.  
on behalf of

Tara Materials, Inc. ("Tara")

**I. Michael Benator**, President and Chief  
Executive Officer, Tara

**John Benator**, Chairman, Tara

**Pete Delin**, Vice President, Marketing, Tara

**Paul Straquadine**, Vice President, Sales, Tara

**Ron Freeman**, Vice President, Manufacturing,  
Tara

**In Support of the Imposition of  
Antidumping Duties (continued):**

**David Twite**, Executive Vice President, Tara

**Kurt Rathslag**, Co-President, Duro Art  
Industries, Inc.

**Bill Cicherski**, President, Axzel Art Supply, Inc.

**George W. Thompson** )  
 ) – OF COUNSEL  
**Laura Martino** )

**In Opposition to the Imposition of  
Antidumping Duties:**

Sonnenschein Nath & Rosenthal LLP  
Washington, D.C.  
on behalf of

Michaels Stores, Inc.  
Aaron Brothers, Inc.  
MacPhersons  
ColArt Americas, Inc.  
Dick Blick Art Materials  
Sbars, Inc.  
Hobby Lobby Stores, Inc.  
A.C. Moore  
Jerry's Artarama  
Jo-Ann's Stores, Inc.  
Wuxi Phoenix Artist Materials Co., Ltd.  
Ningbo Conda Import & Export Co., Ltd.

**Frank Stapleton**, President, MacPhersons

**Alan Marek**, Director of Importing, Michael Stores, Inc.

**Harvey Kanter**, President, Aaron Brothers

**In Opposition to the Imposition of  
Antidumping Duties (continued):**

**John Dowers**, Former President and Chief Executive  
Officer, *and* Current Board Member, Utrecht Art  
Supplies

**Daniel W. Klett**, Principal, Capital Trade, Inc.

**Philip S. Gallas** )  
 ) – OF COUNSEL  
**Mark R. Ludwikowski** )

**CLOSING REMARKS:**

Petitioners (**George W. Thompson**, Neville Peterson LLP; I. Michael  
Benator, Tara; David Twite, Tara; *and* Paul Straquadine, Tara)  
Respondents (**Philip S. Gallas**, Sonnenschein Nath & Rosenthal LLP)



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



**Table C-1**  
**Artists' canvas: Summary data concerning the U.S. market, 2002-05**

(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	2005	2002-05	2002-03	2003-04	2004-05
<b>U.S. consumption quantity:</b>								
Amount	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***
<b>Importers' share (1):</b>								
China	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***
<b>U.S. consumption value:</b>								
Amount	***	***	***	***	***	***	***	***
Producers' share (1)	***	***	***	***	***	***	***	***
<b>Importers' share (1):</b>								
China	***	***	***	***	***	***	***	***
All other sources	***	***	***	***	***	***	***	***
Total imports	***	***	***	***	***	***	***	***
<b>U.S. imports from:</b>								
<b>China:</b>								
Quantity	202	500	1,276	2,286	1031.7	147.5	155.2	79.2
Value	1,562	3,390	8,974	15,079	865.4	117.0	164.7	68.0
Unit value	\$7.75	\$6.78	\$7.03	\$6.59	-15.0	-12.5	3.7	-6.3
Ending inventory quantity	***	***	***	***	***	***	***	***
<b>All other sources:</b>								
Quantity	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***
<b>All sources:</b>								
Quantity	***	***	***	***	***	***	***	***
Value	***	***	***	***	***	***	***	***
Unit value	***	***	***	***	***	***	***	***
Ending inventory quantity	***	***	***	***	***	***	***	***
<b>U.S. producers:</b>								
Average capacity quantity	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Production quantity	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Capacity utilization (1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
<b>U.S. shipments:</b>								
Quantity	6,622	6,319	6,934	8,987	35.7	-4.6	9.7	29.6
Value	35,969	32,214	32,613	37,947	5.5	-10.4	1.2	16.4
Unit value	\$5.43	\$5.10	\$4.70	\$4.22	-22.3	-6.1	-7.7	-10.2
<b>Export shipments:</b>								
Quantity	2,017	2,502	3,393	3,734	85.1	24.0	35.6	10.1
Value	5,938	7,960	9,719	10,590	78.3	34.1	22.1	9.0
Unit value	\$2.94	\$3.18	\$2.86	\$2.84	-3.7	8.1	-10.0	-1.0
Ending inventory quantity	***	***	***	***	***	***	***	***
Inventories/total shipments (1)	***	***	***	***	***	***	***	***
Production workers	448	396	394	382	-14.7	-11.6	-0.5	-3.0
Hours worked (1,000s)	916	817	803	752	-17.9	-10.8	-1.7	-6.4
Wages paid (\$1,000s)	11,065	10,087	9,788	9,484	-14.3	-8.8	-3.0	-3.1
Hourly wages	\$12.08	\$12.35	\$12.19	\$12.61	4.4	2.2	-1.3	3.5
Productivity (sq meters per hour)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Unit labor costs	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
<b>Net commercial sales:</b>								
Quantity	7,996	8,335	9,273	10,992	37.5	4.2	11.3	18.5
Value	40,833	39,322	39,853	43,427	6.4	-3.7	1.4	9.0
Unit value	\$5.11	\$4.72	\$4.30	\$3.95	-22.6	-7.6	-8.9	-8.1
Cost of goods sold (COGS)	32,019	30,358	30,745	33,858	5.7	-5.2	1.3	10.1
Gross profit or (loss)	8,814	8,964	9,108	9,569	8.6	1.7	1.6	5.1
SG&A expenses	6,946	6,333	7,706	7,868	13.3	-8.8	21.7	2.1
Operating income or (loss)	1,868	2,631	1,402	1,701	-8.9	40.8	-46.7	21.3
Capital expenditures	350	438	775	1,645	370.0	25.1	76.9	112.3
Unit COGS	\$4.00	\$3.64	\$3.32	\$3.08	-23.1	-9.0	-9.0	-7.1
Unit SG&A expenses	\$0.87	\$0.76	\$0.83	\$0.72	-17.6	-12.5	9.4	-13.9
Unit operating income or (loss)	\$0.23	\$0.32	\$0.15	\$0.15	-33.8	35.1	-52.1	2.4
COGS/sales (1)	78.4	77.2	77.1	78.0	-0.4	-1.2	-0.1	0.8
Operating income or (loss)/ sales (1)	4.6	6.7	3.5	3.9	-0.7	2.1	-3.2	0.4

(1) "Reported data" are in percent and "period changes" are in percentage points.

(2) Not applicable. Production and capacity data, as well as all related calculations, are presented separately for bulk and finished canvas (see tables C-2 and C-3)

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 official Commerce statistics.

**Table C-2**  
**Bulk artists' canvas: Summary data concerning the U.S. market, 2002-05**

\* \* \* \* \*

**Table C-3**  
**Finished artists' canvas: Summary data concerning the U.S. market, 2002-05**

\* \* \* \* \*

**Table C-4**  
**Artists' canvas: Summary data concerning the U.S. market (excluding print converters), 2002-05**

\* \* \* \* \*

**Table C-5**  
**Finished artists' canvas: Summary data concerning the U.S. market (excluding print converters), 2002-05**

\* \* \* \* \*

**Table C-6**  
**Finished artists' canvas: Summary data concerning the U.S. market (excluding non-print converters), 2002-05**

\* \* \* \* \*

**APPENDIX D**

**RESPONSES TO COMMISSION LIKE PRODUCT FACTORS**



Recipients of the Commission's questionnaires were requested to describe the similarities and differences between bulk and finished artists' canvas with respect to their: (1) characteristics and uses, (2) interchangeability, (3) manufacturing processes, (4) channels of distribution, (5) customer and producer perceptions, and (6) price. Responses to this question are presented below.

### **Characteristics and Uses**

#### **U.S. producers**

\*\*\*

"Bulk rolled canvas is used in the manufacture of finished art canvas and is used by other solvent coaters for the digital printing business."

\*\*\*

"Our product is sold in bulk rolled goods. Our customer coats and breaks it down to a specific smaller sized roll used in art reproduction."

\*\*\*

"To me bulk rolled canvas can be in one of three forms: 1) bulk rolled canvas cloth with no treatment. Product in this form is not used by inkjet printers (our end users); 2) bulk rolled canvas cloth coated with a gesso or primer coat. Product in this form is not used by inkjet printers (our end users); 3) bulk rolled canvas cloth coated with a primer coat and an inkjet receiving coat. Product in this form would not be used by \*\*\* customers until it is slit to the proper width and cut to the proper length to fit on and in the inkjet printing machines. The process of slitting and cutting is called converting.

\*\*\* is in the business of applying its proprietary inkjet receiving layer on bulk roll canvas with a primer coat for the purpose of creating digital canvas. After the bulk roll receives the inkjet coating it is converted into smaller rolls for sale to distributors who in turn supply the art publishers who use inkjet printers."

\*\*\*

No response.

\*\*\*

"Rolled canvas comes on a roll; assembled/finished is stretched over a frame, used by artists."

\*\*\*

"Rolled canvas is typically sold to artists who cut the canvas to the desired size and stretch on stretcher bars themselves. The pre-stretched version is stretched \*\*\*. The end use is basically the same. But, in the rolled format, the artist does his own stretching and in the pre-stretched version, \*\*\* does the stretching."

## U.S. importers

\*\*\*

“Bulk canvas needs to be sized and stretched prior to being used for painting. Assembled canvas is ready to use for painting.”

\*\*\*

“Canvas, whether rolled or assembled (stretched), usually comes primed with gesso. We import only stretched canvas, primed, for our customers to use as a substrate for painting with acrylics and oils.”

\*\*\*

“Fabric composition is the same. End use of both is as a painting surface/artist medium.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“\*\*\*/rolled: utilized in \*\*\*. \*\*\* assembled/finished: utilized in \*\*\* for the same uses as bulk/roll. Both types have similar physical characteristics. Assembled/finished canvas comes in \*\*\* format.”

\*\*\*

No response.

\*\*\*

“Bulk: canvas is gessoed and rolled. Customer must stretch canvas on some surface before painting. Can be made into different and larger sizes than some assembled/finished canvas available. Finished: canvas is gessoed and stretched, ready for the customer to use. Same surface to be painted on.”

\*\*\*

“Bulk: for stretching onto wood frames. Assembled: already stretched.”

\*\*\*

“Bulk: primary surface for mural painting, used in conjunction with stretcher bars and staples/tacks to create custom finished canvas by the end user; wider selection of surface choices. Finished: primary surface for painting; pre-set canvas and stretcher bars at predetermined combinations commonly used sizes.”

\*\*\*

“Differences: bulk canvas could be used for such end uses as rugs and floor coverings, while assembled canvas could not be so used. Similarity: painting is end use.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Roll canvas is not for the novice. Roll canvas is for students and professionals who want a very specific canvas weight or size that would not be suitable in ready-made, pre-assembled canvas.”

\*\*\*

“Bulk: needs stretching and sizing prior to use. Assembled: stretched, ready to paint.”

\*\*\*

“Customer can trim to make whatever size they want. Can be stretched or not stretched. End use is the same: to be painted on.”

\*\*\*

No response.

\*\*\*

“Similarities: cloth surface for painting. Differences: bulk is not considered finished, it needs to be stretched and affixed to stretchers forming a frame support.”

## **Purchasers**

\*\*\*

“We have no experience with selling bulk canvas. Finished canvas now appeals to non-artists thanks to media such as Trading Spaces and lower price points, to use canvas for a surface for fabrics, prints, and other non-traditional uses.”

\*\*\*

“The only difference is whether the artist wants to spend the time and energy to stretch their own canvas.”

\*\*\*

“Bulk: artists mount canvas on boards or stretcher bars and, if not coated, they prime it with gesso and begin to paint. Finished: canvases are primed, stretched, or mounted and ready to paint.”

\*\*\*

“Bulk is sold by the yard and may not be primed. The customer stretches it. Finished is stretched and primed.”

\*\*\*

“Differences: one is stretched, one is bulk. Similarities: they are both canvas and can be painted on.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Both are used as artists surfaces. Finished is ready to go. Bulk requires more on artist’s part to get ready, but allows artist to perform all factors - size, etc.”

## **Interchangeability**

### **U.S. producers**

\*\*\*

“Bulk canvas is a part of finished canvas and it is a stand-alone product also.”

\*\*\*

“There is no interchangeability; \*\*\* rolled product is shipped to \*\*\* customer, who adds value with additional coating.”

\*\*\*

“\*\*\*.”

\*\*\*

No response.

\*\*\*

“Rolled canvas is used in production of \*\*\* pre-stretched canvas. They are fully interchangeable.”

\*\*\*

“The end product is the same (a pre-stretched canvas). The biggest difference has to do with who stretches it... the artists or \*\*\*.”

### **U.S. importers**

\*\*\*

“Not interchangeable as is; bulk/rolled canvas requires cutting and stretching.”

\*\*\*

“Rolled canvas at some point needs to be assembled (stretched) to provide a taut surface for an artist’s brush. Rolled is not interchangeable with the addition of the stretcher strips (wood frame).”

\*\*\*

“Bulk/rolled can be cut to same finished size as assembled/finished if desired. Assembled/finished is a fixed size and cannot be adjusted.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Both formats are utilized for the same end-use: fine art and photographic reproduction. Both formats can be \*\*\*.”

\*\*\*

No response.

\*\*\*

“Bulk must be stretched before painting. End result is different and larger sizes plus regular sizes. Finished is a finished surface for painting with acrylic and oil; only select sizes.”

\*\*\*

“They are not interchangeable.”

\*\*\*

“Bulk is generally used as a major component to create finished canvas. It can be used as a stand-alone product in mural (large) paintings, but generally cannot be used interchangeably with finished canvas. Finished canvas can occasionally be used for small mural painting. Finished canvas cannot be used interchangeably with bulk canvas.”

\*\*\*

“The end use for bulk and assembled canvas is painting.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“The key value for consumers of assembled/finished canvas is that it is ready to paint on and requires no assembly. To the degree that the finished weight and size are the same they are interchangeable. Rarely is this the case.”

\*\*\*

“Not interchangeable in current form; requires assembly for bulk use.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Not interchangeable since the bulk requires a process, plus additional supplies and tools.”

### **Purchasers**

\*\*\*

“Only in a very narrow market with knowledgeable fine artists and professionals - markets \*\*\*.”

\*\*\*

“Quality needs to be similar.”

\*\*\*

“In both bulk and finished, artists use canvas as a substrate on which they create artwork.”

\*\*\*

“Very little. Customers either want one or the other, depending on their interest in doing the work themselves. My observation is the people who stretch it themselves are more experimental artists with higher expectations.”

\*\*\*

“They can both be painted on.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Bulk can replace finished when different sizes are needed. Finished can replace bulk when timeliness is important.”

### **Manufacturing Processes**

#### **U.S. producers**

\*\*\*

“Bulk canvas is made \*\*\*. Finished canvas is made \*\*\*. Bulk and finished canvas are made \*\*\*.”

\*\*\*

“Our process is to \*\*\*.”

\*\*\*

“I feel the greater value is in the coating processes Bulk #2 and Bulk #3. To buy inkjet coating equipment requires large capital expenditure as well as, in our case, a substantial investment in R&D. The key machinery and investment used in inkjet coating bulk rolls is different from the equipment used to convert *{sic}*. Coating canvas in bulk rolls requires skilled labor such as chemists, engineers, quality assurance personnel, etc., in addition to some skilled personnel. To create a finished packaged roll from a bulk roll is less expenditure in terms of equipment and uses unskilled labor only in \*\*\*.”

\*\*\*

No response.

\*\*\*

“We cut the rolled canvas to size, hand stretch over wood frame. Labor is very skilled to stretch a high quality product.”

\*\*\*

“When sold in bulk, the canvas is sold coated or uncoated to the retailer in a roll format of different sizes and lengths (\*\*\*). When we refer to the assembled/finished version, we \*\*\*. Therefore, in either case (bulk/rolled or assemble/finished), we \*\*\*. Therefore, in terms of the manufacturing process, we \*\*\*.”

### **U.S. importers**

\*\*\*

“Canvas manufacturing process is identical. Stretching requires additional manufacturing process, labor, and materials (stretcher bars, staples, spline, etc.)”

\*\*\*

“The canvas itself is manufactured prior to assembly, so the difference is in the rolling process versus the stretching and framing process. Rolled canvas is more likely to be offered in more weights and textures than finished canvas.”

\*\*\*

“Fabric for both is made through the same process. Assembled/finished is then cut to size and stretched over a wooden frames.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Both formats are manufactured in a similar process: \*\*\*. Equipment used for both formats include: \*\*\*. Similar skilled labor is needed for manufacturing process of both format types.”

\*\*\*

No response.

\*\*\*

“Bulk: raw canvas is gessoed then rolled and sold by the roll. Finished: raw canvas is gessoed and cut to size, and wood stretcher strips are assembled to create the correct frame size. Canvas is stretched and stapled to the wood frame.”

\*\*\*

“Bulk is a component of assembled product. All that is required is hand labor to stretch.”

\*\*\*

“Don’t know.”

\*\*\*

“We have no information. We are \*\*\*.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“The components required (raw canvas, priming, wood stretcher bars, nails/staples, etc.) are the same for assembled/finished canvas as they are to convert bulk/rolled canvas into a finished product.”

\*\*\*

“Manufacturing process is identical until product is stretched. Stretching requires more skilled workers and machinery, plus raw materials.”

\*\*\*

“We are not a manufacturer.”

\*\*\*

No response.

\*\*\*

“Same process up until canvas has to be stretched as a finished good.”

### **Purchasers**

\*\*\*

“I don’t have knowledge on this.”

\*\*\*

“We do not stretch canvas. We sell either finished (pre-stretched) or the components for the artists to do it themselves (bulk canvas, stretcher bars).”

\*\*\*

“I do not have enough expertise to comment.”

\*\*\*

“No experience with either.”

\*\*\*

“They can both be painted on.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Bulk and finished have the same issues regarding the canvas itself. Finished is involved with stretching and stapling in the manufacturing process.”

### **Channels of Distribution**

#### **U.S. producers**

\*\*\*

“Finished canvas is sold through retailers and distributors. Bulk canvas is sold to other manufacturers.”

\*\*\*

“Our product is sold to the customer who applies a specific coating to sell in their market.”

\*\*\*

“One of the channels of distribution for bulk rolls with primer are manufacturing companies such as \*\*\* who would add a coating which makes the canvas receptive to digital printing. I’m sure there are other markets for bulk primed canvas which are better explained by someone in that business. We sell our digital canvas to distributors who may sell on the internet or to fine art publishers.”

\*\*\*

No response.

\*\*\*

“We sell to retail stores that sell to artists and hobby painters.”

\*\*\*

“Some of our bulk rolled canvas is sold to what we would call converters who take the bulk rolls and make pre-stretched canvas out of it. But, the vast majority of the canvas is sold to the following channels:

- Distributors - wholesalers who resell to retailers (e.g., \*\*\*).
- Mega Retailers - national chains (e.g., \*\*\*).
- Mail/Internet - companies such as \*\*\* that sell via catalogues and over the Internet. Typically, these companies also have retail stores.”

### **U.S. importers**

\*\*\*

“We sell canvas \*\*\* primarily for painting purposes.”

\*\*\*

“The channels of distribution are the same between rolled and finished canvas.”

\*\*\*

“Same.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“\*\*\* bulk/rolled: typically sold through a network of resellers and distributors specializing in the sale and support of \*\*\* products, service, and support. \*\*\* assembled/finished: typically sold through network of retail/consumer-focused businesses that carry \*\*\*.”

\*\*\*

No response.

\*\*\*

“Bulk: canvas must have a good gesso cover. Is sold in different widths and lengths. Must be stretched after purchase. Finished: canvas must have a good gesso cover and be stretched correctly. Canvas is sold in many sizes and in single packs and multiple packs.”

\*\*\*

“The channels are the same - retail art supply stores.”

\*\*\*

“Bulk: end user is looking for custom surface and/or size and/or thickness of stretcher bar. Greater requirement of time and energy to get bulk canvas converted into custom finished canvas. Sold both in retail and mail order. Finished: end user is looking for a painting surface that is ready to be used; looking for ease of use over customization; sold both retail and mail order.”

\*\*\*

“We sell both types of art canvas through one channel of distribution: \*\*\*.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“For the most part, rolled/bulk and assembled/finished canvas are sold through distribution to retail art material outlets and cataloguers. Rolled/bulk canvas tends to be sold in much smaller volumes.”

\*\*\*

“Sold to consumers at \*\*\* stores.”

\*\*\*

“Rolls typically require end user to assemble to desired size using additional tools and supplies. Assembled canvas has more mass appeal due to its finished “ready-to-go” nature.”

\*\*\*

No response.

\*\*\*

“Same.”

### **Purchasers**

\*\*\*

“Bulk has a relatively small market, in total end users. Finished is available in almost every channel.”

\*\*\*

“Our sales channels are the same for both.”

\*\*\*

“Bulk and finished goods are sold through the same channels.”

\*\*\*

“Very similar.”

\*\*\*

“N/A.”

\*\*\*

No response.

\*\*\*

“Bulk and finished goods are sold through the same channels.”

\*\*\*

“Our customer would purchase these products in the same way.”

### **Customer and Producer Perceptions**

#### **U.S. producers**

\*\*\*

“The customer for finished canvas is in the art and craft business. Bulk canvas customers are manufacturers.”

\*\*\*

“Our product is sold to another manufacturer who adds value to sell in the digital art reproduction market.”

\*\*\*

“The bulk rolls could go to coaters or to converters. In \*\*\* case, finished rolls or sheets go to distributors or end users with inkjet printers. End users cover a wide range from other businesses such as art publishers or ad agencies to individuals who want to put a digital photo on canvas.”

\*\*\*

No response.

\*\*\*

“Rolled canvas in bulk is perceived to be the same quality, and pre-stretched assembled quality levels differ with grade of canvas.”

\*\*\*

“Most of the larger bulk rolls are used to convert to cut sheets to make stretched canvas, panels or pads. The smaller rolls (3yd. and 6yd.) are purchased by artists who make their own stretched canvas. The assembled/finished canvas is purchased by artists who prefer to buy the canvas already stretched.”

#### **U.S. importers**

\*\*\*

“Bulk canvas is purchased by customers willing to stretch their own canvas or need a special, custom size.”

\*\*\*

“Rolled canvas could be conceived as a product for the more experienced or serious artist. There is a technique to stretching canvas that the casual artist would need to learn.”

\*\*\*

“Customer has the option with bulk/rolled to choose the final size of the finished canvas and the framing/stretching method.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“\*\*\* bulk/rolled: marketed and sold to \*\*\* market segment. \*\*\* assembled/finished: marketed and sold to same market as bulk/rolled and additionally to the \*\*\* market segment.”

\*\*\*

No response.

\*\*\*

“Bulk: (customer) it is more labor intensive before able to start painting; (producer) less labor intensive for producer. Finished: customer can buy right off the shelf and start painting. It is much more labor intensive for the producer.”

\*\*\*

“Same.”

\*\*\*

“Bulk: sold primarily to professional painter due to added difficulty of use. Increased investment of up-front cost of materials; however, the general cost per yard is lower so end user can save money over longer period; savings in money, however, is offset by cost of time and energy by end user. Finished: sold primarily to general consumer due to ease of use; nominal up-front cost of time and energy needed to prepare finished canvas for painting. Limited sizes, surfaces, and stretcher bar thickness.”

\*\*\*

“We market all canvas in the same manner.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Art supply stores offer bulk/rolled canvas for customers with special quality and size needs. Assembled/finished canvas appeals to a broader market segment that would include students, hobbyists and first time painters.”

\*\*\*

“Rolled canvas allows the consumer additional freedom to create since it can be any size the artist wishes.”

\*\*\*

“Perceived: bulk rolls don’t require as much attention because they are such a small percentage of the business. Rolls are typically for those with specific size needs or who simply enjoy stretching their own canvas.”

\*\*\*

No response.

\*\*\*

“Customer views as different products: personal preference as well as ability required to “finish” bulk roll as a finished canvas.”

## **Purchasers**

\*\*\*

“Customers in our market don’t see bulk canvas as a viable option for most projects due to the time, skill, equipment (tools) needed, as well as higher perceived cost.”

\*\*\*

“Customers have personal preferences about stretched versus bulk.”

\*\*\*

“Customers choose finished goods because they represent significant time savings; finished goods are ready to paint - no priming, stretching or mounting required.”

\*\*\*

“I don’t think consumers see the two as competing products. People who want bulk canvas seem to have a specific reason that they need: an odd size or want to stretch it themselves.”

\*\*\*

“Bulk can be stretched into sizes not produced by manufacturers of stretched canvas.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Bulk canvas is perceived as a product for professionals or serious avocation artists working with very definite specifications. Finished is more for beginners.”

## **Price**

### **U.S. producers**

\*\*\*

“Bulk canvas is less expensive because there is less converting involved.”

\*\*\*

“Our product is sold at competitive pricing into a high quality expectation market.”

\*\*\*

“This is a major consideration among both distributors and end users. Naturally, we see an increase in cost/value of bulk canvas as it progresses from woven goods to primed canvas to inkjet digital canvas. The cost of coating bulk rolls is very volume-dependent. The bulk of the manufacturing costs are more or less constant whether we work one shift or three. However, the need for skilled and unskilled personnel does increase with each additional shift.

The converting and packaging process can represent as little as \*\*\* percent of the total cost of the finished product, but is a necessary step. \*\*\* U.S. canvas inkjet coaters have the capability of converting bulk rolls to smaller rolls or sheets which can be used by the end user.”

\*\*\*

No response.

\*\*\*

“Pre-stretched canvas is added value, therefore it is about four times the cost of rolled bulk canvas.”

\*\*\*

“Pricing is based on our cost to produce with \*\*\* to determine selling price and list. A ‘discussion’ of the different prices is difficult as the two subproducts (bulk/rolled and assembled/finished) come in so many different sizes, lengths, weight configurations, materials, quality, etc. For example, a \*\*\* stretched canvas can list for \$\*\*\* or \$\*\*\* and a \*\*\* yd. roll can sell for \$\*\*\* or as much as \$\*\*\* and there are literally hundreds of other scenarios depending on the weight, configuration, material, and size. Stretched canvas prices will reflect the cost of stretcher strips and the stretching process.”

### **U.S. importers**

\*\*\*

“Bulk canvas is less expensive than assembled. For example, a yard of \*\*\*-inch wide primed bulk canvas costs \$\*\*\*, which represents \$\*\*\* per square inch. An assembled \*\*\*-inch canvas costs \$\*\*\*, which equals to \$\*\*\* per square inch.”

\*\*\*

“Pricing for stretched canvas has to take into account the cost of stretcher strips and time and labor of assembly.”

\*\*\*

“We do not deal in bulk/rolled, therefore we do not have accurate information on pricing.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Cost per square foot is typically lower for bulk/rolled than assembled/finished. This pricing practice is common across general categories.”

\*\*\*

No response.

\*\*\*

“\*\*\*.”

\*\*\*

“Typically there is a discount per square inch for rolled because no labor has been added to stretch.”

\*\*\*

No response.

\*\*\*

“The bulk rolls are more expensive. Each roll is 7.25 square meters. An un-primed roll costs \*\*\* \$\*\*\* and a primed roll costs \$\*\*\*. By contrast, for the top ten selling finished canvas items that we sell, the per-unit cost ranges from a low of \$\*\*\* (size \*\*\*) to a high of \$\*\*\* (\*\*\*)”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“As with making any manufactured item from its raw components, very little money is saved by doing it yourself.”

\*\*\*

“Bulk/rolled canvas has much more canvas included; it can provide many individual items. Rolled canvas is therefore higher cost than individual stretched canvas.”

\*\*\*

“Price per square inch of bulk is typically one half the price of pre-stretched. This savings is passed to consumer but consumer still needs additional supplies to achieve finished product.”

\*\*\*

No response.

\*\*\*

“Large variation in pricing since our company sells only \*\*\* rolls.”

## **Purchasers**

\*\*\*

“N/A.”

\*\*\*

“Bulk is less expensive for the artist but requires their time and skill to stretch the canvas.”

\*\*\*

“\*\*\*.”

\*\*\*

“Mass-produced finished is less expensive than buying the components, but also lower quality.”

\*\*\*

“N/A.”

\*\*\*

No response.

\*\*\*

No response.

\*\*\*

“Price of bulk is by yard; only one factor of overall price. Finished goods have a wider price range for greater customer level ranges.”



**APPENDIX E**  
**RESPONSES TO THE PRODUCERS' QUESTIONNAIRE**



**Table E-1**  
**Artists' canvas: Responses to the Commission's U.S. producers' questionnaire**



**APPENDIX F**

**PURCHASE PRICES OF DIRECT IMPORTS AND OF DOMESTIC  
PRODUCTS**



**Table F-1**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 1, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-2**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 2, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-3**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 3, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-4**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 4, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-5**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 5, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-6**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 6, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-7**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic and directly imported product 7, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table F-8**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic product 8, January 2002-December 2005**

\* \* \* \* \*



**APPENDIX G**

**PURCHASE PRICES OF DIRECT IMPORTS AND OF DOMESTIC  
PRODUCTS**



**Table G-1**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 1, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-2**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 2, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-3**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 3, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-4**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 4, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-5**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 5, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-6**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic, imported, and directly imported product 6, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-7**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic and directly imported product 7, by quarters, January 2002-December 2005**

\* \* \* \* \*

**Table G-8**

**Artists' canvas: Weighted-average delivered purchase prices and quantities of domestic product 8, January 2002-December 2005**

\* \* \* \* \*



**APPENDIX H**

**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:

For bulk/rolled:

**Duro** \*\*\*

**Holliston** \*\*\*

**Signature** \*\*\*

**Tara** \*\*\*

For assembled/finished:

**Duro** \*\*\*

**IJ Tech.** \*\*\*

**Masterpiece** \*\*\*

**Signature** \*\*\*

**Tara** \*\*\*

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

Responses of the producers are:

For bulk/rolled:

**Duro** \*\*\*

**Holliston** \*\*\*

**Signature** \*\*\*

**Tara** \*\*\*

For assembled/finished:

**Duro** \*\*\*

**IJ Tech.** \*\*\*

**Masterpiece** \*\*\*

**Signature** \*\*\*

**Tara** \*\*\*

